

Planning Ahead for a Successful Exchange

A successful IRC §1031 exchange transaction requires planning ahead and additional preparation, expertise, and support. **Investment Property Exchange Services, Inc. (IPX1031®)**, as your Qualified Intermediary, can be very helpful in the early stages of preparing for your exchange by explaining the various types of exchanges, discussing the options that may minimize or eliminate any negative tax impact, handling the exchange documentation, and safeguarding the exchange equity. Laying the proper groundwork before entering into an exchange will avoid unnecessary obstacles and ensure a smooth transaction. It is always advisable to seek tax and/or legal advice prior to starting an exchange, especially since the answers to the following questions may indicate that the exchange may be partially or fully taxable or that a more complicated structure may be required.

- Is the property being sold (relinquished property) held as a business-use or investment property and do you intend to do the same with the replacement property?
- Is the title to the replacement property going to be held in the same manner as title is held on the relinquished property?
- Does the lender for the replacement property have any specific requirements for holding title that would cause problems with the exchange?
- Will part of the proceeds be used to pay personal debt?
- Will all members on title to the relinquished property be participating in the exchange or will additional parties be added to the title on the replacement property?
- Are you selling any of your property to or intending to buy property from a related party?
- Do you plan to offer seller financing on the sale of the relinquished property?
- Keep in mind the three basic rules to qualify for complete tax deferral:
 - 1) use all proceeds from the relinquished property for purchasing the replacement property;
 - 2) make sure the debt on the replacement property is equal to or greater than the debt on the relinquished property. (Exception: A reduction in debt can be offset with additional cash whereas increasing debt cannot offset a reduction in equity.); and
 - 3) receive only “like-kind” replacement property of equal or greater value than the relinquished property.
- Be sure to identify possible replacement properties within the 45-day identification period and to acquire your replacement property within the 180-day exchange period.
- Make sure you do not dissolve partnerships or change the manner of holding title during the exchange because a change in your legal relationship with the property may jeopardize the exchange.
- If you find your replacement property before you sell your relinquished property a reverse exchange may be necessary. The IRS has provided guidance for reverse exchanges in Revenue Procedure 2000-37, but you should be aware that reverse exchanges are considered a far more complicated and expensive exchange variation because IPX1031® must hold title to either your relinquished or replacement property for up to 180 days pending the completion of the exchange.
- If you wish to do improvements to the replacement property before you acquire it then both the replacement property and the planned improvements must be identified and IPX1031® must hold title to the replacement property during the 180-day exchange period while the improvements are constructed. While the improvements do not have to be completely finished by the end of the exchange, the value at day 180 of the replacement property (both land and completed construction) should equal or exceed the net sales price of the relinquished property.

Brief Exchanges

Investment Property Exchange Services, Inc. cannot provide advice regarding specific tax consequences. Investors considering an IRC §1031 tax deferred exchange should seek the counsel of their accountant and attorney to obtain professional and legal advice. © 2008 Investment Property Exchange Services, Inc.