The 1031 Exchange Experts

have the answers to your questions...

What is a Reverse 1031 Exchange?

1031 exchanges are specifically structured transactions that join together the sale of an old property and the subsequent purchase of a new property for the purpose of deferring taxes. As part of the IRS' 1031 regulations, you are required to utilize a Qualified Intermediary (QI) to facilitate the exchange.

Unlike a typical 1031 exchange, you may need to buy your new property **before** you have sold the old one. Unfortunately, IRS regulations don't allow you to own title to the old and new properties at the same time.

The good news is, a **reverse exchange** allows you to exchange property in reverse order – and yet still enjoy the tax benefits. In a reverse exchange, your QI must arrange to buy the new property for you and hold it for a period of time.

How can a Reverse 1031 Exchange Help Me?

There are several reasons you may want to buy new property before you have sold your old property, for example:

• Market conditions are making it difficult to find a buyer for your sale property.

• You face the possibility of losing an earnest money deposit, or favorable financing rates.

• You need to construct improvements or buildings on land you are purchasing.

In these circumstances, a normal 1031 exchange may not be possible. However, a reverse exchange may allow you to preserve the flexibility, leverage and buying power of tax deferral.

How does the IRS Treat Reverse 1031 Exchanges?

In 2000, the IRS issued Revenue Procedure 2000-37, a ruling that clarified the IRS' position regarding reverse exchanges. As a result, there are now two types of reverse exchanges:

"Safe Harbor" Reverse Exchange

Revenue Procedure 2000-37 established "safe harbor" procedures – IRS-approved guidelines for structuring a reverse exchange. Although these procedures are somewhat restrictive, meeting them ensures that the IRS will not disallow the exchange.

Safe Harbor exchanges require specified documentation and must be completed within 180 days.

Traditional Reverse Exchange

Despite the issuance of the Revenue Procedure, the IRS has recognized that some valid reverse exchanges cannot be completed within the Safe Harbor structure and its

180-day deadline. For example, if your new property includes a construction project, it is often difficult to complete it within 180 days. These Traditional (non-Safe Harbor) exchanges have helped clients with specialized needs for many years.

While *Traditional* and *Safe Harbor* exchanges are similar, there are unique considerations and procedures for each. Consulting with **The Exchange Experts** to structure an exchange that both meets your needs and stands up to IRS scrutiny is critical.

"...we are confident enough in our expertise to guarantee our work in writing..."

How Does a Reverse 1031 Exchange Work?

In a reverse exchange, your QI must arrange to buy and hold your new property until your exchange can be completed. This is done with an entity (usually a limited liability company) that the IRS calls an Exchange Accommodation Titleholder, or "EAT."

A primary concern for any reverse exchange is financing. As the purchaser, the EAT must have the funds needed to purchase the new property. As the ultimate buyer, it is up to you to provide those funds. The easiest way to do this is for you to become the lender and provide the necessary cash to the EAT. Of course, that is not always feasible. Therefore, exchangers often need to obtain financing (in the name of the EAT) from a lending institution.

The Experts can help you with this too! We have contacts with lenders who work with exchange clients – lenders who are familiar, knowledgeable, and comfortable with the reverse exchange process. Call us for help with arranging and choosing the best financing solution for your exchange.

How to Do a Reverse Exchange

1. Consult with **The Exchange Experts** before you get started. We'll work with you to structure a reverse exchange that best meets your needs.
2. Negotiate a property purchase contract, including provisions allowing you to assign the contract and to undertake a 1031 exchange.
3. Arrange financing for the purchase of new property by the EAT.
4. Work with **The Experts**, your real estate broker, and closing agent to close on the EAT's purchase of the new property.
5. Begin any construction work that is included in the exchange.
6. Identify the property you want to sell.
7. Work with **The Experts**, your broker, and closing agent to close on the sale of your old property.
8. Acquire the new property from the EAT, completing your exchange.