

CASE STUDY – AN EXCHANGE THAT MORPHED INTO AN IMPROVEMENT EXCHANGE

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David had sold the farm that he had owned for many, many years and realized a capital gain of \$800,000. With that money, he entered into a Section 1031 tax-deferred exchange with us and went out to find his new property. His intention was to find an apartment building that would provide a nice income.

What he found was a property that he could purchase for \$650,000, which left him with \$150,000 on which he would owe taxes to both the federal government and the state in which he lived. At that point, he considered trying to find another property such as a duplex or a nice single family home. After discussing the situation with us, we jointly reached a different conclusion. The property he had agreed to purchase for \$650,000 could benefit from new windows, new siding, and a new roof, which would use up the remaining \$150,000 in David's exchange account.

In order to include the improvements in the exchange, we set up an Exchange Accommodation Titleholder ("EAT") to hold title to the new property during the course of the improvements. An EAT is an LLC that exists for the sole purpose of holding title to such a property so that the closing that would transfer title to the exchanger (David, in this case) can be delayed. Once the improvements were completed, a closing to transfer title of the new property from the EAT to David was accomplished and David had successfully used all of his exchange funds in the new property.



The timing requirements of an exchange state that the entire exchange must be completed within 180 days. This requirement applies to an improvement exchange as well. The 180 days allowed starts from the date that the relinquished property closes, so in some cases this can create some complications. However, with proper advance planning, morphing your exchange into an improvement exchange can salvage the complete tax deferral that might otherwise not be available.

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The professionals at Iowa Equity Exchange understand the complex rules of Section 1031 exchanges. We can help simplify this information for you and your clients. Section 1031 exchanges are our only business. We are members of the Federation of Exchange Accommodators, the only national association that is dedicated to the protection of the consumer in 1031 transactions. Less than 2% of all qualified intermediary service providers nationwide are members of this organization. We can creatively and strategically assist you and your clients with the sale or purchase of assets in order to maximize the tax deferral opportunities. Please contact us at your convenience.



Note: Per 1031 regulations, Iowa Equity Exchange cannot give tax and/or legal advice. Every taxpayer should review specific transactions and potential tax consequences with his or her personal tax and/or legal advisor.