

CASE STUDY – REVERSE EXCHANGE ROLLS INTO FORWARD

Apr, 2010

Mary and Michael had an unusual situation. They had a firm contract to sell their farm that was set to close on September 17, 2009 (we'll call this transaction "S17"), but they were also under contract to buy a farm with that closing set for July 26, 2009 ("J26"). A pretty clear-cut reverse exchange situation, but there was a wrinkle.

The price of S17, the farm they were selling, was \$1.6 million, and the agreement on J26, the one they were buying, was only \$700,000. They fully intended to purchase additional property to use up the remainder of the \$1.6 million they would receive from their sale, but they hadn't found any strong prospects yet. What we discussed, and what Mary and Michael ultimately decided to do, was to structure a reverse exchange for the closing of J26. Then, when S17 closed, we would use \$700,000 of the proceeds to wrap up the reverse portion of their exchange. The remaining \$900,000 would go into an exchange account for a new forward (or standard) exchange.



One of the interesting things about combining a reverse and a forward exchange is that there are separate timing deadlines for the two exchanges. In this case, on September 17, the forward exchange started with a deadline to identify potential replacement properties 45 days later and a deadline to conclude the exchange 180 days after September 17. Mary and Michael used all of the time from when they first completed their exchange documents with us in early July to 45 days past September 17 to locate and put under contract three outstanding rental homes in Arizona, all of which closed well within the 180 day deadline. In this sort of combination reverse/forward exchange, if the deadlines were stretched to their limits it is possible to have as much as 360 days to complete an exchange!

The key to this or any other 1031 exchange transaction is proper advance planning. We offer consultation at no cost whatsoever, so please take advantage of that should you wish to investigate the pros and cons of any sort of Section 1031 exchange situation.

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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.

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