

## Creating 1031 Exchange BDO Client Success Stories

### **Sell property and Buy a Replacement property within 180 days.**

The most common type of 1031 Exchange, the Client sells their investment property and purchases their new replacement property by the 180<sup>th</sup> day. The key issues that commonly come up include pulling equity out of the property sold, avoiding taxable gain by borrowing too much during the exchange, ensuring the ownership does not change during the exchange and restructuring issues.

### **Purchasing the replacement property first.**

Less commonly known are Reverse Exchanges. These are used when the Client, for strategic reasons, acquires their replacement property first. Typically used by clients with unique properties or larger projects with substantial due diligence or zoning time lines, these allow the client to acquire the right property at the right time. With hundreds of reverse exchanges under our belt, we can confidently provide guidance to the client's lender and the opposing counsel on behalf of your client as to the various structural options with the proposed transaction.

### **Using Exchange Funds to Construct Improvements during the Exchange.**

Where a client wishes to construct improvements on the replacement property during the exchange period and have those costs count toward the required purchase price, this can be done as an Improvement exchange. This type of exchange is particularly common for Taxpayers who are buying less than their required replacement amount but do not want to commit to buying anymore additional properties and usually have already had plans to make capital improvements to the property.

### **Building on land your client already owns:**

A corollary to improvement exchanges involves building on land the client already owns. This new IRS ruling overturns 30 years of cash law in the bargain. The value here is that the client is very familiar with land they already own and predevelopment issues can be handled prior to the exchange taking place.

### **Related Party Exchanges.**

A further extension of this involves buying, as replacement property, property that your client or related entities, may already own as a related party exchange. We have introduced this idea to a BDO client, in connection with constructing improvements, to extend the scope of the exchange to 3 180 day periods.

### **Restructuring Partnerships.**

Many times a Client will be a partner in a partnership where one or more partners will choose not to exchange. By restructuring the partnership through a partnership division the partners choosing to reinvest can reinvest with their own continuing entity. While many non-tax savvy advisors suggest distributing tenancy in common interests, this is an area that the IRS is vigorously challenging and involves required disclosure on Form 1065.

### **Long term Development/Parking Exchanges.**

For clients developing replacement properties over a long period of time, customized parking exchanges can provide clients an option to hold their replacement properties through an exchange entity pending the sale of their relinquished properties. While there are no time limits on Parking Exchanges, these exchanges are highly complex and require careful planning.