



TOP 10 EXCHANGE MYTHS...

1 EXCHANGE MYTH #1

Being a “qualified” intermediary means the exchange company is *licensed* to do exchange work.

Not true! The 1031 industry is unregulated! The §1031 regulations created “qualified intermediaries” to facilitate tax deferred exchanges for taxpayers. Basically, under the regulations the qualified intermediary is only required to create the “exchange” of properties with an exchange agreement and “restrict” the taxpayer’s access to the exchange funds until the exchange is finished. Unfortunately for the unwary taxpayer there are no requirements in the regulations for licensing, bonding, errors and omissions insurance, banking and investment restrictions, expertise, or specialized training or credentials of any sort. The fact is practically anyone can call themselves a “qualified intermediary” without really being “qualified”!

Be selective when shopping for a “qualified” exchange company to be your “qualified intermediary” and shop for more than just a low price. Shop for the very best in security for the exchange funds, exchange expertise and customer service: **IPX1031!**

3 EXCHANGE MYTH #3

Exchangers think they can do an exchange without consulting with their tax or legal advisor.

Sound tax and legal advice is key to a successful exchange. The purpose of an exchange is to defer the payment of capital gain taxes. What if the relinquished property has a small gain or perhaps even a loss? In this scenario there is rarely a need for an exchange. Or, what if the investor has losses in other business activities? This could eliminate the need for an exchange. Only the Exchanger’s tax advisor knows the whole tax situation. Consultation with a tax or legal advisor is essential in deciding whether an exchange is necessary or appropriate.

5 EXCHANGE MYTH #5

Exchangers think if they sell a duplex they have to buy a duplex.

Not true! This is the best news! In exchanges of real property, all real property is considered “like-kind” with all other real property. Exchangers can sell the duplex and buy any other real property that they intend to hold for investment purposes or for productive use in their trade or business. So, residential rental property is “like-kind” with commercial property. Improved properties are “like-kind” with bare land. Non-income producing property is “like-kind” with income producing property. This enormous flexibility in the “like-kind” definition allows Exchangers to use an exchange to dramatically reconfigure their real estate portfolio and still get the tax deferral.

2 EXCHANGE MYTH #2

Exchangers think there is some way to extend the exchange 45 day and 180 day deadlines.

Definitely not true! These deadlines are carved in stone. This is the hardest part of a tax deferred exchange. If the Exchanger is unable to identify their replacement property within the 45-day identification period, the exchange fails and they must pay their capital gain tax. If the Exchanger is unable to close the purchase of their replacement property within the 180-day exchange period, the exchange fails and they must pay their capital gain tax. Short of a “Presidentially declared emergency” (i.e., hurricanes, earthquakes, floods and similar disasters) the Treasury Department does not have the authority to extend the exchange deadlines, which means that exchange companies likewise certainly do not have the ability to extend the deadlines. Be wary of exchange companies that allow Exchangers to “ignore” these exchange deadlines.

4 EXCHANGE MYTH #4

Exchangers think they can move into their replacement property right after the exchange.

Not true! Although under the §1031 regulations all real property is considered “like-kind” this is not true when it comes to personal use of the property. Tax deferred exchanges are limited to investment and business properties. If the Exchanger sells a rental house and buys a condo and quickly begins to use the condo for personal use (a second or retirement home) the IRS will disallow the exchange for failure to have the appropriate “investment” intent. Patience is what is called for in this scenario. After consulting with a tax advisor most Exchangers will understand that a rental period of one to two years prior to moving into the property is a safer way to proceed.

6 EXCHANGE MYTH #6

Exchangers think they can’t do an exchange if they are buying a smaller property.

There will be a tax bill, but... For example, the Exchanger is selling a rental house in the city for \$200,000 and has found a rental house in a resort location valued at \$175,000. Sometimes “partial” exchanges can be beneficial. Yes, they will pay tax on the \$25,000 differential, but depending on the gain in the relinquished property, there may still be some tax-deferral (the whole point of §1031 exchanges) from the reinvestment into a smaller property. Exchangers are always well-advised to consult with their tax advisors to determine if a partial exchange makes sense for them.



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EXCHANGE MYTH #7

Exchangers think that to have a complete tax deferral all they have to do is spend their equity in purchasing the new property.

Not true! They must also “reinvest” their debt. For example, if an Exchanger sells a property and pays off a mortgage of \$75,000 they must acquire a replacement property also encumbered by a mortgage of at least \$75,000. If the Exchanger only reinvests the cash from their sale into a replacement property that is “free and clear” the IRS will tax them on the “debt relief” they experienced when they paid off the mortgage on the property they sold. This is not a happy outcome for an Exchanger who thinks they have a perfect exchange because they spent all their cash. (There is one exception to this rule. Cash “added in” to the exchange offsets the requirement for replacement of debt.)

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EXCHANGE MYTH #8

Exchangers think they can't do an exchange if there is no §1031 “language” in their original purchase and sale agreement.

Not true! It isn't too late to do an exchange. The IRS does not require special §1031 language in the purchase and sale agreement. What the IRS does require, however, is that written notice of the §1031 exchange and the assignment to a “Qualified Intermediary” be given to the Buyer before closing on the sale property. IPX1031 will make sure this requirement is met even though there is no language in the purchase and sale agreement.

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EXCHANGE MYTH #9

Exchangers think exchanges are only for large property owners because they are too expensive and complex.

Not true in most cases. Exchanges are very modestly priced, especially when compared to the tax savings! Even though IPX1031 is the nation's largest Qualified Intermediary, over 75% of IPX1031's exchanges are for small residential income properties. When dealing with IPX1031 the most difficult aspect of an exchange is remembering our phone number, **877-310-1031**. We walk clients through every aspect of the transaction and answer all questions. We work closely with the client's advisors to offer strategies for any issues that arise. Most exchange documents must be signed before closing and are generally signed in the escrow office along with all of the other closing documents.

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EXCHANGE MYTH #10

Exchangers think they don't need an exchange company for a simultaneous exchange.

No, as simple as it may seem...you can't do-it-yourself. Even in a beautiful “simultaneous” exchange the IRS rules require exchange documentation and prohibit the Exchanger from receiving, or having any right to receive, cash from the sale. Exchangers need a qualified intermediary, such as IPX1031, for two reasons. First, IPX1031 must produce all of the exchange documentation that meets some very specific legal requirements. Second, IPX1031 must control the cash and move it from the sale closing to the purchase closing. **Exchangers who try the “do-it-yourself” method are called “Taxpayers” after an audit.**

FOR MORE INFORMATION CONTACT

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