



ALASKA EXCHANGE CORPORATION

Professional Intermediary for IRC Section 1031 Tax Deferred Property Exchanges

IRC Section 1031 Tax Deferred Exchanges with Owner Financing/Repairs

The following is a breakdown of the exchange sale/relinquishment transaction with owner financing secured with a Note and Deed of Trust:

An all cash transaction is not always possible for the sale of our exchange property. If the Exchangor/Seller carries back financing, the Note or amount financed is taxed on an installment received basis. To avoid a taxable event on carry-back Notes, there are several possible solutions.

1. Intermediary Sells Note to Taxpayer for Full Value.

The Note is made payable to the intermediary. At time of closing on the replacement property, the Exchangor buys the Note and converts it to exchange proceeds to apply towards the replacement property.

2. Buyer's Note on Relinquishment Property Used as Partial Payment to Seller of Replacement Property.

Buyer of the relinquished property issues an installment note to the Intermediary. The Intermediary **assigns** the note to the Seller of the replacement property and conveys the replacement property to the Exchangor. This may or may not be a point of negotiation with some Sellers. It is typical for the Seller to require a personal guarantee from the Exchangor.

3. Intermediary Sells Buyer's Note to Third Party and Uses Proceeds to Acquire Replacement Property.

The Note would typically be sold for less than face value. A sale of the Note could trigger gain to the taxpayer under IRC 453B if the Intermediary is deemed to have sold the Note as the taxpayer's agent.

Alaska Exchange Corporation has used all three of the above methods to protect and utilize Notes within the exchange structure. It varies with the taxpayer's ability to offset, sell, or assign the Note they have carried back. This at least gives you some options to consider.

Another concern or question Exchangors have is on up fronted funds involved in an exchange. Additional funds, can always be added to an exchange. However, if you want to be reimbursed for amounts prepaid on your replacement property, you would be required to be reimbursed at closing or at the time of completion of the exchange. The IRS issue is that you do not have constructive receipt of your exchange proceeds and cannot draw upon them at your discretion. Thus, the proceeds are directly funded to closing with reimbursement. If there are excess funds, you can be reimbursed for repairs, etc., that you may have up fronted prior to closing. If you have repairs in general that you want to be paid for with exchange proceeds, here is the procedure to follow. Alaska Exchange Corporation would take title to the replacement property, accomplish all repairs and pay all invoices for repairs, then deed the completed property to the exchangor. The IRS is getting particular about completing repairs prior to closing or the Intermediary must complete the project and give a final product to the Exchangor.

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