



ALASKA EXCHANGE CORPORATION

Professional Intermediary for IRC Section 1031 Tax Deferred Property Exchanges

IRC SECTION 1031 TAX DEFERRED EXCHANGES WITH OWNER FINANCING

All cash transactions are not always possible for the sale of the 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.