

Reverse 1031 Exchange Structure

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Reverse 1031 Exchange

Revenue Procedure 2000-37 (Rev. Proc. 2000-37), provides guidance for a taxpayer to acquire replacement property before they have sold their relinquished property. A reverse exchange can be a valuable option to a taxpayer who wishes to do a 1031 tax deferred exchange, but hasn't been able to coordinate a closing on their sale property prior to obtaining the property they are purchasing.

Structure

Rev. Proc. 2000-37 makes it clear that the taxpayer cannot own both properties at the same time. It refers to the structure as a "parking arrangement", with ownership of either the relinquished property or replacement property "parked" with an Exchange Accommodation Titleholder ("EAT"). To "park" the property, a deed must be executed and recorded to transfer ownership to the EAT so that the taxpayer does not own both properties in the exchange.

"Parking" the Property

Replacement property: The EAT acquires title to the replacement property with funds loaned from the taxpayer. The taxpayer then has 180 days to sell their relinquished property and be refunded the loan made to EAT from the proceeds of the sale.

Relinquished property: The taxpayer conveys title of the relinquish property to EAT and acquires ownership of the replacement property. The taxpayer has 180 days to sell the property conveyed to EAT to complete the exchange. The taxpayer will have the right to any funds they used to purchase the replacement property at the time they sell the relinquished property.

Benefits

Timing is everything: Seize the moment to acquire the property you wish then arrange the sale of your relinquished property.

Time restrictions: Not having the pressure to identify replacement property within 45 days, which could lead a taxpayer to acquire less than desirable replacement property.

Time to improve the property: Use the "parking arrangement" to make improvements on the replacement property through a reverse/improvement exchange (EAT acquires title to replacement property).

Time extension: Through the combined use of a reverse exchange and a delayed exchange taxpayer may have up to 360 days to complete their desired 1031 exchange.

*IRC Sec. 1031 guidelines and timelines apply. The exchange must be in place prior to any transfer if title

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