

Vacation Home Guidance

Revenue Procedure 2008-16 Creates Safe Harbor

By Kennen S. Cohen

Revenue Procedure 2008-16 (the "Procedure") creates a safe harbor definition of investment property applicable to exchange transactions closing after March 10, 2008 that involve the transfer of property consisting of a dwelling unit (defined below) and/or the acquisition of a dwelling unit as replacement property. In short, the IRS will not challenge whether a residential property or vacation home property is held for productive use in a trade or business or for investment if certain specified ownership and use requirements are met. This safe harbor Procedure provides useful guidance on the characterization of vacation property and may also be useful for planning purposes such as the conversion of a principal residence into a qualifying relinquished property.

Requirements of Revenue Procedure 2008-16

A dwelling unit is defined as any real property improved with a house, apartment, condominium, or similar improvement that provides basic living accommodations including a sleeping space, bathroom and cooking facilities (e.g., a residential property).

The IRS will not challenge whether a dwelling unit qualifies as §1031 exchange property held for productive use in a trade or business or for investment if: (1) the relinquished property is owned by the taxpayer for at least 24 months immediately prior to the exchange and a replacement property is owned for at least 24 months immediately after the exchange (the "qualifying use period") and (2) within each of the two 12 month periods constituting the qualifying use period, the taxpayer must:

- Rent the property to another person or persons at a fair rental for 14 or more days; and
- The taxpayer's personal use of the dwelling unit cannot exceed the greater of 14 days or 10 percent of the number of days during the 12 month period the dwelling unit is rented at a fair rental.

Under the Procedure, personal use of a dwelling unit occurs on any day in which the taxpayer is deemed to use the property for personal purposes under §280A(d)(2) (taking into account §280A(d)(3) but not §280A(d)(4)). Thus, personal use includes: (1) use by the taxpayer or any other person who has an interest in the property or by a family member; (2) use by any individual who uses the unit under an arrangement which enables the taxpayer to use some other dwelling unit (whether or not a rental is charged for the use of such other unit); or (3) use by any other individual if rented for less than fair market value. A taxpayer can rent the property to a family member if the family member uses the property as a primary residence and the family member pays fair market rent. Whether a dwelling unit is rented at a fair rental is determined based on all the facts and circumstances that exist when the rental agreement is entered into. All rights and obligations of the parties to the rental agreement are taken into account.


Safe Harbor but not a "Brightline" Test

The Procedure provides a safe harbor for purposes of characterizing investment property for purposes of Internal Revenue Code §1031. Property that does not meet the terms of the safe harbor may nevertheless constitute qualifying relinquished or replacement property under current law. Of course, any exchange must meet all other applicable legal requirements. Every taxpayer should consult with their legal and tax advisor before engaging in any §1031 exchange.

For more information on §1031 tax deferred exchanges, call 1-800-282-1031 or email: kennen@apiexchange.com. This information is not intended to replace qualified legal and/or tax advisors. Every taxpayer should review their specific transaction with their own legal and/or tax counsel. © 2008 Asset Preservation, Inc. All rights reserved.



Watch for the
Special Convention issue of
Wyoming REALTOR®
coming July, 2008

 Celebrating 100 years of REALTORS®



**Wyoming
STATE BANK**

"Wyoming Proud & Proudly Independent"

3430 E. Grand Ave.
Laramie, WY 82070
307.721.9100

1525 E. Pershing Blvd.
Cheyenne, WY 82001
307.637.7333

5538 Yellowstone Rd.
Cheyenne, WY 82009
307.634.3304



www.wyomingstatebank.com



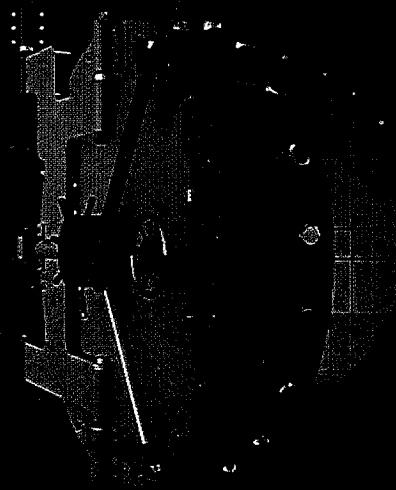
Fremont County Title Company
130 EUGENE STREET • LANDER, WY 82520
(307) 332-4069 • (800) 734-7403 (WY)
FAX (307) 332-4659 • E-MAIL: mmapugh@firstam.com

ANDERSON APPRAISALS

Joel Anderson
PO Box 1943
Rawlins, WY 82301
P 307-324-7771 F 307-324-7772
andersonappraisal@wir.net

Exchange smart.

1031s safe and secure




ASSET PRESERVATION
INCORPORATED
A National IRC §1031 "Qualified Intermediary"

Kennen Cohen
Wyoming Division Manager
800.282.1031
apiexchange.com

Call to receive our new 550+ page §1031 Tax Handbook