

# YOU CAN PURCHASE THE REPLACEMENT PROPERTY FIRST "DO A REVERSE EXCHANGE"



## Compliments of

## REVERSE EXCHANGE BENEFITS

Revenue Procedure 2000-37 ("Rev. Proc. 2000-37"), provides guidelines for the taxpayer to acquire the replacement property before the sale of the relinquished property is completed. The reverse exchange can be the ideal solution if the taxpayer cannot delay the closing of the replacement property. The reverse exchange helps investors meet a number of objectives:

**Seize the Moment:** Don't miss out on the buy of a lifetime! Immediately acquire a desirable replacement property prior to selling the relinquished property.

**Protect Your Exchange:** Eliminate the pressure-filled problems presented by the 45-day identification period.

**Improve the Replacement Property:** Use the parking arrangement to increase the value of the replacement property by making capital improvements.

Investors can take advantage of the current real estate market and still defer their capital gain by following Rev. Proc. 2000-37 safe harbor guidelines for a reverse exchange.

## REVERSE EXCHANGE STRUCTURES

Rev. Proc. 2000-37 makes it clear that the Exchanger cannot own both properties at the same time. It describes the ownership process as a "parking arrangement" because either ownership of the relinquished property or the replacement property is "parked" with an Exchange Accommodation Titleholder ("EAT"). To "park" the ownership actually means that a deed is recorded to transfer the ownership to the EAT so that the Exchanger owns one property and the EAT owns the other property.

## ADDITIONAL ISSUES

**Parking the Replacement Property:** The EAT acquires title to the replacement property with funds the Exchanger causes to be loaned to the EAT. Within 180 days, the Exchanger sells the relinquished property through the "delayed exchange" format and the EAT transfers the replacement property to the Exchanger.

**Parking the Relinquished Property:** The Exchanger conveys the relinquished property to the EAT and then the Exchanger acquires the replacement property under a "simultaneous exchange" format. During the 180 days, the EAT remains on title to the relinquished property until it is sold to a purchaser.

**Reverse/Improvement Exchange:** The EAT acquires the replacement property and makes improvements to this property. The improved property is later exchanged for the relinquished property within 180 days to complete the exchange.

All investors should thoroughly review any contemplated reverse exchange transactions with their legal and/or tax advisors.



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