



Winter 2002 Newsletter

Project 1031 Exchange Information.

Because there is so much misinformation about like kind exchanges and so little accurate information readily available to investors and real estate professionals Realty Exchange Corporation has initiated – “Project 1031 Exchange Information”.

The goal of this project is to disseminate to as many taxpayers and real estate professionals as possible accurate information on the rules and procedures to successfully complete a like kind exchange. The project involves adding to our Newsletter mailing list, a new information package, publication of our how-to-do an exchange workbook, radio and television appearances, real estate office presentations and a four hour continuing education seminar for real estate agents. Also a new web address www.1031exchange.info links to our current site.

For North Carolina real estate agents we are offering through June an approved four hour continuing education seminar on how to do a like kind exchange. Please call the North Carolina Academy of Real Estate at 1-800-987-1124 for dates and times. This seminar is open to the public.

Is TIC Your Replacement Property Answer?

Occasionally an exchangor cannot complete an exchange because 1) they are unable to find and identify replacement property within the 45 day identification period, or 2) an identified property cannot be placed under contract or the contract falls out sometime after the 45th day and the exchangor has no alternate property identified, or 3) they cannot find a desirable property for the equity, value and debt that must be replaced.

To solve this problem and give exchangors a satisfactory replacement property alternative, a number of companies now offer what is known as a Tenancy-in-Common (TIC) interest in established commercial properties. How does this work? The Company owns a number of commercial properties in which they will sell a Tenancy-in-Common fractional interest to a number of co-owners. The Company has a Master Lease with a Management Company for a fixed monthly amount. The Master Lease is typically a triple-net lease so that the property owners need not worry about day-to-day operation of the property, do not share expenses or profits, but will receive a specific return on their equity. A great advantage of this arrangement is that the size of the TIC interest and date for closing are very flexible. Normally the cash equity to be invested should be at least \$100,000. If you desire more information on this replacement property option please give us a call. We can then refer you to one of the companies with whom we have worked.



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Action: If within the 45 day identification period you will be unable to identify a replacement property or are uncertain about a replacement property contract you should identify a TIC property as an alternative. You will then have up to a total of 180 days to close on the TIC property and complete the exchange. Thus avoiding the unnecessary payment of capital gains. As with any investment you need to investigate the fees, return on investment and resale opportunities.

When is it too Late? We continue to hear the sad stories of investors who fail to qualify for deferral of capital gain even though they have identified a replacement property and reinvested the cash proceeds in a new property. *The Reason ?* It is absolutely essential that prior to transfer (closing) of the relinquished property there be a qualifying exchange and escrow account agreement, an assignment of contract, a notification of assignment and instructions to the settlement agent/ attorney for disbursement of the proceeds direct to the Qualified Intermediary. Anything less and the exchange does not qualify. If you want to do an exchange -- we need a copy of the relinquished property contract and the name of the settlement agent before it is too late.

Reporting the Exchange. If you closed on your relinquished property in 2001, you must report as part of your normal tax return the completed exchange on IRS Form 8824, 'Like Kind Exchange'. **You may not file you tax return for 2001 until the exchange is completed.** For those who closed on their relinquished property after October 17, 2001 and have not completed their exchange the end of the 180 exchange period is April 15, 2002, unless you file an on-time extension to get the full 180 days to complete the exchange. If the exchange is not completed and you fail to file an extension on time the IRS could claim April 15, 2002 ended your exchange period and thus disallow the exchange.

This publication is designed to provide accurate information on tax deferred exchanges. The publisher is not engaged in rendering legal or accounting services. If legal or tax advise is required the services of a competent professional should be sought.

Have a question? Need an answer?

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