



Exchange News

Realty Exchange Corporation

Since 1990, Your Nationwide Qualified Intermediary for Tax-Deferred Exchange of Real Estate

Do You Need to File an On-Time Extension?

If you closed on a relinquished property after October 20, 2005, and **will not receive your replacement property** until after the normal 2005 income tax filing due date (April 17, 2006, for individuals), you must file an on-time extension for the filing of your 2005 federal tax return. Taxpayers use IRS Form 4868 to file for an automatic extension. Starting with 2005 returns, the extension to file a 2005 return will automatically be for six months.

If you closed on your exchange relinquished property in 2005, you must report the completed exchange on IRS Form 8824, "Like Kind Exchange," as part of your normal 2005 tax return. You may not file your tax return for 2005 until the exchange is completed. For those who closed on their relinquished property after October 20, 2005, and have not completed their exchange, the end of the 180-day exchange period is April 17, 2006, **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 17, 2006, ended your exchange period and thus disallow the exchange. To avoid interest any estimated tax due should be paid when you submit Form 4868 for your extension.

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| <p>Our new mailing address and physical location is: New Mailing Address 14540 John Marshall Highway, Suite 207, Gainesville, VA 20155 There is no change to our telephone or fax numbers.</p> |
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Continuing Education Seminars

Bill Horan's popular seminar, "How To Do a Like Kind Exchange," is approved for four hours of North Carolina real estate continuing education credits. The seminar will be presented in Durham, NC, on March 15; in Winston-Salem, NC, on April 5; in Boone, NC, on April 6; and in Kill Devil Hills on April 19.

At the request of many students, Bill's new seminar, "Advanced 1031 Exchanges," has also been approved for four hours of CE credit. This new seminar will cover in detail advanced exchange topics such as: reverse exchanges, TIC exchange procedures, qualifying a vacation home, and 1031 investor tax advantages and options. The initial presentation date for this seminar is March 8 in Kill Devil Hills, NC. Additional dates are March 22 in Pineville/Charlotte, NC; April 4 in Raleigh, NC; and May 23 in Kill Devil Hills, NC.

Those interested in attending either seminar should contact Advantage Training Systems at 1-828-890-5220, or visit their web site www.atsce.com for complete seminar details, locations and registration. More seminar dates are being scheduled for Virginia, Maryland and Delaware. For current schedule, go to www.1031.us/Seminars/.

Did You Know?

Starting in 2006 the Gift Tax Exemption is \$12,000. This is the annual amount you may give to another person without incurring gift tax or a reduction in your federal gift tax exemption. For 2006, the Federal Gift Tax Exemption is \$2 Million, up from \$1.5 million.

IRS Form 8824 Instructions

If you transferred a relinquished property as part of a 1031 exchange in 2005, you must file an IRS Form 8824, *Like-Kind Property*, with your 2005 federal tax return. For those exchangors who did their exchange with Realty Exchange Corporation, you have or will receive a workbook by Ed Horan entitled, "Reporting the Like-Kind Exchange of Real Estate Using IRS Form 8824," January 2006 Edition. This workbook is also available on our web site at www.1031.us/Form8824/. The Form 8824 and the IRS instructions are available at www.irs.gov/formspubs/. Exchangors and their tax preparers are encouraged to follow the workbook instructions before they tackle the completion of the Form 8824.

Filing Non-Resident State Tax Returns

Most states require non-residents to file an annual tax return to report the income from rental property in their state. This may be true even if you have a loss. Also, many state taxing authorities have been more aggressive in withholding, at settlement, projected state income taxes upon the sale or exchange of real estate by non-residents. Most states that require withholding of state taxes on the gain from the sale of real estate by non-residents have also provided for a waiver of withholding for 1031 like-kind exchanges.

For example, in Maryland a waiver of withholding at settlement must be obtained through the office of the Comptroller. Recently that office has been denying a waiver if there is no record that the non-resident exchangor has been filing an annual Maryland state tax return on income from their rental property. This denial right before settlement has come as a shock to many non-resident exchangors and their CPAs.

We encourage exchangors who own an interest in real property in another state: (1) to learn if an annual state tax return is required even if no tax must be paid; (2) to determine if the state requires withholding of taxes when the property is sold or exchanged; and (3) if withholding is required, to learn the process and what documents will be required to get a waiver of tax withholding.

Realty Exchange Corporation

Call Bill Horan, CES® or Cynthia Dove, CES® at 800-795-0769

Email Bill or Cindy directly from our website: www.1031.us/ContactUs/

Certified Exchange Specialists® on Staff

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Bonded and Insured

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 advice is required, the services of a competent professional should be sought.