

REALTY EXCHANGE CORPORATION

The attached information will help explain the steps to create a successful tax-deferred exchange to:

Save Thousands of Dollars in Taxes!

Realty Exchange Corporation is one of the nation's leading qualified intermediaries, coordinating thousands of successful tax-deferred exchanges across the country since 1990. We are members of the Federation of Exchange Accommodators and carry the prestigious Certified Exchange Specialists® designation. We are bonded and insured, and our documentation has been through the IRS Private Letter ruling process.

The security and safety of your exchange escrow funds is our first priority. Please see the enclosed information on our security program.

The first step has already been made -- contacting Realty Exchange Corporation. The next steps should be to:

1. Use the enclosed worksheet to analyze the tax impact of the investment sale or visit our web site for an interactive version of the worksheet (www.1031.us).
2. Attach the enclosed addendum on the sales contract. This addendum is also available on our web site.
3. Fax or email us the ratified sales contract.
4. Tell us who is handling the settlement/closing (name & phone number).

We will take the process from there. Please don't hesitate to call if you have any questions. We look forward to working with you and appreciate the opportunity to help.



7400 Heritage Village Plaza, Suite 102
Gainesville, VA 20155

Local: 703-754-9411
Toll Free: 800-795-0769
Fax: 703-754-0754

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How To Do a Like-Kind Exchange

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THE PREFERRED QUALIFIED INTERMEDIARY

Realty Exchange Corporation

Since 1990 our only business is to serve as a Qualified Intermediary for 1031 exchanges. Realty Exchange Corporation's only business is to serve as a qualified intermediary for tax-deferred exchanges throughout the United States. Realty Exchange Corporation realized the need for a dedicated organization to provide informative, experienced, and responsive qualified intermediary services to investors, real estate professionals, and advisors. Our services include all forms of exchanges: Simple Forward, Reverse, Improvement, Build to Suit, and Personal Property exchanges.

Tested Exchange Agreement. Our exchange agreement has been through the IRS private letter ruling process. We know our exchange agreement has all the necessary components to survive IRS scrutiny because we have been tested.

AlwaysSafe™ Security and safety of exchange funds is our first priority. Therefore we implemented the AlwaysSafe™ escrow security system. The AlwaysSafe™ system specifically defines how we handle exchange funds. Realty Exchange Corporation was an early proponent of separate bank accounts for each client.

CES® and FEA. The Certified Exchange Specialist® designation has been earned by all officers of Realty Exchange Corporation. This prestigious designation is specific to the 1031 exchange industry. The CES® designation is recognition that the bearer has met the difficult requirements of experience and comprehensive testing of exchange law and procedures, and abides by a comprehensive Code of Ethics.

Realty Exchange Corporation has been a long time member of the Federation of Exchange Accommodators. The FEA is the recognized trade organization for 1031 exchanges, providing constant industry updates, continuing education, a Code of Ethics, and standards.

Family Owned and Operated. Ed Horan established Realty Exchange Corporation in 1990. We continue to be owned and operated by family members. Our firm is one of the oldest family-owned qualified intermediaries in the country.

HISTORY OF TAX-DEFERRED EXCHANGES

Dating back to 1921, tax-free exchanges were direct, simultaneous exchanges between two or three property owners. In 1979, it was ruled in the famous "Starker" case that there could be a delay between settlements. This became the legal basis for the "delayed" or "deferred" exchange.

In 1984, Congress established time limits for a delayed exchange that required the exchangor to identify potential replacement property within 45 days and then settle on the replacement property within 180 days of settlement of the first property relinquished or the tax return due date, whichever is earlier.

The IRS published specific and clear guidance for the "safe harbor" conduct of like-kind exchanges in 1991. This regulation covers the role and qualifications of the qualified intermediary, safe harbor rules, assignment of contracts, control of escrow funds, identification requirements, and earning of interest. This regulation greatly simplifies tax-deferred exchanges and has revolutionized the exchange process.

In September 2000, the IRS published "IRS Revenue Procedure 2000-37" to provide guidance on how to conduct a reverse exchange.

WHAT IS A TAX-DEFERRED EXCHANGE OF LIKE-KIND PROPERTY?

A tax-deferred exchange is a process that allows a taxpayer to exchange an investment, rental or business property and defer the payment of the capital gains tax. Normally, there is a delay between settlements of the property being relinquished and the replacement property.

REQUIREMENTS AND RESTRICTIONS

Criteria for a Tax-Deferred Exchange of Like-Kind Property

The following criteria must be met for the real estate to be like-kind:

1. The property currently owned must have been **held** by the exchangor for investment, business and/or production of income (*NOTE: It is NOT important how the buyer plans to use the property*);
2. The exchangor must **hold** the new property for investment, business and/or production of income (*NOTE: It is NOT important how the seller is using the property*);
3. The replacement property must be identified in 45 days;
4. The replacement property must be settled in 180 days (or the tax due date, including extension, if earlier); and
5. All properties must be in the United States.

IMPORTANT!!

Reinvestment Requirements

For an exchange to be **totally tax-free**, four reinvestment requirements must be met:

1. The acquisition cost of the replacement property(ies) must be equal to or greater than the adjusted sales price (contract price less selling cost) of the relinquished property.
2. The cash equity (equity less selling costs) from the relinquished property and held in a qualified escrow account must be reinvested in the replacement property(ies). The cash from the escrow account may be applied toward the acquisition cost and/or down payment. Cash boot results if all the cash is not reinvested.
3. The replacement property(ies) must have debt equal to or greater than the debt paid-off or assumed at settlement of the relinquished property(ies). Otherwise, mortgage boot will result. New cash can be added to the down payment to offset any mortgage boot; however, new debt cannot offset any cash boot.
4. The exchangor should not receive any non-like-kind property. *The value of the any non-like-kind property received by the exchangor, including the value of any exchangor-held notes, is considered boot.*

Special Exchange Requirements and Restrictions

IMPORTANT!!

PROPERTIES THAT DO NOT QUALIFY: Properties that should not be exchanged under IRC Section 1031 rules are principal residences, personal use second homes, and dealer properties.

Related Parties: All the property transferred in a related-party exchange must be retained for two years. Direct exchanges and exchanges of the relinquished property may be made with a related party, but the purchase of the replacement property from a related party should be avoided. For additional information, see "Related Party Exchanges" at www.1031.us/PDF/RelatedParty.pdf.

Partial Interest: A partial or whole interest in a qualified property may be exchanged for a partial or whole interest in a replacement property. As an example, your 50% interest in a property may be exchanged for new property.

Installment Sale: An exchange can be a combination of a tax-deferred exchange and an installment sale. The value of the note will eventually be taxable income while the balance of the capital gain is deferred. To avoid taxable income, Realty Exchange Corporation, as the qualified intermediary may hold the note. For additional information, see "Installment Sale & Treatment of a Note from Buyer" at www.1031.us/PDF/InstallmentSale.pdf.

Mixed-Use Property: A property used for both personal and business or investment purposes may be exchanged. The gain and proceeds are divided at settlement with the proceeds from the business or investment portion coming directly to the qualified intermediary. When a mixed-use property is purchased as a replacement property, the value must be allocated between the personal use and business or investment portions.

Reverse Exchange: In 2000 the IRS published "safe harbor" procedures for a third-party *exchange accommodation titleholder* (EAT) to take title to the relinquished or eventual replacement property under a separate agreement. The EAT may hold the relinquished or replacement property for up to 180 days. This procedure permits an exchangor to get control of a replacement property even though their relinquished property has not sold. A separate *qualified exchange accommodation arrangement* (QEAA) is required to complete the normal exchange portion of the reverse exchange. Revenue Procedure 2004-51 modified the original "safe harbor" procedure to restrict the transfer to the EAT, as the eventual replacement property, of any property owned by the exchangor within the last 180 days. For additional information, see "Reverse Exchanges" www.1031.us/PDF/ReverseExchanges.pdf.

IMPORTANT!!

Vacation Rental Property: A property in a vacation area that has not been used the greater of 14 days or 10% of the days actually rented (maintenance days do not count) qualifies as a business, rental or investment property and may be exchanged. (See IRS Publication 527 and "1031 Classification of Second Homes" at www.1031.us/PDF/ClassificationofSecondhomes.pdf)

Visit www.1031.us for more information on these special topics, or call 800-795-0769 for a copy.

STEPS IN THE EXCHANGE PROCESS

STEP 1 Analysis of Tax Impact: A taxpayer should first determine what capital gains tax will have to be paid if an exchange is not completed. An interactive worksheet is available at www.1031.us (select Capital Gains Calculator) to determine the federal tax impact if a property is sold and not exchanged and to determine the reinvestment requirements for a tax-free exchange.

STEP 2 Real Estate Sales Contract: A copy of the sales contract for the property being sold and the name and phone number of settlement agent/attorney must be provided to Realty Exchange Corporation, as the qualified intermediary, in order to start the required exchange documentation.

STEP 3 Exchange Documentation: Realty Exchange Corporation prepares the required exchange and escrow account agreement and the assignment of contract documents and

sends them to the exchangor for signature. Realty Exchange Corporation provides the required notification of assignment to all parties of the contract, and provides specific instructions to the settlement agent/attorney. The exchange documentation **must be in place** prior to the transfer of the relinquished property.

STEP 4 Escrow Funds: The settlement agent transfers the escrow funds directly to the qualified escrow account. The exchange and escrow account agreement limits the exchangor's rights "to receive, pledge, borrow or otherwise obtain benefits from the cash or cash equivalent held in the escrow account." Realty Exchange Corporation, as the qualified intermediary, establishes and controls the escrow account.

STEP 5 Identification of Potential Replacement Properties: The identification of potential replacement properties must be done in writing, be signed by the exchangor, and be sent to Realty Exchange Corporation, as the qualified intermediary, within 45 days after settlement of the relinquished property. Each property is identified by street address and/or legal description.

There are different identification methods available, but the one most often used is to identify a maximum of three properties of any value. An alternate method used when going from a high value property to many lower value properties is the "200% Rule." This rule permits the identification of any number of properties up to 200% of the value of the relinquished property.

Also, if the replacement property is transferred to the exchangor prior to the end of the 45-day identification period, then no separate identification action is required.

Identification may be revoked and new identification made anytime during the 45-day identification period. Again, it must be in writing, signed by the exchangor, and delivered to the qualified intermediary.

WARNING: After 45 days, only those properties that have been identified may be purchased as replacement properties and be part of the exchange. No new properties may be identified after the 45-day identification period.

A replacement property "to be built" may also be identified. Such identification requires the legal description and *the best description available* of what is to be built.

STEP 6 Replacement Property Contract: A copy of the sales contract on the replacement property being purchased must be provided to Realty Exchange Corporation, along with the name and phone number of the settlement agent/attorney.

STEP 7 Replacement Property Documents: After receipt of the replacement property contract, Realty Exchange Corporation will prepare both the assignment and the notification of assignment and send instructions to the settlement agent/attorney. The assignment **must be signed** by the exchangor and returned to Realty Exchange Corporation before exchange escrow funds may be disbursed.

STEP 8 Transfer of Replacement Property: The replacement property being acquired must be received by the end of the 180-day exchange period. The exchange period starts on the day the first relinquished property is transferred and ends at midnight on the earlier of the 180th day or the due date (including on-time extensions) for the exchangor's tax return.

STEP 9 Reporting the Exchange: The exchangor completes the IRS Form 8824, "Like-Kind Exchanges," for the tax year in which the relinquished property was transferred. The form shows taxable income, realized gain, amount deferred, and the new basis for the replacement property. Following completion of the exchange, Realty Exchange Corporation provides a copy of the current Form 8824 and an instruction booklet on how to report the exchange.

THE QUALIFIED INTERMEDIARY

The Role of the Qualified Intermediary

The IRS has established the mandatory use of a qualified intermediary for a “safe harbor” exchange and has prescribed specific rules for the tax-deferred exchange and transfer of ownership. Thus, after the property has been listed and the exchanger and listing agent have placed an exchange addendum on the accepted contract, the qualified intermediary provides the documentation required for the deferred exchange. This includes preparing the required exchange and escrow agreement, providing the required assignment of contacts, receiving the required 45-day identification notice, notifying all parties to the contracts of the assignments, giving instructions to settlement agents at relinquished and replacement settlements, and maintaining control of the client’s funds in the qualified escrow account.

Disqualified Parties

To reduce conflicts of interest, the regulations restrict disqualified parties from serving as the qualified intermediary, controlling the escrow account, and receiving the identification notice. A disqualified party is one who has served as the exchanger’s agent in the past two years (i.e., a family member or any other party who has a business relationship with the exchanger or his/her agent, or any business entity in which the exchanger or agent have over a 10% interest). Agents are listed in the regulation as the exchanger’s employee, attorney, accountant, investment broker, or real estate agent/broker.

Fees

There is no standard fee charged by qualified intermediaries. The exchanger should determine if they are being charged a flat fee, a percentage fee, or an hourly rate, and if there is a separate escrow account fee. The exchanger should also ask if interest is paid on the funds in escrow. Realty Exchange Corporation charges a flat fee paid at settlement of the relinquished property. At the completion of the exchange, interest is paid to the exchanger on the funds held.

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Rev. 02/2009

EXCHANGE ESCROW FUNDS SECURITY SYSTEM



The security and safety of exchange escrow funds is the **first** priority of Realty Exchange Corporation. Therefore we have established the **AlwaysSafe™ escrow security system**. The AlwaysSafe™ system:

- Provides a **segregated** separate bank account for each exchange
- Permits exchangors **24/7 on-line viewing** of the segregated bank escrow account
- Provides **Errors and Omissions** insurance
- Establishes escrow accounts in **strict compliance with IRS regulations**
- Deposits all exchange escrow funds in an **FDIC insured bank**
- Ensures exchange escrow funds are **always available for disbursement**
- Provides a **monthly bank statement** for each exchange account
- Provides for a **client authorization** to transfer escrow funds
- Performs **daily validation** of each escrow disbursement and deposit
- Performs **monthly audits** of all escrow accounts
- Maintains **individual registers** for each escrow account

Realty Exchange Corporation:

- Is a member of the **Federation of Exchange Accommodators (FEA)** and follows its strict **Code of Ethics**
- Requires all managing officers to be **Certified Exchange Specialists®**
- Provides stability as a **family-owned and operated Qualified Intermediary since 1990**. Only a family member and officer may disburse exchange escrow funds.

Separate Segregated Bank Accounts

A separate segregated FDIC insured bank account is established for each exchange. These separate accounts provide maximum security and visibility of the individual exchangor's funds. Exchangors **can view the funds in the separate bank escrow account at any time** by accessing the bank's on-line system.

Errors and Omissions Liability Insurance

The Errors and Omissions insurance defends and pays valid claims alleging negligent acts, errors or omissions in the provision of, or failure to provide, professional services involving or related to 1031 exchange transactions. The policy is issued by underwriters at Lloyd's of London.

Maintenance of Escrow Accounts

IRS Regulation 1.1031(k)-1(g) clearly provides the safe harbor rules for the establishment of qualified escrow accounts. For the taxpayer to qualify for tax deferral of capital gain, it is essential that the Qualified Intermediary (QI) strictly adhere to the IRS regulation. The party holding the escrow funds must not be a disqualified person, and there must be strict compliance with the "(g)(6) restrictions" in the regulation and escrow agreement.

All Funds Deposited in FDIC Insured Banks

Exchange escrow funds are only deposited in FDIC insured banks. Escrow funds will not be placed in other investment accounts unless specifically directed in writing by the exchangor. Realty Exchange Corporation takes very seriously its fidelity responsibility to ensure that the **exchange escrow funds are liquid** and immediately available for disbursement.

Monthly Statement

In addition to the ability to view the segregated account on-line twenty-four hours a day, seven days a week, exchangors may receive a monthly bank escrow statement.

Funds Transfer Authorization

Each exchangor has the option to add for disbursement of funds a client authorization signature. When requested, Realty Exchange Corporation will not transfer funds without the specific authorization of the exchangor or their designated representative.

Daily Validation of Escrow Deposits and Disbursements

To ascertain that escrow deposits and disbursements are being properly made and recorded both internally and at the bank, a daily reconciliation of escrow transactions is accomplished. This process permits immediate follow-up if there is a discrepancy or delay in the receipt or recording of escrow funds.

Monthly Audit of Escrow Assets and Liabilities

In addition to the daily reconciliation of escrow transactions, Realty Exchange Corporation conducts a monthly audit of all escrow accounts.

Individual Register for Each Escrow Account

Within our proprietary software system there is an escrow account register for each exchange which mirrors the segregated bank account balance. The register shows the receipt of escrow funds from the relinquished property settlement, the disbursement of any requested deposits, the disbursement of funds to purchase the replacement property and the current escrow account balance. This dual tracking system allows Realty Exchange Corporation to double check and track exchange escrow activities.

At any time exchangors may view their account activity and balance directly on the bank account web site. Monthly paper bank statements are also available, or an exchangor may request a copy of the register activity and balance.

Federation of Exchange Accommodators

Realty Exchange Corporation is a long-time member of the Federation of Exchange Accommodators (FEA). The FEA is the only national trade organization organized to represent professionals who conduct like-kind exchanges. The FEA establishes and promotes ethical standards for qualified intermediaries (QIs), enforces the [Code of Ethics](#), offers required continuing education and promotes the development of uniform terminology and standards. To ensure members are knowledgeable of all new IRS rulings and procedures, the FEA sponsors national and regional conferences and publishes quarterly newsletters.

Code of Ethics

Federation of Exchange Accommodators (FEA) members must comply with a strict code of ethics. The Code stresses the protection of the public and clients against fraud, misrepresentation and other illegal practices. The Code requires the Qualified Intermediary (QI) to keep exchange proceeds in a stable financial institution, provide financial information to the exchanger as requested, and to give a full accounting of funds at the end of the exchange. Realty Exchange Corporation prides itself on membership in the FEA and strict compliance with its [Code of Ethics](#).

Certified Exchange Specialist®

In recognition of the need for Qualified Intermediary (QI) personnel to be knowledgeable in all aspects of Section 1031 exchanges, the Federation of Exchange Accommodators (FEA) instituted the Certified Exchange Specialist® program. The program, which is available only to FEA members, certifies professional QI staff members and fosters public confidence in the selection of an exchange accommodator (QI). Candidates must meet specific exchange work experience criteria and pass a comprehensive examination on exchange law and procedures. The examination tests candidates' competency to perform critical exchange activities. The test also focuses on the ethical issues when QIs control the funds of the taxpayer.

In addition, CES® designees are required to obtain twenty hours of 1031 exchange continuing education every two years. Only courses approved by the FEA may be counted toward this requirement.

All managing officers of Realty Exchange Corporation hold the prestigious Certified Exchange Specialist® designation.

Family Owned and Operated Since 1990

Realty Exchange Corporation is a Virginia corporation established in 1990 by Ed Horan. The company's sole mission was and is to serve investors and real estate professionals as a 1031 exchange qualified intermediary (QI). Son Bill Horan has been an officer of the firm since the beginning. Today Ed Horan serves as President Emeritus, Treasurer and Corporate Secretary. Ed served 30 years in the U.S. Air Force as a pilot and comptroller. Our firm is one of the oldest family-owned QIs in the country.

We have learned that long-term ownership and QI stability are important security attributes. It is important to note that Realty Exchange Corporation has been family owned since 1990 and that serving as a QI is the only business we conduct. Escrow fund disbursements can only be made by officers of the corporation who are family members.

Exchangers and their advisers can be assured that the first priority of Realty Exchange Corporation is the security and safety of exchange escrow funds.

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EXCHANGE REINVESTMENT REQUIREMENTS

FIGURING YOUR TAX-FREE REINVESTMENT REQUIREMENTS

When planning a like-kind exchange, most taxpayers are trying to avoid paying any capital gains tax on the sale of their investment or business property. It is simple to achieve a tax-free exchange -- which means the total deferral of the realized capital gain -- if you follow two rules:

Rule 1: Purchase replacement property(ies) equal to or greater than the adjusted sales price of the property sold.

The adjusted sales price is the contract price less selling costs, less any closing cost credits/allowances given to the buyer. Fortunately, almost all selling expenses count. Exceptions are unpaid taxes, HOA/Condo fees, and repairs which are costs reported on Form 1040, Schedule E, for rental property.

Example:	Contract Price	\$250,000.00
	Less: Selling Costs	- 22,000.00
	Less: Credit to Buyer	- <u>5,000.00</u>
	Adjusted Sales Price	\$223,000.00

Rule 2: Reinvest all the cash received in the new property(ies).

The definition of cash received is adjusted sales price less debt on the property assumed or paid off.

Example:	Adjusted Sales Price	\$223,000.00
	Less: Mortgages Paid Off	- <u>120,000.00</u>
	Cash Received	\$103,000.00

The cash received amount should equal the "exchange escrow funds" amount that is wired to the qualified intermediary's escrow account. However, in the real world, other costs and transactions reduce this amount at settlement. For instance, unpaid real estate taxes, fees, payment or credit to the buyer for rent, or deposits received reduce the cash amount sent to the qualified intermediary.

If the required value of real estate is purchased and the required cash is reinvested in the replacement property, then the dollar difference necessary to purchase the property(ies), through a loan and/or new cash, will always satisfy the new mortgage reinvestment requirement.

Example:	Value of New Replacement Property	\$300,000.00
	Less: Exchange Funds	- <u>103,000.00</u>
	New Mortgage and/or New Cash	\$197,000.00

Other factors such as suspended passive losses or receipt of non-like kind property can change the reinvestment requirements. It is suggested that your specific requirements be discussed with your tax advisor and qualified intermediary.

IF YOU BUY DOWN OR DO NOT REINVEST ALL THE CASH

If the replacement property cost less than the adjusted sales price **or** the cash reinvested is less than the cash received, then the capital gain will be recognized and be taxed on whichever amount of difference is greater.

Example:

Adjusted Sales Price	\$223,000.00		Cash Received	\$103,000.00
New Property Cost	<u>- 200,000.00</u>	or	Actual Cash Reinvested	<u>- 90,000.00</u>
Difference	\$23,000.00		Difference	\$13,000.00

The \$23,000.00 is the greater difference and will be the amount of capital gain recognized and taxed.

Caution: To avoid taxable boot, rent and security deposit adjustments should be made outside of closing.

Be certain that the amount of your loan on the replacement property does not result in your getting cash at settlement in excess of your personal earnest money deposit.

Action: If you have any doubt about your tax-free reinvestment requirements, call your tax advisor and qualified intermediary early in the exchange planning process.

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EXCHANGOR CHECKLIST

For your convenience, use this checklist to ensure documentation requirements of IRC 1031 are met:

- _____ SUGGESTED: Exchangor adds Exchange Addendum to buyer's offer to show that transaction is a like-kind exchange and to allow contract to be assigned to Realty Exchange Corporation (REC) as the qualified intermediary.
- _____ REQUIRED: A copy of the sales contract must be sent or faxed to REC, along with the name and phone number of the settlement agent, attorney, or escrow agent.
- _____ REQUIRED: Exchangor signs Exchange and Escrow Account Agreement and Assignment of Contract prepared by REC and returns them to REC as soon as possible. All documents must be signed prior to closing. REC provides Notification of Assignment to all parties to the contract.
- _____ REQUIRED: Exchangor fills out and signs 45-Day ID letter and returns it to Realty Exchange Corporation. Properties identified for potential purchase should meet reinvestment requirements in order for the exchange to be tax-free.
- _____ SUGGESTED: Exchangor adds Exchange Addendum to replacement property contract to show transaction is part of a like-kind exchange and that the exchangor's rights may be assigned.
- _____ REQUIRED: A copy of the replacement property sales contract must be sent or faxed to Realty Exchange Corporation, along with the name and phone number of the settlement agent, attorney, or escrow agent.
- _____ REQUIRED: Exchangor signs Assignment of Replacement Property Contract and returns to REC. No escrow funds can be disbursed by REC until the signed Assignment document has been received. REC provides Notification of Assignment to all parties to the contract.
- _____ REQUIRED: Within 180 days of the transfer of the first relinquished property, exchangor must go to settlement and take receipt of replacement property that has been identified.
- _____ REQUIRED: Exchangor files IRS Form 8824 for the tax year in which the first relinquished property was transferred.
- _____ REMEMBER: Keep REC informed of any changes in closing dates or settlement agent/attorney or escrow agent.

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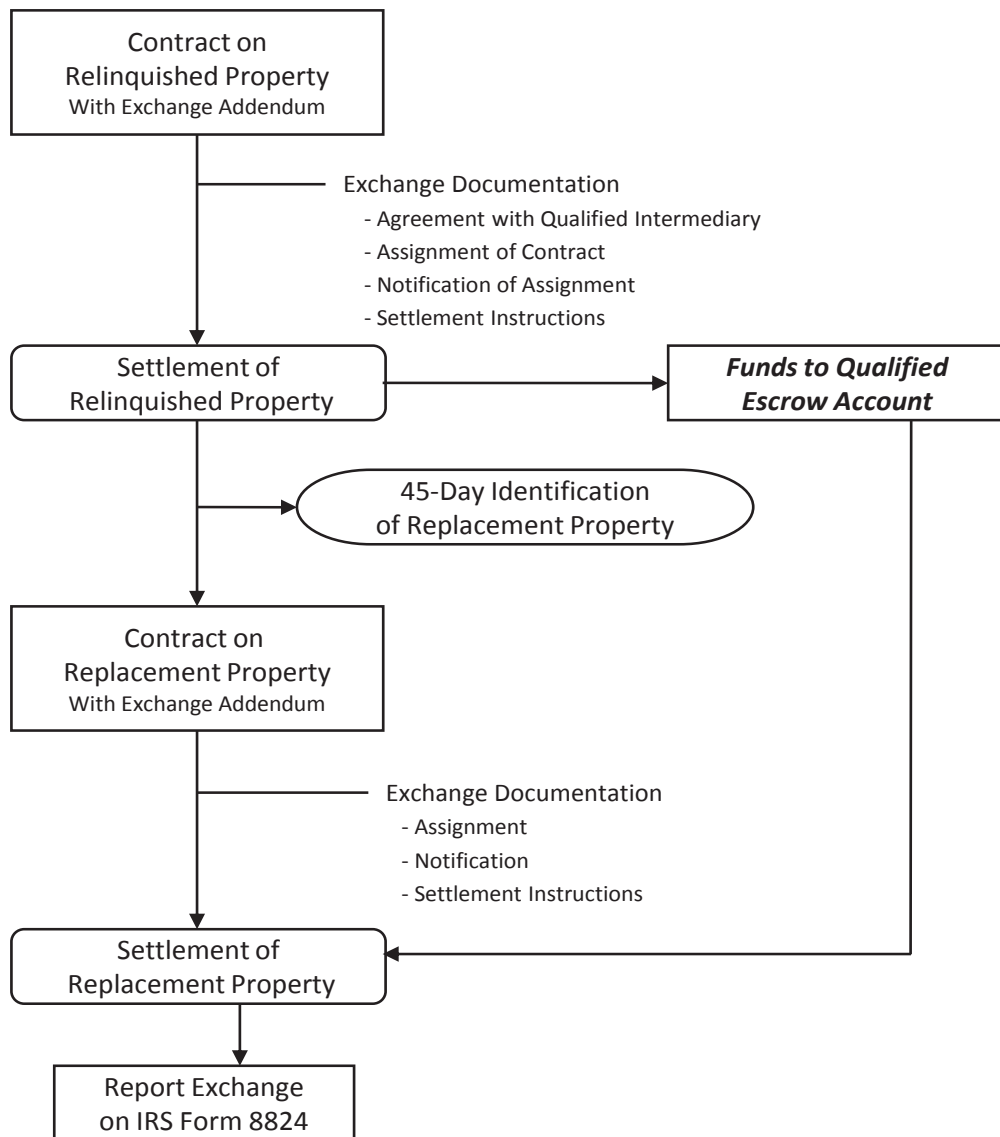
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THE EXCHANGE PROCESS



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EXCHANGE ANALYSIS

The purpose of this form is to determine the tax impact if a property is sold but not exchanged and to determine the reinvestment requirements for a tax-free exchange. See reverse side for an example and explanation.

A. TAXABLE GAIN if property is sold

1	SELLING PRICE		\$ _____
2	Subtract Selling Costs		- _____
3	ADJUSTED SELLING PRICE		\$ _____
4	Original Cost Basis	\$ _____	
5	Add Improvements	+ _____	
6	ADJUSTED COST BASIS	\$ _____	
7	Subtract All Depreciation Authorized/Taken	- _____	
8	TAX BASIS (subtract from Line 3)		- _____
9	TOTAL TAXABLE GAIN if property is sold (or deferred if property is exchanged)		\$ _____

B. FEDERAL TAX ON GAIN

10 a.	Recapture of All Section 1250 Depreciation Allowed		\$ _____
	\$ _____ (Line 7) x 25%		\$ _____
b.	Capital Gain on Profit (Adjusted Selling Price less Adjusted Cost Basis)		
	\$ _____ (Line 3 less Line 6) x 15%		+ _____
11	TOTAL FEDERAL TAX due if property is sold (or amount deferred if exchanged)		\$ _____

C. BEFORE and AFTER TAX PROCEEDS

12	SELLING PRICE (Line 1)		\$ _____
13	Subtract Balance Due on All Loans		- _____
14	EQUITY		\$ _____
15	Subtract Selling Costs (Line 2)		- _____
16	Proceeds Before Tax (cash to escrow in an exchange)		\$ _____
17	Subtract Total Federal Tax Due (Line 11)		- _____
18	Net Sale Proceeds After Tax if property is sold		\$ _____

D. EXCHANGE REINVESTMENT REQUIREMENTS

For deferral of all gain, the replacement property(ies) must cost at least \$ _____ (Line 3) and the amount of cash reinvested must be at least \$ _____ (Line 16). The balance of funds needed to purchase the new property(ies) may be borrowed and/or be **new** cash.

If the new property(ies) cost less than Line 3 or the cash reinvested is less than Line 16, then the capital gain will be recognized and will be taxed on whichever amount of difference is greater. The recaptured Section 1250 depreciation will be taxed first.

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EXAMPLE AND EXPLANATION OF A LIKE-KIND EXCHANGE ANALYSIS

The Like-Kind Exchange Analysis is used to determine the tax impact if a property is sold but not exchanged and to determine the reinvestment requirements for a tax-free exchange.

EXAMPLE: A rental property has a selling price of \$500,000, and it is estimated the total selling costs will be \$40,000. The property cost \$150,000 when originally purchased ten years ago. No depreciable improvements have been made. The estimated depreciation taken is \$45,000.

A. TAXABLE GAIN if property is sold

1	SELLING PRICE		\$ 500,000
2	Subtract Selling Costs (<i>see Note 1</i>)		<u>- 40,000</u>
3	ADJUSTED SELLING PRICE		\$ 460,000
4	Original Cost Basis	\$ 150,000	
5	Add Improvements	<u>+ 0.00</u>	
6	ADJUSTED COST BASIS	\$ 150,000	
7	Subtract All Depreciation Authorized/Taken (<i>see Note 2</i>)	<u>- 45,000</u>	
8	TAX BASIS (subtract from Line 3)		<u>- 105,000</u>
9	TOTAL TAXABLE GAIN if property is sold (or deferred if property is exchanged)		\$ 355,000

B. FEDERAL TAX ON GAIN (*see Note 3*)

10	a. Recapture of All Section 1250 Depreciation Allowed (<i>see Note 4</i>)		
	\$ <u>45,000</u> (Line 7) x 25%		\$ 11,250
	b. Capital Gain on Profit (Adjusted Selling Price less Adjusted Cost Basis)		
	\$ <u>310,000</u> (Line 3 less Line 6) x 15%		<u>+ 46,500</u>
11	TOTAL FEDERAL TAX due if property is sold (or amount deferred if exchanged)		\$ 57,750

C. BEFORE and AFTER TAX PROCEEDS

12	SELLING PRICE (Line 1)		\$ 500,000
13	Subtract Balance Due on All Loans		<u>- 90,000</u>
14	EQUITY		\$ 410,000
15	Subtract Selling Costs (Line 2)		<u>- 40,000</u>
16	Proceeds Before Tax (cash to escrow in an exchange)		\$ 370,000
17	Subtract Total Federal Tax Due (Line 11)		<u>- 57,750</u>
18	Net Sale Proceeds After Tax if property is sold		\$ 312,250

D. EXCHANGE REINVESTMENT REQUIREMENTS

For deferral of all gain, the replacement property(ies) must cost at least \$ 460,000 (Line 3) and the amount of cash reinvested must be at least \$ 370,000 (Line 16). The balance of funds needed to purchase the new property(ies) may be borrowed and/or be **new** cash.

NOTES:

1. To estimate selling costs, use 8 to 10% considering points paid or allowances given by seller
2. To estimate residential depreciation taken, multiply purchase price of property being sold by 3%, times the number of years the property has been rented.
3. Total taxable gain is the Profit plus all the Depreciation taken.
4. Section 1250 property is basically all real estate rental property.

FEE SCHEDULE

(Effective February 1, 2007)

Initial Consultation and Contract Addendum	No Charge
Exchange and Escrow Account Agreement and Assignment of Contract Exchange Agreement is normally signed after ratification of purchase contract on exchange property being relinquished.	No Charge
Exchange Fee Paid from settlement proceeds of property being relinquished. Includes exchange of a single replacement property.	\$750.00
Exchange Fee for Additional Property This fee is for each additional relinquished or replacement property which is part of the same exchange.	\$300.00
Administrative Fees Wire transfer fees, Federal Express fees, notary fees, etc.	At Cost
Special Services (as requested): Receipt, transfer, and reassignment of notes	\$200.00
Establishment of separate escrow account in a designated bank	\$200.00
Reverse Exchange	Call for fees

At the completion of the exchange, interest will be paid by Realty Exchange Corporation to the Exchanger on the funds held in the Qualified Escrow Account as set forth in paragraph 2.c.(8) of the Exchange and Escrow Account Agreement.

The above fees do not include normal settlement and recording fees paid to the settlement agent. Also, fees for any legal or accounting advice obtained by the exchanger are separate from the above fees.

Member of the Federation of Exchange Accommodators

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.



7400 Heritage Village Plaza, Suite 102
Gainesville, VA 20155

Local: 703-754-9411
Toll Free: 800-795-0769
Fax: 703-754-0754

www.1031.us

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RELINQUISHED PROPERTY EXCHANGE ADDENDUM

This addendum is for the property to be sold by the exchangor and provides for the following requirements: (1) to document the owner's intent to do a like-kind tax-deferred exchange in accordance with IRC Regulation Section 1.1031(k)-1; (2) to permit assignment of the contract to the qualified intermediary; and (3) to ensure the purchaser they will be held harmless and there will be no additional expense as a result of the exchange.

This addendum is made and entered into on _____, 20 ____, and is an addendum to the Purchase Agreement dated _____, 20____, between _____, Purchaser, and _____, Owner/Exchangor, to purchase and exchange the property known as: _____.

Notwithstanding anything in this agreement to the contrary, it is the intent of the Owner/ Exchangor to transfer the property to the Purchaser as part of a Like-Kind Tax-Deferred Exchange.

It is the intent of the parties that the Owner/Exchangor be allowed to use Section 1031 of the Internal Revenue Code to exchange this property for other replacement property to be identified and acquired later by the Exchangor in accordance with Section 1031 regulations.

This contract may be assigned to Realty Exchange Corporation, as the Qualified Intermediary, solely for the purpose of completing the exchange. The purchaser will be notified in writing when this assignment is made. Title, however, will be conveyed directly from the Owner/Exchangor to the Purchaser in accordance with Revenue Ruling 90-34.

The Purchaser will be held harmless, and no additional expense or liability will be incurred by the Purchaser as a result of this like-kind exchange. All other items and conditions of this contract remain in full force and effect.

Date

Purchaser

Purchaser

Date

Owner/Exchangor

Owner/Exchangor

REPLACEMENT PROPERTY EXCHANGE ADDENDUM

This addendum is for the property to be purchased by the exchangor and provides for the following requirements: (1) to document that the purchase will be part of a like-kind tax-deferred exchange in accordance with IRC Regulation Section 1.1031(k)-1; (2) to permit assignment of the contract to the qualified intermediary; and (3) to ensure the seller they will be held harmless and there will be no additional expense as a result of the exchange.

This addendum is made and entered into on _____, 20____, and is an addendum to the Purchase Contract dated _____, 20____, between _____, Purchaser/Exchangor, and _____, Seller, to purchase and exchange the property known as: _____.

The Purchaser/Exchangor is acquiring this property to complete a Like-Kind Tax-Deferred Exchange under Section 1031 of the Internal Revenue Code.

Solely for the purpose of completing the Exchange this contract may be assigned to Realty Exchange Corporation, a qualified intermediary. The seller will be notified in writing when this assignment is made. Title, however, shall be conveyed directly from the Seller to the Exchangor in accordance with Revenue Ruling 90-34.

Seller will be held harmless, and there will be no additional expense to the Seller as a result of this Like-Kind Exchange.

All other items and conditions of this contract remain in full force and effect.

Date

Purchaser/Exchangor

Purchaser/Exchangor

Date

Seller

Seller