The Facts About a

Tax-Deferred Exchange

Both Real Estate Professionals and Investors can profit by using a Tax-Deferred Exchange on investment or business real estate.

It's simply a matter of recognizing the potential for a tax-deferred exchange and knowing who to contact to ensure that the exchange is executed properly.

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Your Nationwide
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Call:

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Cindy Dove, CES®
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Realty Exchange Corporation

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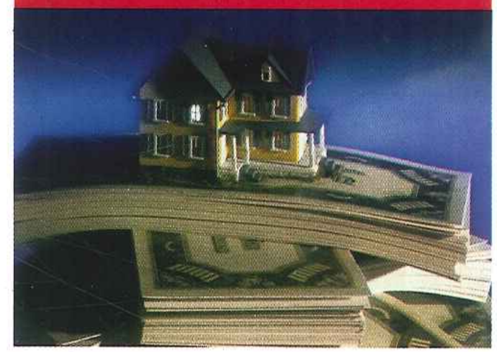

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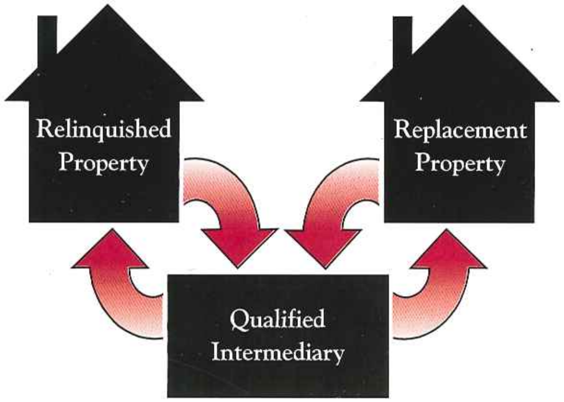
Realty Exchange Corporation

The Exchange property may be like-kind but not all Qualified Intermediaries are. • Talk to a Certified Exchange Specialist®



What is a Tax-Deferred Exchange?

It is a process that allows a taxpayer to exchange an investment 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.

What authorizes a Tax-Deferred Exchange?

While exchanges have been used for many years, in June 1991, IRS regulation 1.1031 (k) provided specific and clear guidance to implement the famous "Starker" case decisions.

What are the criteria for a Tax-Deferred Exchange?

The properties must be like-kind. This means that the property being relinquished must currently be used as an investment or business property. It is not important how the buyer plans to use the property. The replacement property the exchangor desires to purchase must be identified in 45 days, be located in the United States, and be settled in 180 days. It is not important how the property is currently used, only that it will be used by the exchangor as an investment or business property. Like-kind investment or business property includes: townhouses, rentals, land, farms, office condos, warehouses, vacation rentals, etc.

What is the Role of the QUALIFIED INTERMEDIARY?

The 1031 tax regulation provides for the use of a Qualified Intermediary when accomplishing a deferred exchange of investment or business real estate. The Qualified Intermediary plays an important key role by:

- **Providing the Required Exchange Agreement**
- **Accepting Assignments of all Exchange Contracts**
- **Providing Notification of the Assignment to all Parties**
- **Furnishing Instructions to the Settlement Agent**
- **Establishing a Qualified Escrow Account**
- **Receiving the 45-day Identification Notice**
- **Delivering Escrow Funds for Settlement**
- **Arranging for Direct Deeding of Properties**
- **Giving a Final Accounting of Escrow Funds and Interest Earned**

How are capital gains figured?

The potential capital gains that can be deferred are simply the profit plus all the depreciation taken on the property being relinquished.

What are the reinvestment requirements in an exchange?

To be totally tax free, the acquisition cost of the replacement property(ies) must be equal to or greater than the adjusted sales price of the relinquished property. The total cash equity (equity less selling costs) from the relinquished property must be reinvested in the replacement property(ies). Any cash not reinvested (known as "cash boot") is subject to capital gains tax. The replacement property must have mortgage debt or new cash added – equal to or greater than the mortgage paid off, or assumed, on the relinquished property.

How is the replacement property identified?

Normally, up to three potential replacement properties are identified by address or legal description. The identification must be made in writing, signed by the exchangor and delivered to the qualified intermediary.

How are the exchange escrow funds controlled and secured?

The Qualified Intermediary normally controls the funds so that the exchangor has no right "to receive, pledge, borrow, or otherwise obtain benefits of the cash....held in the escrow account." Realty Exchange Corporation only holds funds in federally-insured banks.

Are there special rules for a Qualified Intermediary?

The qualified intermediary should be an experienced real estate professional who understands all aspects of the exchange and contract process. The regulations specifically exclude the exchangor's agent, broker, attorney, accountant, most family members and others with a business relationship with the exchangor.

What is the first step in conducting a Tax-Deferred Exchange?

Agents or investors should contact Realty Exchange Corporation to discuss the proposed exchange and obtain the recommended contract addendum for the property to be relinquished.