

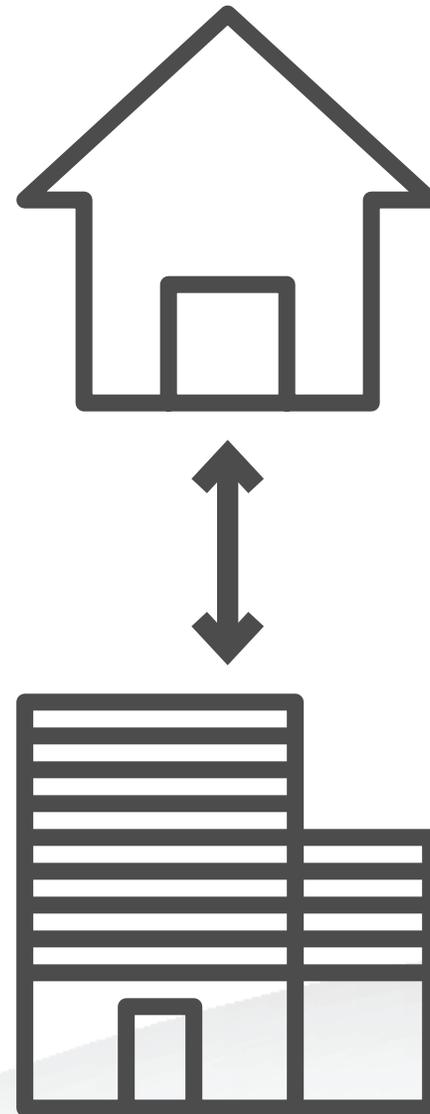


1031

CASE STUDIES

1031 EXCHANGES

Midland 1031's role as Qualified Intermediary is limited to acting as qualified intermediary within the meaning of Regulations section 1.1031(k)-1(g)(4) for Federal and state income tax purposes. In this regard, Midland 1031 is not providing other legal, investment, or due diligence services. The taxpayer/Exchanger must direct all investment transactions and choose the investment(s) for the exchange. Nothing contained herein shall be construed as investment, legal, tax or financial advice or as a guarantee, endorsement, or certification of any investments, legal effect or tax consequences of the transfer, conveyance and exchange of the Relinquished Property and/or the Replacement Property.



1031 REVERSE EXCHANGE ALLOWS TAXPAYER TO SECURE REPLACEMENT PROPERTY BEFORE SELLING EXISTING PROPERTY

Rob from Illinois received an offer on his rental unit on Fort Myers Beach. After consulting with his tax advisor, he looked at a significant amount of gain with this sale. He was advised to consider a 1031 exchange since he intended to purchase another rental property in a more desirable location.

Rob set up a 1031 exchange for his sale and secured a contract on a replacement property, scheduled to close a week after his sale. A week before closing, the buyer's financing fell through, and the sale was canceled. Rob was confident he would find another buyer, but not before closing on his new purchase. The seller of the new property would not extend the closing. If he did not close on the new purchase as scheduled, Rob would lose his deposit and the property. He wanted to know what his options were. Luckily, all was not lost thanks to a Reverse Exchange.

How It Works

IRC Revenue Procedure 2000-37 allowed Rob to acquire the replacement property by using an Exchange Accommodation Titleholder (EAT) before closing on the sale of the relinquished property. This transaction is commonly known as a Reverse Exchange. In other words, it allowed Rob to buy first, then sell, and still have the benefit of a 1031 exchange.

With this strategy, Rob had to be mindful of the deadlines involved. He had to close on the sale of his relinquished property within 180 days of purchasing the replacement

property. He also had to formally identify his relinquished property within 45 days of closing on the new purchase.

Additionally, because there weren't any sales proceeds to apply towards the new purchase, Rob had to come up with the funds to close on the new purchase. Since he did not have that amount of cash-on-hand, he secured a bridge loan with a local community bank to be repaid once his sale closed.

Finally, because he was doing things in reverse order, Rob could not take possession of the replacement property. If he took title to the new property while in possession of his relinquished property, there would be no exchange. For this reason, he needed an EAT to take title to the new property while he secured a buyer for his relinquished property. Luckily, Rob was already working with a Qualified Intermediary to facilitate the Reverse Exchange and establish an EAT for the replacement property.

Rob eventually found another buyer for his property and closed on the sale within the 180-day time frame allotted. At that time, the replacement property was assigned over to Rob, and his exchange was completed.

Reverse Exchanges Through the Pandemic

Given the current market conditions, it is no surprise that there has been an increase in the volume of Reverse Exchanges being completed. Taxpayers don't have the luxury of waiting to purchase until they have closed on the sale of their existing property. The Reverse Exchange has been a valuable tool for real estate investors who want to take advantage of the benefits of a tax-deferred exchange but need to act quickly to keep up with the market demand.

1031 EXCHANGING INTO MULTIPLE INVESTMENT PROPERTIES IN A NEW MARKET

Susan had a high-end vacation rental in Cape Cod that she inherited twenty years ago. She wanted to sell the property and reinvest into multiple rental properties in Florida to provide a more steady stream of income.

Susan went under contract to sell her property for \$1,200,000. She consulted with her CPA and was informed that she would owe approximately \$105,000 in capital gains taxes if she did not do a 1031 exchange.

How It Works

Susan's CPA also advised her that he could not set up the exchange for her and that she would need to engage a Qualified Intermediary (QI) before closing on her sale. She was referred to a local QI and was able to set up her exchange.

The QI advised that she needed to complete her exchange within 180 days of closing on her sale and identify replacement properties within 45 days of closing on the sale.

After she closed on her sale, she found four single-family homes to rent in Florida with a combined value of \$2,400,000. She identified these to the QI before the 45th day.

Susan knew that she needed to apply all of her proceeds towards the purchases and only finance what was required. She found a private lender willing to lend enough funds to

cover all of the purchases and utilize all of her cash from her vacation rental sale.

She closed on all four of the properties before the 180th day.

The Result

Susan was able to purchase four properties in a new market. Because these were single-family homes, she also received a more steady income stream compared to the vacation rental she once had. In addition, she did not have to pay the capital gains taxes on the Cape Cod rental sale since she completed a 1031 exchange.

THE 1031 EXCHANGE*

Relinquished Property Value:

\$1,200,000 (Basis \$500,000)

Replacement Properties Total Value:

\$2,400,000

Cash Reinvested: \$1,200,000

Amount of Loan: \$1,200,000

Total Exchange Fees: \$2,000

Capital Gains Tax Savings: \$105,000

**Numbers have been rounded and closing costs are not included.*



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ABOUT MIDLAND 1031

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Midland facilitates 1031 exchanges as the Qualified Intermediary. We are a proud member of the Federation of Exchange Accommodators (FEA). We also have two CES® (Certified Exchange Specialists®) on staff to assist with your exchange. Get started today.

Please feel free to call Midland 1031 at (239) 333-1031, or [visit our website](#) to start your exchange today.

EXCHANGE ANY OF THE FOLLOWING

- Single-family homes (rentals)
- Owner-occupied business property
- Multi-family homes
- Commercial property
- Tenancy in common
- Condominiums and hotels
- Raw land

MIDLAND 1031 IS NOT A FIDUCIARY

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