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Creating sales with seller financing exchanges

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One of the biggest challenges to selling in today's real estate market is confidence that a buyer will be able to secure financing. If a seller has equity in the property or cash on hand, they may consider offering seller financing to a potential buyer, taking back a note to help close the deal. Combining IRC Â§1031 like-kind exchanges with installment sale treatment (IRC Â§453) could give the taxpayer quite an advantage.

Some potential benefits:

*Move property quicker in a slow market.

*Sell property today and avoid further market deterioration.

*Generate future income and defer capital gains.

The more common use of seller financing with an exchange is taking back a partial note in combination with receiving cash at closing. The cash received is transferred to the exchange account. Any principal payments received during the exchange period are added directly to the taxpayer's exchange account and used towards the replacement property purchase, resulting in a tax deferral for the exchanger. Capital gain will only be recognized on principal payments received by the Taxpayer subsequent to the replacement property acquisition.

Alternatively, the exchanger may act as a "third-party lender," bringing cash in for the buyer, allowing all net proceeds to go directly to the exchange account. The exchanger would receive the full cash value of the sale property at closing, which in turn could be used towards the replacement property purchase. Assuming all IRC regulations are adhered to, the Exchange would be 100% tax deferred and the taxpayer would generate income from future note payments.

These days it pays to be creative and seller-financing just may be the way to move that property!

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