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Can't sell first...go reverse

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45 days may seem like a long time, but when searching for just the right investment property in just the right location with just the right financial parameters, that timeline may not be long enough. This is the concern some taxpayers face when trying to complete the identification portion of their §1031 Exchange. To alleviate the stress of frantically looking for replacement property, or having to settle on not-so-perfect property, investors will look to the reverse exchange structure for relief. They can make an offer and perform due diligence on a new property, and once comfortable with the planned purchase, list their current property for sale. If the sale cannot close prior to the purchase, a Reverse Exchange becomes the solution. While some purposely set out to complete a reverse, for others it is a safety net. Consider Mr. Taxpayer has his property under agreement with a scheduled closing date. Trying to stay ahead of the timeline, he makes an offer on a new replacement property and schedules the closing for a week after the sale. Unfortunately, a title problem arises on the sale side and the closing could be delayed for several weeks, yet the purchase closing cannot be postponed. Per §1031 Regulations, the taxpayer may not hold title to both the relinquished and replacement properties at the same time while still receiving the tax deferment. However, if financial circumstances allow, Mr. Taxpayer could work with the qualified intermediary to switch the structure from forward to reverse, giving him the ability to purchase replacement property prior to transferring the relinquished property yet still deferring the capital gains and recapture tax.

Needless to say, those bidding on foreclosed property also appreciate the flexibility of a Reverse Exchange, saving the investor from unnecessarily selling first and then discovering they are not the successful bidder on a replacement and running out of Identification time.

In an industry where timing is everything, reverse exchanges are a powerful tool for investors attempting to defer payment of capital gains and depreciation recapture taxes under IRC Section 1031.

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