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Build-to-Suit with the Boot

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Are you hunting for the perfect property and frustrated that you just can't seem to find something that suits your needs? On top of that are you selling another property and determined to buy something of a specific value in order to defer taxes under a Â§1031 Exchange? If so, a Build-to-Suit (BTS) Exchange might be just the solution.

BTS Exchanges, also known as construction or improvement exchanges, give taxpayers the opportunity to use all or a portion of investment sale proceeds towards new construction, renovations or improvements to a replacement property, keeping those construction funds tax deferred.

As you know, to be 100% tax deferred, the newly acquired property should be of equal or greater value to that of what was sold. If the replacement value is less, there will be Boot, meaning gain will be recognized on the amount of boot, up to what is due. However, sometimes investors purposely buy property for less value but with leftover cash or financing plan to immediately make improvements to the property. The issue is that once the taxpayer takes title, the exchange is automatically over. So although those improvements may increase the value of the property, the fact that they were completed after closing means they are not "like-kind" property and do not count in the exchange calculation.

In order to take advantage of Build-to-Suit (BTS) regulations, the Qualified Intermediary (QI) must take a more involved role, working with the taxpayer and advisors prior to and throughout the transaction. Unfortunately, not all QIs are willing or able to facilitate this arrangement. Entity structures, timelines, permitting and weather are major considerations.

With a dedicated BTS division, we give taxpayers the opportunity to use sale proceeds tax-deferred to either renovate or construct new improvements as part of their 1031 Exchange...just another option for investment property owners to investigate as they build their real estate portfolios.

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