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Restrictions

When a taxpayer determines that a Section 1031 tax-deferred exchange is appropriate for their situation, IPE 1031 will coordinate the transaction and provide specific step-by-step instructions and documentation regarding the following important considerations. The following rules detail only very basic restrictions and considerations of which exchanging taxpayers should be aware it is not an exhaustive list.

The 45-Day Identification Time Limitation: After the taxpayer sells the original relinquished property(ies), two very important time limitations come into play. The limitations are classified as the 45-day identification period and the 180-day exchange period. There are no exceptions or extensions. Should these time periods be violated, the exchange will fail.

The 45-day exchange period starts after the sale of the original relinquished property. After the closing on the relinquished property, you have 45 days to identify the replacement property(ies). In the case of an exchange involving multiple relinquished properties, the 45-day exchange period begins upon the sale of the first relinquished property.

Property Identification Rules: You may identify as many as three replacement properties, regardless of their total value (the "3-Property Rule"), or you may identify any number of properties provided their aggregate fair market value on the 45th day does not exceed 200% of the aggregate fair market value of all of your relinquished property on the date of its transfer (the "200% Rule"). If you stay within these rules, you do not need to acquire all of the property identified. A third rule applies to situations where the taxpayer cannot comply with the 3-Property or 200% Rules. Further details on this rule can be provided upon request.

The 180-Day Exchange Period: After proper identification of the replacement properties, closing must be completed by the earlier of:

- (a) 180 days following transfer of your relinquished property; or in the event of multiple relinquished properties, 180 days following the transfer of the first relinquished property; or
- (b) The due date for your federal income tax return for the year in which your property was relinquished. In some cases, you will need to file for an extension for filing your income tax return in order to receive the entire 180 days.

Avoiding All Taxable Gain: As a general rule, exchanging taxpayers should keep three important considerations in mind. First, replacement property fair market value must be equal or greater than the fair market value of the relinquished property. Second, all of the exchange proceeds from the sale of the relinquished property must be used to acquire the replacement party. Third, the replacement property debt must be equal to or greater than the relinquished

property debt so as to avoid taxable gain due to debt relief.

Not following these rules may result in taxable gain. These three considerations are mentioned to help exchanging taxpayers structure a Section 1031 exchange. If you do not follow them, you may still do the exchange. However, it is extremely important to speak with your tax advisor regarding the effects of debt relief or receiving cash for personal use.

Services provided by IPE 1031 are not legal services. No attorney-client relationship exists between IPE 1031, its officers or employees, and exchangers. Taxpayers considering an exchange transaction are strongly encouraged to consult with tax and/or legal counsel prior to undertaking a Section 1031 exchange transaction.