



Accruit
An Inspira Financial Solution

1031 EXCHANGE: REVERSE EXCHANGE PROCEDURAL OUTLINE

Parking Relinquished Property



Accruit is a national leading Qualified Intermediary (QI) and Exchange Accommodation Titleholder (EAT) with over 20 years in the 1031 exchange industry, providing 1031 exchange service across all 50 states and specializing in all types of exchanges from Forward, Reverse, Built-to-suit/Improvement to Speciality “Non-Safe Harbor Reverse” transactions. Specialized EAT services are provided by Accruit Exchange Accommodation Services LLC (AEAS).

Step 1:

Exchanger enters contract for Replacement Property

The Exchanger wants to do a 1031 Exchange, they entered into a contract to purchase the Replacement Property, however, the corresponding Relinquished Property cannot be sold by the closing date for the Replacement Property which will require a Reverse Exchange.

Step 2:

Contact Accruit to start a Reverse 1031 Exchange

Provide all Exchanger information and documentation requested in your Welcome Email via email to the Exchange Operations team member to get exchange initiated. The Exchanger and AEAS, enter into a Reverse Exchange Agreement known as a Qualified Exchange Accommodation Agreement (QEAA) for Replacement Property whereby a new LLC will be formed to take title on the date of closing to the Relinquished Property. The LLC is set up with AEAS as its sole member.

Step 3:

EAT agrees to buy the Relinquished Property from the Exchanger via a Forward Exchange much like any buyer would.

The EAT would effectively act just like any other buyer. The sale price to the EAT would be the net amount the client would expect to receive from a true third party buyer plus the amount of any mortgage on the property.

Step 4:

EAT receives funds to acquire Relinquished Property

Often the property can be acquired by the EAT subject to any existing debt on the property. The loan documents may have a “due on sale” clause in them. If so, you should talk to your Accruit contact and/or your personal legal representative. If there is underlying debt, actual funds are only needed in an amount to cover the Exchanger’s net equity in the property. This loan to fund the EAT’s acquisition of the Relinquished Property can come from the Exchanger, the Exchanger’s lender or a combination of both. Any loan from an institutional lender is documented with a Note and secured with a Mortgage or Deed of Trust. Any loan from the Exchanger is documented with a Note secured by a Pledge of the Membership Interest in the LLC.

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Step 5:

Exchanger and LLC enter into a Master Lease Agreement

This is intended to shift property upkeep and maintenance from the LLC to the Exchanger as well as to allow the Exchanger to lease the property to any actual tenants and to retain those rents and be responsible for expenses.

Step 6:

Complete the Assignment of Relinquished Property Contract form

Concurrent with the Reverse Exchange process, the exchange company will prepare and provide customary documents for a Forward Exchange of the Relinquished Property for the Replacement Property. Like any Forward Exchange documents including an Exchange Agreement and an Assignment of the Exchanger's rights under the QEAA to the QI will be prepared and executed. In this context, the QEAA is the Exchanger's Relinquished Property sale contract.

Step 7:

Deed prepared for Relinquished Property from Exchanger to EAT

In most jurisdictions this is considered exempt from transfer taxes as the EAT is acting as the Exchanger's agent and is receiving only its fee and no real consideration. The Exchanger should consult with legal counsel to confirm that this structure is exempt from transfer taxes.

Step 8:

Exchanger assigns right of Replacement Property purchase to QI

The Exchanger assigns its rights to the QI under the contract for the purchase of the Replacement Property (the QEAA) from the seller (the EAT) and gives written notice of this assignment to the seller and/or any other parties on or before the closing.

Step 9:

Funds Transferred into Exchange Account

The amount lent to the EAT is paid from AEAS' account and funds the Exchanger's Forward Exchange account with the QI to acquire the Replacement Property.

Step 10:

Relinquished Property is sold to the EAT and Replacement Property acquired by QI

The 1031 Exchange is complete at this time, but in order for the Reverse Exchange transaction to fall within the IRS safe harbor for this kind of transaction, the Relinquished Property must be sold to a true buyer within 180 days from the date of the sale of the property to the EAT. Note: If the tax filing date falls within the 180 day period, an extension must be filed in order to take advantage of the full 180 days.

Step 11:

Exchanger finds buyer for Relinquished Property

The Exchanger requests that the EAT sign the purchase and sale agreement as the seller/owner of record. The EAT may require a surety addendum be attached to the contract making it clear to the buyer that the Exchanger, and not the EAT, will bear responsibility for any seller representations and warranties.

Step 12:

Sale of Relinquished Property Closes

The proceeds of the sale are used to retire any debt on the Relinquished Property as well as any sum having been lent by the Exchanger to the EAT in connection with the EAT's original acquisition of the property. If there are variances between the sale value the Exchanger used to begin the Reverse Exchange and the actual price at the time of sale to the actual buyer, EAT may pass on any gain or loss to the Exchanger that results from the EAT's sale of the property to a third-party purchaser. Upon closing, the LLC is dissolved by the Exchanger's lawyer.



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