



relinquished property and then acquires the replacement property within 180 days of the sale. If the replacement property is not purchased within 45 days of the sale of the relinquished property, the exchanger must identify the replacement property by midnight of the 45th day.

- **Reverse Exchange:** An exchanger may not be able to sell the relinquished property before purchasing the replacement asset. In these cases, the exchanger can structure the transaction as a reverse exchange. Reverse exchanges are more complex than simultaneous or forward exchanges and require establishment of an Exchange Accommodation Titleholder (EAT – an LLC created for the express purpose of conducting the exchange) to take ownership of either the relinquished or replacement asset until the relinquished asset is ultimately sold to a buyer.
- **Improvement Exchange:** An exchanger can purchase replacement property and use some of the proceeds to make improvements to the asset as long as the exchange is structured as a “build-to-suit” or improvement exchange. This process is often used to renovate an existing building or to construct a new building on vacant land; it can also be employed for upgrades to many kinds of tangible assets. Like the reverse, an improvement exchange is more complex and requires the EAT to take possession of the replacement property.
- **Program Exchange:** Businesses with extensive asset portfolios (like leasing firms, energy companies or heavy equipment dealers) often find it advantageous to conduct forward exchanges on an ongoing, programmatic basis. For these enterprises, repetitive exchange programs handle multiple assets and exchange transactions with significant documentation pursuant to a master Program Exchange Structure.

## What do I need to do in order to execute an exchange?

You need to work through a Qualified Intermediary (QI). Under a written exchange agreement with the exchanger, the QI acquires the relinquished property or asset and transfers it to a buyer. The QI holds the cash, as required by the Internal Revenue Code. Finally, the QI acquires the replacement property or asset and transfers it to the taxpayer, completing the exchange.

## Why do I need a Qualified Intermediary? Can't I just keep my own cash and do the exchange?

No. IRC regulations are clear. The taxpayer must not receive or have constructive receipt of the proceeds in any way. It will disqualify the exchange.

## Does the Qualified Intermediary actually take title to property or assets?

Not in most situations. Property can be deeded or licensed between the parties as you would in a normal sales transaction.

## What are the time restrictions on an exchange?

A taxpayer has 45 days after the date the property or asset is transferred to a buyer to purchase or identify replacement property. If the taxpayer makes this identification, the timeline is extended by 135 days or until the tax filing for that year. This brings the total timeline to 180 days, or six months.

## Is there a limit to the number of exchanges that can be done?

No. Generally you can exchange as many properties or assets as you want, but there are strict deadlines to follow in order to maximize your exchanges (you have a full 180 days to complete the exchange). Section 1031 Exchanges can continue repetitively for as long as the taxpayer continues to buy and sell “like kind” assets. It's this rolling of exchanges that maximizes cash flow benefit and creates an indefinite deferral.