



1031x.com

Newsletter

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Thought you'd find this helpful:

Improvements After Purchase

In a 1031 exchange, one simple rule is that the new property must be of equal or greater value than the old property. We are sometimes asked if the Qualified Intermediary can withhold exchange proceeds from the purchase and then use these exchange proceeds to improve the property after the purchase. We advise clients against doing this. If the Qualified Intermediary withholds funds from the purchase and then uses those funds to make improvements to the real property after it is owned by the Exchanger, then these withheld funds will be treated as "boot" (a taxable amount). Similarly, if an Exchanger takes title to a new vacant lot of lesser value than the old property and subsequently improves the lot to a value greater than the old property this will still not constitute a fully tax deferred exchange. In order to avoid this issue, it is sometimes possible for a third party (for instance, a builder) to own the new property during the construction phase. After construction, the property is transferred to the exchanger to complete the exchange. Care must be taken to comply with time deadlines and with titling issues. Please refer to our previous newsletter: "To Be Built Replacement Property" on our web site for further information on this subject. As always please feel free to contact us with questions.

Please call www.1031x.com at 888-899-1031 or email infox@1031x.net for a free consultation!