

Thought you'd find this helpful:

Use Exchange Proceeds to Make Repairs on Replacement Property

Often investors will find a replacement property for their 1031x that will need minor repairs or improvements. Typically the investor would like to use exchange proceeds for these expenses.

Once the exchanger has taken title to the property, however, the 1031x is complete. Only the value and equity put into the property at the time of closing will be considered for the exchange. Any exchange proceeds used toward improvements after closing will be considered taxable "boot".

There are a few ways to restructure the transaction that will meet the exchanger's intention.

1. Place a new mortgage on the relinquished property prior to closing. Reserve the newly acquired cash for the improvements to replacement property. This option requires that the exchanger know in advance how much cash will be needed for repairs.
2. Complete the 1031x per the standard procedure. Use all of the exchange proceeds to purchase the replacement property in "as is" condition. After closing, refinance or place a second mortgage on the replacement property and use the funds for repairs.
3. Negotiate with the seller of the replacement property to do the repairs prior to closing. The payment can be structured two ways:
 - The seller pays for the repairs and increases the sales price to reflect the increase in value
 - The exchanger lends the needed funds to the seller, and secures the loan with a note and deed of trust against the property. At closing, the note will be repaid to the exchanger.
4. Complete a "construction" or "improvement" exchange. This requires an unaffiliated party (typically the QI) to take title to the property, make the repairs, and then transfer the completed property to the exchanger.

In each of these scenarios, the potential tax liability on the expected boot must be weighed against the cost of the solution.

Contact us to discuss your transaction in detail.

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