

1031 Exchange Terminology

1031

Knowledge



To many taxpayers the terminology used to describe aspects of IRC Section 1031 exchanges can be a bit foreign. Reflected below are brief descriptions of commonly used 1031 exchange terminology:

ACTUAL RECEIPT: Physical possession of proceeds.

BOOT: “Non like-kind” property received; “Boot” is taxable to the extent there is a capital gain.

CASH BOOT: Any proceeds actually or constructively received by the taxpayer.

CONSTRUCTIVE RECEIPT: Although a taxpayer does not have actual possession of the proceeds, they are legally entitled to the proceeds in some manner such as having the money held by an entity considered their agent or by someone having a fiduciary relationship with them. This creates a taxable event.

DIRECT DEEDING: Transfer of title directly from the taxpayer to buyer and from the seller to the taxpayer after all necessary exchange documents have been executed.

EXCHANGER or TAXPAYER: The entity or person who is performing a 1031 tax-deferred exchange.

EXCHANGE AGREEMENT: The written agreement defining the transfer of the relinquished property to the qualified intermediary, the subsequent purchase of the replacement property by the qualified intermediary, and the restrictions on the exchange proceeds during the exchange period.

EXCHANGE PERIOD: The period of time in which replacement property must be received by the taxpayers ends on the earlier of 180 calendar days after the relinquished property closing, or the due date for the taxpayer’s tax return. (If the 180th day falls after the due date of the taxpayer’s tax return, an extension may be filed to receive the full 180-day exchange period.)

IDENTIFICATION PERIOD: A maximum of 45 calendar days from the relinquished property closing to properly identify potential replacement property or properties.

LIKE-KIND PROPERTY: Any property held for productive use in trade or business or held for investment; both the relinquished and replacement properties must be considered like-kind to qualify for tax deferral.

MORTGAGE BOOT: This occurs when the taxpayer does not acquire debt that is equal to or greater than the debt that was paid off on the relinquished property sale; Referred to as debt relief. This creates a taxable event.

QUALIFIED INTERMEDIARY: The entity who facilitates the exchange; defined as follows: (1) Not a related party (i.e. agent, attorney, broker, etc.) (2) Receives a fee (3) Receives the relinquished property from the taxpayer and sells to the buyer (4) Purchases the replacement property from the seller and transfers it to the taxpayer; Asset Preservation, Inc. (API) is a qualified intermediary.

RELINQUISHED PROPERTY: Property given up by the taxpayer; also referred to as the sale, exchange, downleg or Phase I property.

REPLACEMENT PROPERTY: Property received by the taxpayer; also referred to as the purchase, target, upleg or Phase II property.

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