

Reverse Exchange

Purchase the Replacement Property First

1031

Knowledge

[Revenue Procedure 2000-37](#) (Rev. Proc. 2000-37), provides guidelines for the taxpayer to acquire the replacement property before the sale of the relinquished property is completed. The reverse exchange can be the ideal solution if the taxpayer cannot delay the closing of the replacement property. The reverse exchange helps investors meet a number of objectives:

Seize the Moment: Don't miss out on an excellent replacement property purchase opportunity. Immediately acquire a desirable replacement property prior to selling the relinquished property.

Protect Your Exchange: Eliminate the pressure-filled problems presented by the 45-day identification period.

Improve the Replacement Property: Use the parking arrangement to increase the value of the replacement property by making capital improvements.

Taxpayers can defer their capital gain taxes and obtain safe harbor treatments by following Rev. Proc. 2000-37 guidelines for a reverse exchange parking arrangement.

Rev. Proc. 2000-37 makes it clear that the taxpayer cannot own both properties at the same time. It describes the ownership process as a "parking arrangement" because either ownership of the relinquished property or the replacement property is "parked" with an Exchange Accommodation Titleholder (EAT). To park the ownership means a deed is recorded to transfer ownership to the EAT thereby the taxpayer owns one property and the EAT owns the other.

Parking the Replacement Property: The EAT acquires title to the replacement property with funds the taxpayer loans to the EAT. Within 180 days, the taxpayer sells the relinquished property and the EAT, transfers the replacement property to the taxpayer.

Parking the Relinquished Property: The taxpayer conveys the relinquished property to the EAT and then acquires the replacement property under a simultaneous exchange format. During the 180-day exchange period, the EAT remains on title to the relinquished property until it is sold to a purchaser.

Reverse/Improvement Exchange: The EAT acquires the replacement property and makes improvements to this property. The improved replacement property is later exchanged for the relinquished property within 180 days to complete the exchange.

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