

Offer on Replacement Property

Before Closing on the Relinquished Property Sale

1031

Knowledge



In a 1031 delayed exchange, the taxpayer has 45 calendar days from closing on the sale of a relinquished property to identify replacement properties, pursuant to the [rules of identification](#). This 45-day period is referred to as the "Identification Period." Some commonly asked questions are: "Can the taxpayer begin looking for suitable replacement property before closing the sale of the relinquished property?" and "Can the taxpayer make offers on and get replacement property under contract before closing the sale of the relinquished property?" The answers to these questions are "yes."

Although the start of the Identification Period is triggered by the relinquished property sale closing, nothing prohibits a taxpayer from looking for replacement property before the relinquished property sale closes. In fact, in many situations, this may be a very wise approach. In areas where inventory is limited and/or properties sell quickly due to market conditions, it can be a wise strategy to begin looking for replacement property once the relinquished property is under contract with a qualified buyer, or even before. The additional time before the relinquished property sale closes provides the taxpayer more time to locate suitable replacement property. Making an offer on a replacement property before the relinquished property sale closes can be proactive and remove much of the uncertainty from the delayed exchange process. The taxpayer should make sure to close the sale of the relinquished property before it must close the acquisition of the replacement property to avoid the need for a reverse 1031 exchange arrangement (see below for more information).

Although the taxpayer is permitted 180 calendar days from the date of the relinquished property sale closing to close on the acquisition of identified replacement properties, many taxpayers get replacement property under contract before the relinquished property closes. In this scenario, these replacement properties can be formally identified after closing on the relinquished property sale. If the taxpayer closes on the acquisition of any replacement properties within the 45-day Identification Period, those properties are considered identified for 1031 exchange purposes. In the event a taxpayer locates a desirable replacement property and wants to close on that acquisition before the relinquished property sale closes, a [reverse 1031 exchange](#) is possible. There are additional costs and complexities involved with reverse exchanges so this type of exchange makes sense on larger purchases when the higher reverse 1031 exchange fees are more than offset by the value of the replacement property acquisition.

Review Asset Preservation's article on [Deposits in an Exchange](#) for answers to questions about handling earnest money deposits on the purchase of replacement property.

Compliments of:



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