

1031 EXCHANGE INSIGHTS

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TOP 10 QUESTIONS I ANSWER IN MY BUSINESS (#3, HOW LONG DO I HAVE TO OWN THE PROPERTY TO QUALIFY AS AN EXCHANGE?)

How long must an investor "hold" a property before an exchange is based on the individual facts of the exchange. Congress previously considered and rejected, as part of the 1989 RRA, a one-year holding period requirement; but such rejection should not

suggest that a one-year holding period is either too long or too short. Where the property was acquired by the investor for investment or use in his or her trade or business, the subsequent exchange will likely be respected. For sales under 12 months, professional

advice from a QI should be sought. If the sale is between related parties, the investor must hold the exchanged property for at least two years after the exchange. If you intend to exchange property with a related party, you should review the facts with an

Providing tax advice on like kind exchanges.

Strategic Property Exchanges, LLC serves as Qualified Intermediary on

Section 1031 Exchanges, including forward, reverse, and parking arrangements.

WHAT IS A TENANT IN COMMON INTEREST?

As investors, we are familiar with tenancy in common ownership, which is an investment by two or more persons who are entitled to the possession and use of the same property.

There is a new kid on the block, where large investments are being split up for smaller investors. In a typical transaction, the "sponsor", of the Tenancy in Common Investment will identify and

arrange to purchase an office building, shopping center or other investment property; raise equity by selling TIC interests to real estate investor through a network of securities brokers; and arrange to borrow the rest of the purchase price from a lender.

Investors who qualify may choose from a number of investment options, offering diversification by loca-

tion and property type. They can either buy a TIC interest outright or transfer the proceeds of a previous property sale in order to qualify as a Section 1031 exchange, which allows them to defer capital gains. These properties are managed by an affiliate of the sponsor and the net rents, after expenses, are paid to the investor.

For more information call
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HOMES: TO HOLD OR TO BE SOLD

An investor may wonder, "I want to buy a condo in Florida through my exchange, but how long do I need to rent it before I can make it my home?" In recent legislation, Congress provided insight to taxpayers who want to sell that

condo within five years of acquiring it. Basically, the legislation provides that a home acquired in a like-kind exchange will not be eligible for the \$250,000/\$500,000 exclusion under IRC Sec. 121 if the taxpayer sells the home within five years of

acquiring it. To establish a principal residence, a taxpayer must live there for a least two of the previous five years. Therefore, as a general guideline, our taxpayer with the Florida condo should rent the condo for more than three out of the first five years.

Coming Next Month

- ◆ Improvements to Real Property and the Reverse Exchange.
- ◆ Disaster Relief and Deadlines for Exchanges