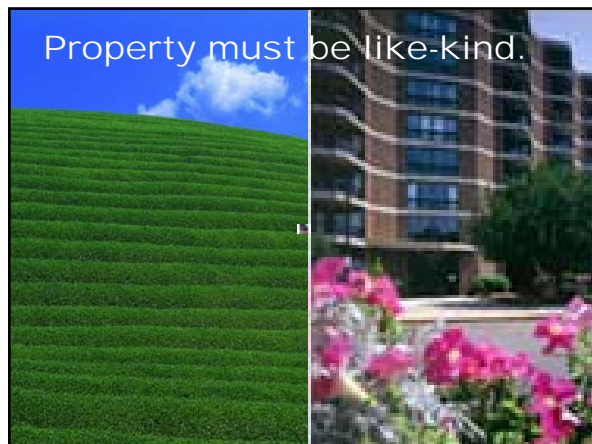


There are "held for" rules.



Property must be like-kind.



Timing is critical.



Valuation is important.



There are related party rules.



### Example 1

Dad's Farm (Sub prime)	Son's Farm (Prime)
FMV \$900,000	FMV \$900,000
Basis <u>(100,000)</u>	Basis <u>(850,000)</u>
Built-in gain \$800,000	Built-in gain \$50,000

Exchange properties

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**Example 1**

Dad's Farm (Sub prime)	Son's Farm (Prime)
FMV \$900,000	FMV \$900,000
Basis (100,000)	Basis (850,000)
Built-in gain \$800,000	Built-in gain \$50,000
Gain recognized because of son's sale \$800,000	Sale within 2 years Gain recognized \$50,000

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**Example 2 Day 1**

Father (F)      Daughter (D)  
Rental Property      Wants F's property.  
High FMV Low basis      D has nothing to trade.

F finds property  
From unrelated party (UP)  
UP must close immediately.

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**Example 2 Day 2**

F and exchange accommodation titleholder (EAT) make an agreement.

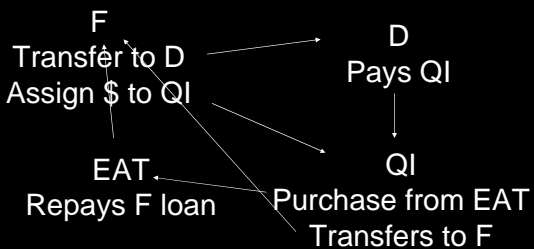
F will loan money to EAT to purchase from UP.

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**Example 2 Day 3**

- EAT will purchase from UP.

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**Example 2 Day 4**

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**Example 3**

- Teruya Brothers, Ltd & Subsidiaries v. Commissioner; 124 TC 45, February 9, 2005

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### Example 4

- Rev. Proc. 2004-51

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### Example 5

- DeCleene v. Commr. 115 TC 457, November 17, 2000

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### Do you know the rules for more complicated exchanges?

- Purchasing replacement property first.
- Leveraging exchange property.
- Exchanging for a partial interest.
- Treatment of funds held by QI.
- Exchange of partnership property when one partner wants to cash out?

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### Reverse Exchange



### IRS issued Rev. Proc. 2000-37

- Ownership
- Intent
- Qualified agreement
- Identification
- Sale
- Timing

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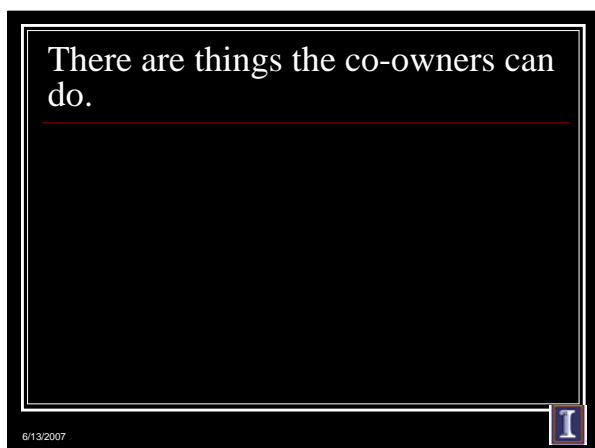
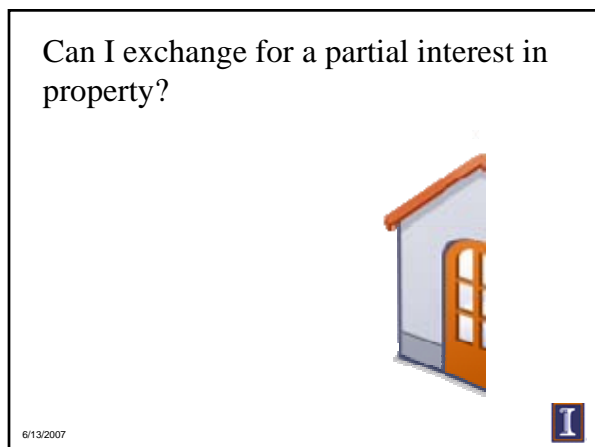
### Can I leverage the exchange property?



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There are three possible alternatives.

- Make a special allocation.
- Distribute undivided interests.
- Use an installment sale.

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What if I receive property and immediately do an exchange?

"Drop and swap"

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What if I receive exchange property and immediately contribute it to an entity?

"Swap and drop"

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Now you know there is more to an exchange than having like-kind property.

Two side-by-side photographs of animals. The left image shows a close-up of a white goat's head. The right image shows a white cow's head in a field. Both images are framed within a red border.

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You may want to refer your client to someone else.

A close-up photograph of a hand holding a dark pen, with the tip of the pen pointing towards the bottom right. The background is a warm, yellowish-orange color.

### Summary of Basics

- Investment intent.
- Property must be like-kind.
- Timing is critical.
- Replacement must be of equal or greater value.

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### In addition I discussed:

- Partnership property.
- Reverse exchanges.
- Leveraged transactions.
- TIC properties.
- Taxation of funds held by QI.

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## Thank You

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