

Reverse Exchange Comparisons

Comparison of the Two Different Parking Arrangement Formats

1031

Knowledge

Sometimes a taxpayer may want to perform a parking arrangement called a reverse exchange in which the replacement property is purchased before closing on the sale of the relinquished property. There are many reasons why a taxpayer may need the benefits of a reverse exchange, including being in a seller's market where recently listed properties are quickly under contract with a buyer or where there is little inventory. [Revenue Procedure 2000-37](#) provides guidelines and safe harbor treatment for a taxpayer to perform a parking arrangement exchange within 180-calendar days from the Exchange Accommodation Titleholder's (EAT) purchase of the replacement property.

REPLACEMENT PROPERTY PARKED

The EAT acquires title to the replacement property with funds the taxpayer causes to be loaned to the EAT. Within 180 days, the taxpayer sells the relinquished property and the EAT transfers the replacement property to the taxpayer. This is sometimes referred to as the "exchange last" reverse exchange format.

Positives of the Replacement Property Parked

- Not all exchange equity needs to be present.
- A deferred exchange may follow this format.
- Allows for multiple relinquished properties.

Negatives of the Replacement Property Parked

- Lender may have issues lending to the EAT.
- High costs - potential double transfer taxes and title insurance fees.

RELINQUISHED PROPERTY PARKED

The taxpayer conveys the relinquished property to the EAT and then the taxpayer acquires the replacement property under a simultaneous exchange format. During the 180 days, the EAT remains on title to the relinquished property until it is sold to a purchaser. This is sometimes referred to as the "exchange first" reverse exchange format.

Positives of the Relinquished Property Parked

- Loan and purchase of replacement property is easier since the loan is directly to the taxpayer.
- Possibly less expensive on transfer tax for relinquished property.

Negatives of the Relinquished Property Parked

- Equity and debt should match at the time of the replacement property purchase to avoid boot.
- Transfer to EAT may increase county property tax basis.
- Lender issues on relinquished property (due on sale clause and prepayment penalties).

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