



51A Middle Street, Newburyport, MA 01950

Phone: 800-588-7039

contact@bhfe.com

www.bhfe.com

Course Information

Course Title: *Concepts and Mechanics of Exchanges* #496124

Recommended CPE credit hours for this course

In accordance with the standards of the National Registry of CPE Sponsors and the IRS, CPE credits have been granted based on a 50-minute hour.

CPA 13.5 (Accepted in all states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration:

Florida Division of Certified Public Accountancy: 0004761 (Ethics #0011467)

Hawaii Board of Public Accountancy: 14003

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Ohio State Board of Accountancy: CPE-.51 PSR

Pennsylvania Board of Accountancy: PX 178025

Texas State Board of Accountancy: 009349

EA/OTRP 13 (All States) IRS: Qualified Sponsor number: *FWKKO*.

Course Description

While tax reform visions have changed the tax on profits realized from the disposition of real estate, investors still seek escape hatches from the capital gain tax. Tax-deferred exchanges permit the disposition of property often with the taxpayer receiving significant cash but without the payment of any tax. Functionally, an exchange is a bridge over the normally taxable event of moving from one property to another. This course alerts the practitioner to the different planning opportunities that surround exchanging. Participants will be able to identify, analyze, and handle effectively the complex tax problems that arise under 1031. This understanding will be directly applied to the structuring and audit survival of multi-party and delayed exchanges.

Course Content

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Author: Danny Santucci, J.D.

Final exam (online): Eighty questions (multiple-choice).

Program Delivery Method: Self-Study (NASBA QAS Self-Study/interactive)

Subject Codes/Field of Study

NASBA (CPA): Taxes.

IRS (EA, OTRP): Federal Tax Law.

NAPFA: Taxes

Course Level, Prerequisites, and Advance Preparation Requirements

Program Level: NASBA/CPA, IRS: Overview.

This program is appropriate for professionals at all organizational levels.

Prerequisites: Basic familiarity with federal taxation

Advance Preparation: None

Instructions for Taking This Course

- **Log in to your secure account at www.bhfe.com. Go to "My Account."**
- **You must complete this course within one year** of purchase (If the course is "Expired," contact us and we will add the latest edition of the course to your account (no charge).
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- **Complete the course by** following the learning objectives listed for the course, studying the text, and, if included, studying the review questions at the end of each major section (or at the end of the course).
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Learning Assignments & Objectives

As a result of studying each assignment, you should be able to meet the objectives listed below each assignment.

ASSIGNMENT	SUBJECT
Chapter 1	Introduction - §1031

At the start of Chapter 1, participants should identify the following topics for study:

- * TCJA, ERTA & TEFRA
- * Tax Reform Act of 1986
- * Reform Act of 1997, Budget Act of 1998 & 2003 Bush Tax Act
- * Tax Reform of 1986 & Revenue Act of 1987
- * Disposition of Installment Note
- * Stepped-Up Basis on Death
- * Related Parties
- * Security Issues
- * Exchange Benefits

Learning Objectives

After reading Chapter 1, participants will be able to:

1. Identify factors that determine the popularity of exchanging and specify tax law changes influencing exchange popularity and the impact of current capital gains rates.
2. Recognize the differences between exchanges and installment sales and the cost benefits of each, identify several advantages given to exchanging by recent legislation and specify continuing problems that can arise with an installment sale that can act as an impetus for using an exchange.
3. Specify multiple tax benefits of exchanges and the advantages they create over installment sales.

After studying the materials in Chapter 1, answer exam questions 1 to 8.

ASSIGNMENT	SUBJECT
Chapter 2	Section 1031 & Its Function

At the start of Chapter 2, participants should identify the following topics for study:

- * Code language
- * Section 1031 as an exception to the general rule of taxation
- * Concept of tax deferral
- * Rationale
- * Continuity of investment
- * Administrative convenience
- * IRS position

* Mandatory application

Learning Objectives

After reading Chapter 2, participants will be able to:

1. Recognize the requirements of §1031 contained in the Code and identify §1031 as an exception to the general rule of taxation under §1001;
2. Specify instances where the IRS may assert an unintended mandatory application of §1031.

After studying the materials in Chapter 2, answer the exam questions 9 to 13.

ASSIGNMENT

SUBJECT

Chapter 3

Statutory Requirements & Definitions

At the start of Chapter 3, participants should identify the following topics for study:

- * Qualified transaction – exchange v. sales
- * Held for productive use or investment
- * Change in property's character
- * State of mind concept
- * Same taxpayer requirement
- * Former statutory exclusions from §1031
- * Real property restriction
- * Like-kind property
- * Former like-kind requirement for personal property
- * Multiple asset exchanges
- * Real v. personal property

Learning Objectives

After reading Chapter 3, participants will be able to:

1. Differentiate like-kind exchanges from sales and specify the impact of a party's intent.
2. Identify excluded property types from qualified types by determining the meaning of "held for productive use in a trade or business" and specifying the impact of holding time.
3. Recognize the focused application of section 1031 as it applies to exchange parties and mixed-use property.
4. Specify the statutory exclusions from §1031 and the types of property specifically excepted.
5. Recognize the allowance of only real property as qualified property in §1031 exchanges and as a consequence the importance of the definition of real property.

After studying the materials in Chapter 3, answer exam questions 14 to 27.

ASSIGNMENT

SUBJECT

Chapter 4

The Concept of "Boot"

At the start of Chapter 4, participants should identify the following topics for study:

- * Partial tax-deferral
- * Examples of boot
- * Realized gain
- * Recognized gain
- * Limitation on recognition of gain under §1031
- * The definition of “boot”

Learning Objectives

After reading Chapter 4, participants will be able to:

1. Identify “boot” and like-kind property specifying boot's potential impact on nonrecognition and list examples of boot.
2. Determine taxable "boot," specify the differences between realized gain and recognized gain recalling the limitation on recognition of gain under §1031.

After studying the materials in Chapter 4, answer the exam questions 28 to 31.

ASSIGNMENT	SUBJECT
Chapter 5	The Rules of “Boot”

At the start of Chapter 5, participants should identify the following topics for study:

- * Property boot
- * Mortgage boot
- * Debt relief
- * Liability or notes created during the exchange
- * Netting boot – the rules of offset
- * Property boot given offsets any boot received
- * Mortgage boot given offsets mortgage boot received
- * Mortgage boot given does not offset property boot received
- * R.R. 72-456 & commissions
- * Net taxability of gain

Learning Objectives

After reading Chapter 5, participants will be able to:

1. Determine mortgage boot and property boot identifying whether a taxpayer has given or received boot in an exchange and the related tax consequences.
2. Identify the offset rules used to determine net boot and recognize the treatment of closing costs according to R.R. 72-456.

After studying the materials in Chapter 5, answer the exam questions 32 to 36.

ASSIGNMENT	SUBJECT
Chapter 6	Losses

At the start of Chapter 6, participants should identify the following topics for study:

- * Losses on like-kind property
- * Losses on non-like-kind property

Learning Objectives

After reading Chapter 6, participants will be able to:

1. Identify the categories of property received in an exchange and which category is permitted to recognize loss.

After studying the materials in Chapter 6, answer exam questions 37 to 38

ASSIGNMENT	SUBJECT
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Chapter 7	Basis on Tax-Deferred Exchange
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At the start of Chapter 7, participants should identify the following topics for study:

- * Adjustments to basis
- * Allocation of basis
- * Anti-churning rules

Learning Objectives

After reading Chapter 7, participants will be able to:

1. Identify the general carryover basis rule to calculate a taxpayer's basis in acquired property, and determine the lingering effect of the anti-churning basis rule.

After studying the materials in Chapter 7, answer the exam questions 39 to 41.

ASSIGNMENT	SUBJECT
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Chapter 8	Depreciation, Cost Recovery, MACRS & Recapture
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At the start of Chapter 8, participants should identify the following topics for study:

- * ERTA
- * TRA '86 & OBRA '93
- * IRS depreciation guidance
- * Land v. improvements
- * Section 1245 & Section 1250
- * Recapture property
- * Recapture exceptions prior to ERTA
- * Issues after ERTA
- * Allocation of basis when recapture applies
- * Investment credit recapture

Learning Objectives

After reading Chapter 8, participants will be able to:

1. Identify property depreciation recovery periods for property used in a trade or business or held for production of income and determine carryover basis in an exchange for acquired property.
2. Recognize the distinction between land and depreciable improvements, and identify the recapture provisions and their impact on gain that would otherwise be recognized.

After studying the materials in Chapter 8, answer the exam questions 42 to 46.

ASSIGNMENT	SUBJECT
Chapter 9	Miscellaneous Aspects

At the start of Chapter 9, participants should identify the following topics for study:

- * Holding period
- * Treatment of gain or loss
- * Treatment of installment sales prior to 1980
- * Treatment of installment sales after 1980
- * Exchanges between related parties
- * Two-year limitation
- * Sections 267, 707, 453 and 1239
- * Leverage
- * Splitting partners
- * Reporting an exchange

Learning Objectives

After reading Chapter 9, participants will be able to:

1. Specify the holding period of acquired property and identify the character of gain or loss recognized in an exchange.
2. Recognize the danger of exchanges between related parties and determine how §§267, 707, 453, and 1239 work together with §1031.
3. Specify ways to cash out one or more partners as part of an exchange by a partnership and choose the proper tax forms to report an exchange.

After studying the materials in Chapter 9, answer the exam questions 47 to 52.

ASSIGNMENT	SUBJECT
Chapter 10	Mechanics

At the start of Chapter 10, participants should identify the following topics for study:

- * Meeting the napkin test
- * Components
- * Figures for computation
- * Economic balance & “evening out”
- * Examples of balancing multiple-party exchanges
- * Locating boot

- * Finding exchange property
- * Refinancing
- * “Coleman” solution
- * Wrap-around mortgage

Learning Objectives

After reading Chapter 10, participants will be able to:

1. Recognize a simple test for clients to analyze if an exchange is completely tax-deferred and identify the basic computation figures necessary when balancing an exchange.
2. Determine how to balance multiple party exchanges using the “in and out test”, eveners, and the trade-up rule.

After studying the materials in Chapter 10, answer the exam questions 53 to 58.

ASSIGNMENT	SUBJECT
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Chapter 11	Types of Simultaneous Exchanges
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At the start of Chapter 11, participants should identify the following topics for study:

- * Two-party exchanges and variation
- * Three-property-plus exchanges and variation
- * Three-party “Alderson” exchange and variations
- * Three-party “Baird Publishing” exchange and variations
- * Four-party “Coupe” exchange
- * Four-party “Mercantile Trust” exchange

Learning Objectives

After reading Chapter 11, participants will be able to:

1. Identify the mechanics of a two-party and three-party "Alderson" exchange including related variations involving the cash out of a party.
2. Determine the transactional flow of a traditional three-party exchange including variations to the format and recall procedural guidelines to ensure mechanics comply with §1031 provisions.
3. Determine the elements of a three-party “Baird Publishing” exchange, specify variations, and identify categories of four-party exchanges.

After studying the materials in Chapter 11, answer exam questions 59 to 67.

ASSIGNMENT	SUBJECT
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Chapter 12	Delayed Exchanges
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At the start of Chapter 12, participants should identify the following topics for study:

- * Delayed exchange v. delayed close
- * Previously used formats
- * Starker case
- * TRA ‘84

- * Format & structure
- * Security for performance – use & control of cash
- * Delayed (deferred) exchange regulations
- * Identification requirements
- * Actual & constructive receipt rule
- * Delayed exchange agreement

Learning Objectives

After reading Chapter 12, participants will be able to:

1. Recall the evolution of delayed exchanges from the Starker case to their present use and the popularity of delayed exchanges, and specify current requirements and restrictions.
2. Recognize the requirements of the final regulations for delayed exchanges by identifying qualifying transactions, permitted intermediaries, tax treatment of interest, and use of escrow and trust accounts.

After studying the materials in Chapter 12, answer exam questions 68 to 75.

ASSIGNMENT	SUBJECT
Chapter 13	Warehousing & Pot Method

At the start of Chapter 13, participants should identify the following topics for study:

- * Warehousing
- * Reverse exchanges – R.P. 2000-37
- * R.P. 2004-51
- * The pot method
- * Escrow

Learning Objectives

After reading Chapter 13, participants will be able to:

1. Identify the purpose and format of longtime exchange techniques called “warehousing” and “pot method.”

After studying the materials in Chapter 13, answer exam questions 76 to 78.

ASSIGNMENT	SUBJECT
Chapter 14	Accommodators & Intermediaries

At the start of Chapter 14, participants should identify the following topics for study:

- * Roles of accommodators
- * Sale & lease-back

Learning Objectives

After reading Chapter 14, participants will be able to:

1. Identify the differences among an accommodator, strawman, and an intermediary, determine how using such parties can facilitate exchanging,

and recognize a sale and lease-back transaction and associated exchange complications.

After studying the materials in Chapter 14, answer exam questions 79 to 80.

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CONCEPTS & MECHANICS OF EXCHANGES

By
Danny C. Santucci

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TABLE OF CONTENTS

CHAPTER 1 - INTRODUCTION - §1031	1-1
Taxes & History of Exchange Popularity	1-2
ERTA & TEFRA	1-2
Tax Reform Act of 1986.....	1-2
Later Tax Legislation.....	1-2
Existing Capital Gains Rates	1-3
Impact & Summary	1-4
Exchanging vs. Installment Sales	1-4
Tax Reform Act of 1986.....	1-6
Revenue Act of 1987	1-6
Continuing Installment Sale Problems	1-6
Taxable Disposition of Installment Notes	1-6
Disallowed Stepped-up Basis on Death.....	1-6
Related Party Restrictions	1-7
Security of Collateral Issues	1-7
Exchange Benefits.....	1-7
 CHAPTER 2 - SECTION 1031 & ITS FUNCTION	 2-1
Current §1031 - A Product of the '80s & '90s	2-1
Code Language.....	2-2
Section 1031 as an Exception to General Rule of Taxation	2-2
Concept of Tax Deferral	2-3
History of Provision.....	2-3
Legislative Rationale	2-4
Continuity of Investment	2-4
Administrative Convenience	2-4
IRS Position.....	2-5
Mandatory Application.....	2-6
 CHAPTER 3 - STATUTORY REQUIREMENTS AND DEFINITIONS	 3-1
Qualified Transaction - Exchanges v. Sales	3-1
Definition of an Exchange	3-2
Contractual Interdependence Test	3-2
Integrated Plan Test.....	3-2
Caselaw.....	3-2
Intent of the Parties.....	3-3
Held for Productive Use or Investment	3-4
Definition.....	3-4
Productive Use	3-5
Retired Property.....	3-5

Investment Purpose	3-5
Use by Relatives	3-6
Vacation Homes.....	3-6
Moore Decision	3-6
R.P. 2008-16.....	3-7
Change in Property’s Character.....	3-7
Conversion of Personal Use Property	3-8
Time.....	3-9
Pre-Existing Plans & Contracts	3-10
Acquisition Purpose.....	3-11
State of Mind Concept.....	3-11
Focused Analysis - Taxpayer-By-Taxpayer Application	3-11
Combining Qualifying Use.....	3-12
The Ghost of Long Dead Section 1034	3-12
Same Taxpayer Requirement.....	3-13
Caselaw & Ruling Developments.....	3-14
Magneson.....	3-15
Bolker	3-15
LTR 199911033.....	3-16
Property Exclusions & Restrictions Under §1031.....	3-16
Real Property Only Restriction - §1031(a)(1)	3-17
Disallowance of Real Property Held Primarily for Sale - §1031(a)(2).....	3-17
Question of Intent to Hold Primarily for Sale	3-17
Dealer Status vs. Dealer Transaction.....	3-18
Other Securities or Evidences of Indebtedness or Interest	3-23
Stock In Trade or Other Property Held Primarily For Sale	3-23
Stocks, Bonds, or Notes.....	3-23
Other Securities or Evidences of Indebtedness or Interest	3-23
Interests in a Partnership	3-24
Existing Partnerships	3-24
Final Regulations	3-24
Certificates of Trust or Beneficiary Interests.....	3-25
Choses in Action	3-25
Like-Kind Property	3-26
Nature or Quality of Property	3-26
Personal Property - Repealed.....	3-27
Requirements for Personal Property - Prior to 2018.....	3-27
Like-Kind Requirement for Personal Property	3-27
Like-Kind Personal Property - Identical.....	3-28
Like Class Personal Property - General Asset or Product Class	3-28
Real (Allowed) v. Personal Property (Denied)	3-28
Real Property Defined for Like-Kind Exchanges.....	3-28
Inherently Permanent Structures: Buildings and Machinery	3-29
Inherently Permanent Structures: Structural Components	3-29
Unsevered Natural Products are Real Property.....	3-30
Intangible Assets as Real Property	3-30
Incidental Personal Property and Qualified Intermediaries	3-30
State Law.....	3-31
Non-property	3-31
Specialty Like-Kind Rules.....	3-32

CHAPTER 4 - THE CONCEPT OF “BOOT”4-1

Partial Tax-Deferral.....4-2
Examples of Boot.....4-2
Realized and Recognized Gain.....4-4
 Realized Gain4-4
 Recognized Gain.....4-4
Limitation on Recognition of Gain under §1031.....4-5
The Definition of “Boot”.....4-5

CHAPTER 5 - THE RULES OF “BOOT”5-1

Property Boot and Mortgage Boot5-2
 Property Boot.....5-2
 Mortgage Boot.....5-2
 Debt Relief5-3
 Debt Relief Is the Equivalent of Cash5-3
 Liability or Notes Created During the Exchange.....5-4
Netting “Boot” - The Rules of Offset.....5-5
 Property Boot Given Offsets Any Boot Received5-5
 Mortgage Boot Given Offsets Mortgage Boot Received.....5-7
 Adjustments to Mortgages During Exchange5-8
 LTR 98530285-8
 Mortgage Boot Given Does Not Offset Property Boot Received.....5-9
 Biggs Case5-10
 Behrens Case5-10
 R. R. 72-456 & Commissions.....5-11
 Non-Deductible Closing Costs5-11
 Permissible Trade Down5-12
 Affect on Basis5-12
Net Taxability of Gain.....5-13
 Comment on Alternative Offset Rules.....5-13

CHAPTER 6 - LOSSES IN AN EXCHANGE.....6-1

Like-Kind Property6-1
Non-Like-Kind Property Given.....6-3

CHAPTER 7 - BASIS ON TAX-DEFERRED EXCHANGE.....7-1

Adjustments to Basis7-2
Allocation of Basis7-4
Anti-Churning Rules – Going, Going Almost Gone7-5
 Under ERTA.....7-5
 Under TRA ‘86.....7-6
 Effect7-6
 Property Placed in Service Prior to 19817-6
 Property Placed in Service from 1981 Through 1986.....7-7

CHAPTER 8 - DEPRECIATION, COST RECOVERY, MACRS, AND RECAPTURE.....8-1

Depreciation Eras – ERTA, ACRS, & MACRS	8-1
IRS Depreciation Guidance - Notice 2000-4 & Regs.....	8-2
Regulations	8-3
Land vs. Improvements	8-4
New Allocation on Exchange	8-4
Recapture of Depreciation.....	8-5
Section 1245	8-5
Section 1250	8-6
Recapture Property	8-6
Exchange Impact	8-6
Recapture Exceptions Prior To ERTA.....	8-6
§1250(d) Exception	8-6
§1245 (b) Exception	8-8
Issues after ERTA.....	8-8
Issue Disappears Under MACRs	8-9
Allocation of Basis When Recapture Applies	8-9

CHAPTER 9 - MISCELLANEOUS EXCHANGE ASPECTS.....9-1

Holding Period	9-1
Strict View.....	9-1
Treatment of Gain or Loss.....	9-2
Installment Sales Reporting.....	9-3
Treatment Prior to 1980.....	9-3
Current Treatment.....	9-4
Formula	9-4
Definitions	9-4
Exchanges Between Related Parties.....	9-6
Two-Year Limitation	9-7
Related Parties - §267(b).....	9-8
Special Holding Period Rule	9-8
Disposition.....	9-8
Avoidance Exception to §1031.....	9-9
Sections 267, 707, 453, & 1239.....	9-9
Leverage	9-10
Splitting Partners	9-11
Reporting an Exchange	9-13
Schedule D & Form 4797	9-14
Form 8824	9-14
Accommodators.....	9-14

CHAPTER 10 - EXCHANGE MECHANICS10-1

Analysis.....	10-2
Meeting the Napkin Test	10-2
Components	10-2
Figures for Computation	10-3
Economic Balance & “Evening Out”	10-5
Balancing Multiple Party Exchanges	10-7
Examples of Balancing Multiple Party Exchanges.....	10-9
Locating Boot	10-17
Finding Exchange Property	10-18

Trade-Up Rule	10-19
Exchange Groups	10-19
Refinancing.....	10-19
“Coleman” Solution.....	10-22
Wrap-Around Mortgage	10-23
Tax-Free “Cash Out”	10-23

CHAPTER 11 - TYPES OF SIMULTANEOUS EXCHANGES11-1

Two-Party Exchanges.....	11-2
Variation #1 On Two-party Exchanges	11-4
Three-Property-Plus Exchanges	11-7
Variation on Three-Property Exchange	11-7
Three-Party “Alderson” Exchange	11-9
Variation #1 on Three-Party “Alderson” Exchange	11-19
Variation #2 on a Three-Party “Alderson” Exchange.....	11-22
Variation #3 on Three-Party “Alderson” Exchange	11-24
Variation #4 on Three-Party “Alderson” Exchange	11-26
Three-Party “Baird Publishing” Exchange	11-28
Variation #1 on Three-Party “Baird Publishing” Exchange	11-30
Variation #2 on Three-Party “Baird Publishing” Exchange	11-32
Four-Party Exchanges	11-34
Four-Party “Coupe” Exchange	11-36
Four-Party “Mercantile Trust” Exchange	11-38

CHAPTER 12 - NON SIMULTANEOUS DELAYED EXCHANGES.....12-1

Delayed Exchange vs. Delayed Close	12-1
Chaos Factor	12-2
Perspective	12-3
Old Simultaneous Formats	12-3
The Current Rock Star - Delayed Exchanging	12-3
Care in Execution	12-3
Starker Case.....	12-4
Facts.....	12-4
Starker II.....	12-4
Holding.....	12-6
Analysis	12-6
Codification of Delayed Exchanges	12-8
45-Day Rule.....	12-8
Method of Identification	12-9
180-Day Rule.....	12-9
Pre-existing Exchanges.....	12-9
Holdover Issues after Codification	12-9
Format & Structure.....	12-10
“Starker” Trust.....	12-10
Intermediary Format	12-10
Acceptance of Notes on Exchangor’s Property	12-13
Security for Performance - Use and Control of Cash	12-13
Performance Deed of Trust.....	12-14
Third-Party Guarantee or Letter of Credit	12-14
Impound.....	12-15

Interest	12-16
Encumbered Property & Immediate Mortgage Relief	12-16
Open Transaction Theory	12-17
“Sale-in-Lieu” Provision	12-17
Delayed (Deferred) Exchange Regulations	12-18
Final Regulations	12-18
Deferred (Delayed) Exchange Definition	12-19
“Reverse-Starker” Transactions	12-19
Identification Requirements	12-20
Identification & Exchange Periods	12-22
Application of §7503	12-22
Method of Identification	12-22
Property Description.....	12-23
Incidental Property - 15% Rule	12-23
Revocation	12-23
Substantial Receipt	12-24
Multiple Replacement Properties.....	12-24
Actual & Constructive Receipt Rule	12-25
Four Safe Harbors.....	12-26
Safe Harbor #1 - Security	12-26
Safe Harbor #2 - Escrow Accounts & Trusts	12-26
Disqualified Person	12-27
Who Is An Agent?.....	12-27
Safe Harbor #3 - Qualified Intermediary.....	12-27
Who Is A Qualified Intermediary?.....	12-27
Direct Deeding	12-28
Assignment.....	12-29
Simultaneous Exchanges.....	12-29
Safe Harbor #4 - Interest	12-29
Interest Reporting - §468B(g)	12-29
Restrictions On Rights to Money & Other Property - “g(6)” Limitations	12-31
Outside Transfers of Money or Other Property.....	12-32
Delayed Exchange Agreement	12-34

CHAPTER 13 - WAREHOUSING & POT METHOD.....13-1

Warehousing.....	13-1
Reverse Exchanges - R.P. 2000-37.....	13-2
R.P. 2004-51.....	13-4
The Pot Method.....	13-4
Escrow.....	13-8

CHAPTER 14 - ACCOMMODATORS & INTERMEDIARIES.....14-1

Sale & Lease-Back	14-6
-------------------------	------

Appendix A - CALCULATION SHEETS.....A-1