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Successive Exchanges Between Related Parties PLR 201048025

In the newly released **Private Letter Ruling 201048025**, the IRS concluded that successive exchanges between related parties are not ineligible for tax-deferral under IRC Section 1031 provided all parties hold the properties received in the exchanges for two years.

In a transaction structured to defer current recognition of gain under IRC Section 1031, Taxpayer sold relinquished property to an unrelated party and acquired replacement property from a related party ("Related Party B"). Taxpayer represented that it would hold the replacement property received from Related Party B for two years.

Contemporaneous with Related Party B's sale of property to Taxpayer, Related Party B also entered into a tax-deferred exchange. Related Party B then acquired replacement property from an affiliate ("Affiliate C") and represented that it would hold the replacement property received from Affiliate C for two years.

Related Party B also indicated that it would make every attempt to avoid receiving any boot in the exchange. The ruling included a request for confirmation that, in the event Related Party B received some cash boot in a de minimus amount, that fact would not otherwise cause the exchange to be disallowed under IRC Section 1031(f).

Affiliate C represented that it too would enter into a tax-deferred exchange upon the sale of property to Related Party B, would hold any replacement property received for at least two years and would make every effort to avoid receiving any boot in the exchange. Affiliate C requested confirmation that in the event Affiliate C received some cash boot in a de minimus amount, the exchange would still be respected.

Exchanges Between Related Parties:

Section 1031(f)(1) states that if a taxpayer exchanges property with a related party, and either the taxpayer or the related party disposes of the property received in the exchange before two years after the date of the last transfer, the exchange will be disallowed.

This ruling concludes that IRC Section 1031(f)(1) is not applicable because the Taxpayer is exchanging property with its Qualified Intermediary, not with a related party.

Section 1031(f)(4) states that any transaction (or series of transactions) structured to avoid the related party rules found at 1031(f) will not be afforded the benefit of tax-deferral described at IRC Section 1031.

This ruling concludes that the Taxpayer's exchange does not run afoul of the related party rules and that IRC Section 1031(f)(4) is not implicated.

The conclusion is based in part on the fact that Related Party B and Affiliate C are also structuring their transactions as tax-deferred exchanges and there is no significant "cashing out" by any of the related entities.

You may read the full text of the ruling under the Guidance and Authority tab on our web site:
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