

Step by Step Explanation of the Typical Section 1031 Procedure

1. **Purchase/Sale Agreement for Relinquished Property** Complete your purchase/sale agreement as to your Relinquished Property (*the property you are selling*) just as you would with a regular sale. Show the name of the seller as yourself and add "and or assigns." You should also add a *cooperation clause* to the purchase agreement, stating that you intend this transfer to be part of a 1031 Tax Deferred Exchange and require the buyer to cooperate. The cooperation clause serves to provide notice to your buyer that you intend to consummate a tax-deferred exchange, as required by the regulations. Here's one example to consider:

The Buyer herein acknowledges Seller's intention to conduct an IRS Section 1031 Tax-Deferred Exchange and that the Seller's rights under this agreement shall be assigned to Commercial Partners Exchange Company, LLC, to facilitate such exchange. Buyer agrees to cooperate with the Seller and/or its assigns in a manner necessary to enable the Seller to initiate said exchange at no additional cost or liability to Buyer.

2. **Closing Company** Arrange for a title company or an attorney to close your transaction. Make sure you tell the closing agent that this transaction is going to be a 1031 exchange.

3. **Exchange Company** Notify Commercial Partners Exchange Company, LLC ("CPEC1031") of your pending sale and closing date. We provide a customer application form to organize all of the information about you as the taxpayer/exchanger, the property you are selling and the approximate date of closing. Fax the customer application form and the purchase/sale agreement to (612) 395-5475.

4. **Closing on the Relinquished Property** CPEC1031 will contact the closing agent and acquire any additional information needed to set up the 1031 Exchange for you. We will prepare the Exchange Documents and send two (2) sets of the documents directly to the closing agent. At closing, you will sign the Exchange Documents along with your other closing documents. The closing agent should give you one set of the documents for you to keep for your tax records and send one set to CPEC1031, together with a copy of the closing statement and deed transferring title to your Buyer.

5. **Post Closing Activities** Once the closing is complete, the closing agent will wire transfer the proceeds into a *separate, segregated and "two signature" FDIC insured exchange escrow account*. Upon receipt of these funds and a set of the Exchange Documents, we will send you a letter showing the amount of proceeds we received in the wire, which amount should match the amount shown on the closing statement. This letter will also include the dates of the 45 and 180 day periods and a form to identify your Replacement Property ("timeframe letter").

6. **Identification and Exchange Period Commence** You are now in the 45-day identification and 180-day exchange periods. These time frames run concurrently. Note that the 180-day period can be shortened to your deadline for the filing of your federal tax return, for the year in which the sale occurred.

7. **Identify the Replacement Property** Before the end of the 45-day identification period, you must fax or send us a detailed list of the Replacement Property you intend to acquire. We prefer that you use the form we supplied you in our initial timeframe letter. You must sign the identification form and clearly and unambiguously describe the Replacement Property. We recommend that your letter be postmarked and sent by US Mail to prove that you sent us the identification during the 45-day period. If you plan on faxing in your identification, please fax to CPEC1031 at (612) 395-5475.

8. **Purchase/Sale Agreement for the Replacement Property** Enter into a purchase/sale agreement(s) and add a cooperation clause as you did in the first transaction. Please fax the replacement property purchase/sale agreement to CPEC1031 at (612) 395-5475. Here's one example of a cooperation clause to consider:

The Seller herein acknowledges Buyer's intention to complete an IRS Section 1031 Tax-Deferred Exchange and that the Buyer's rights under this agreement shall be assigned to Commercial Partners Exchange Company, LLC, for the purpose of completing such exchange. Seller agrees to cooperate with the Buyer and/or its assigns in a manner necessary to complete said exchange at no additional cost or liability to Seller.

9. **Select a Closing Company** Arrange for a title company or attorney to close your transaction. Make sure you tell the closing agent that this transaction is going to be a 1031 exchange and that CPEC1031 is serving as your Qualified Intermediary. Once you have your closing title company selected, please notify CPEC1031 of your pending closing.

10. **Replacement Property Closing** CPEC1031 will contact the closing agent and obtain any additional information needed to set up the replacement closing for you. We will prepare the 1031 replacement documents and send two sets of these documents directly to the closing agent. At closing, you will sign the replacement property exchange documents along with your other closing documents. The closing agent should give you one set of the documents for you to keep for your tax records and send one set to CPEC1031, together with a copy of the closing statement and deed transferring title to you.

11. **End of Exchange** When you have closed on the last identified property, or at the end of the 180-day exchange period, your exchange ends. CPEC1031 will return any unused proceeds to you. In order to defer all gains, you should reinvest all of your proceeds in like-kind replacement property of equal or greater value and equity. Talk with your accountant or tax advisor to make sure this requirement is correctly satisfied.

12. **Report Exchange on Your Tax Return** When you file your tax return for the year in which the relinquished property was transferred, you will need to attach IRS Form 8824 to report your exchange to the IRS.

Commercial Partners Exchange Company is a Qualified Intermediary within the meaning of Section 1031 of the Internal Revenue Code and the Treasury Regulations governing tax-deferred exchanges of real and personal property. We specialize in the tax-deferred exchanges of real estate and have particular expertise in reverse and construction exchanges. We also facilitate personal property exchanges of artwork and collectibles, intangible property rights, aircraft, maritime vessels, construction equipment and electronics. The principal, Jeffrey Peterson is a licensed attorney with years of experience in real estate transactions, tax and business law and, most particularly, Section 1031 exchanges. Mr. Peterson is a graduate of the University of Minnesota Law School and a former adjunct tax law professor.

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