

- In a sale of a property that would be taxed, gain can be sheltered through an intermediary, such as **CASTERLINE HENRIKSBO EXCHANGE SERVICE COMPANY**.
- When an investor wants to move investments into another market, a tax-free exchange allows sale in one place and purchase in another.
- Some properties have no further use in their current form and need to be developed, (farms in suburban areas and warehouses in retail areas are two common examples). An exchange allows the owner to sell to someone prepared to make better use of the property and to invest the proceeds into another useful property.
- Tax-deferred exchanges can sometimes be used to produce improvements and otherwise develop property.

CASTERLINE HENRIKSBO EXCHANGE SERVICE COMPANY is owned by James C. Casterline and Paula L. Henriksbo. They are among the most experienced exchange accommodators in the country. While working for others and then for themselves, they have talked with thousands of investors and their tax professionals and have worked in thousands of exchanges from the very basic to those with the highest complexity.

Jim is an attorney and has been a title officer, title company manager, title company counsel and the former owner of Pacific Title Company. Jim has written extensively on exchanges (with over 100 articles published) and has written six books on different aspects of exchanges, notably *The Exchanger's Handbook*. He has presented over 400 seminars on exchanges and spoken at local, state and national events. He is past President of the Federation of Exchange Accommodators, his trade association.

Paula is also a leader in the exchange industry. She has been working for over 10 years counseling exchanges, structuring exchanges, and working with

advisors. She too presents seminars and has written articles on exchanges. She has served on boards of neighboring industries such as, the Oregon Escrow Council and the Oregon CCIM Chapter. She continues to be actively involved in local and state industry organizations.

Despite their experience and expertise, most exchanges are very affordable. For example, in a typical forward exchange, the close of the relinquished property is \$500.00 plus fees based on interest received by the investor on proceeds held. The replacement property closing is \$250.00 and \$100.00 per piece for additional property closings. Improvement exchanges are \$2,500.00 and reverse exchanges start at \$2,500.00 (this fee may increase depending upon complexity).

Bring your exchanges to the experts:



Jim Casterline & Paula Henriksbo
CASTERLINE HENRIKSBO EXCHANGE SERVICE COMPANY



17008 SE 34th Way, Suite 1031
Vancouver, WA 98683
Phone: (360) 828-8931
Fax: (360) 828-8069
Dial an Expert: 1-800-559-9737
Email: paula@chex1031.com
Website: www.chex1031.com

CASTERLINE HENRIKSBO EXCHANGE SERVICE COMPANY
is a proud member of both the FEA and CCIM organizations.



1031

Tax-Deferred Exchanges

*"like-kind" property exchanges
for investors*

rental property



commercial property



personal property





What is a Tax-Free Exchange?

Taxes can be avoided when a property which is held for productive use, such as rentals and business property, and property which is held for investment is exchanged for other "like-kind" property which is also to be held for investment or productive use.

The term exchange can also include a sale and purchase if an intermediary such as **CASTERLINE HENRIKSBO EXCHANGE SERVICE COMPANY (CHEX)** steps into the transaction, structures the transfer and controls the proceeds of the transaction between the two legs of the exchange.

All real estate, if held for productive use in a trade or business or for investment, is "like-kind" to all other real estate to be held in the same manner. Not all real property qualifies. For example, a personal residence or a recreational property is not eligible under this tax code section. This form of exchange is called an I.R.C. § 1031.

Personal property can also be exchanged under this tax code. CHEX has regularly structured personal property exchanges for taxpayers over many years. We have handled exchanges involving everything from livestock, aircraft and commercial fishing vessels to logging equipment, tofu making machinery and everything in between! This form of exchange can often go overlooked by the taxpayer because of its obscure nature, however we encourage you to consult your tax professional then call on us to help with your next personal property exchange!



professional then call on us to help with your next personal property exchange!

What Happens in an Exchange?

At the time an offer is being considered, it is helpful to include language called a cooperation clause. This is not legally required but it gives notice to the prospective purchaser that an exchange is being considered. The following language is an example:

- *Buyer (Seller) hereby acknowledges that it is the intention of Seller (Buyer) to complete an I.R.C. § 1031 exchange which will not delay the close of escrow or cause additional expense to Buyer (Seller). Seller's (Buyer's) rights and obligations under this agreement may be assigned to Casterline Henriksbo Exchange Service Company (CHEX) for the purpose of completing such an exchange. Buyer (Seller) agrees to cooperate with Seller (Buyer) and CHEX in a manner necessary to complete the exchange.*



At or before this time, the investor should be discussing tax liabilities and transactional issues with his C.P.A. and attorney.

Once the property is in escrow, a qualified intermediary such as **CASTERLINE HENRIKSBO EXCHANGE SERVICE COMPANY (CHEX)** needs to be brought into the transaction. CHEX will prepare an exchange agreement and assignment documents. These documents put the qualified intermediary (often called an accommodator or facilitator) into the place of the investor.

At closing, the deed can be directly between the investor and the buyer but the closing statement and instructions have to be in the name of CHEX. Proceeds must be disbursed directly to CHEX.

After the transfer, the investor has 45 days to identify potential replacement property to CHEX. Normally a form is provided for that purpose. Three properties of any value can be identified but only one needs to be acquired.

The second leg of the exchange must be completed within 180 days from the initial transfer. The replacement property needs to have the same or greater debt than the property sold and all cash being held must be used to avoid recognizing gain.

At the time the replacement property is to be acquired, CHEX is assigned the right to purchase it and steps into the escrow as the Buyer. Proceeds are then transferred to the escrow from CHEX to complete the transaction.

Why Exchange?

Most investors exchange because they want to use the equity in a property to acquire a more desirable replacement property. Rather than selling and paying taxes (and depleting the amount of cash available for the reinvestment), the investor enters into an exchange. An exchange allows all sheltered gain to be transferred to a replacement without recognition of gain. That is, payment of tax.

Although this is often called a tax-free exchange, it is really a tax-deferred exchange. The investor has sheltered the gain for the moment. In a future sale, Uncle Sam will claim his taxes on gain on the replacement property and on gain sheltered from a prior sale. However, the investor can take advantage of an exchange again and again.

Exchanges can be used to defer taxes in a number of otherwise taxable transactions: