

## 1031 Exchanges.

- In its current form, Section 1031 of the Internal Revenue Code permits businesses and individuals to take a business or investment real estate asset/s and trade it for another real estate asset/s.
- The taxpayer must file specific paperwork, place the money in a qualified escrow account at a bank, and use a qualified intermediary (QI) to facilitate the transaction within a 180-day timetable.

### There are multiple types of 1031 Exchanges, including:

- Reverse exchange
- Reverse construction exchange
- Reverse improvement exchange
- Purchase a new property before selling the old one.
- Build new construction using exchange funds.
- Make improvements using exchange funds.

## QIs make great commercial clients.

### Large core deposits

1031 deposits come and go, but the aggregate balance is high and remains high during economic fluctuations.

### Wire transfers

Some firms handle thousands of 1031s a year, and a single transaction has multiple wire transfers associated with it.

### Commercial lending

Often when an investor uses a 1031 to swap a property, they want to upgrade to a more valuable property, which requires a mortgage.

### High-value clientele

They open the door to valuable property investor clientele as well as lawyers, realtors, and CPAs.

## What keeps QIs up at night?

### Wire fraud

A single transaction may represent tens of millions of dollars. If a 1031 exchanger misses the 180-day deadline for completion (because of a faulty wire transfer, for example), they'll fail the 1031 and be required to pay capital gains tax.

### Bonding and insurance

Taxpayers and QIs will ask about your coverage as part of due diligence. Many banks use bonds. Others have insurance coverage. In the vast majority of 1031 Exchanges, the bond or insurance policy doesn't come into play because of the strict timeframe. The best-case scenario is that whatever coverage you have reassures the client in the event that something does go wrong.

### Client service

Exchangers rely on the QI to facilitate every aspect of the 1031 in a timely, compliant fashion. The fees they pay QIs are minuscule in comparison to the tax savings. QIs want to know that somebody at the bank is available to initiate wires and handle transactions promptly.



## What do QIs look for in a banking partner?

- A willingness to support 1031s at every step.
- Thorough understanding of 1031 rules and variations.
- Insurance to cover deposits.
- Favorable interest splitting.
- Compliant account structure.
- Technology solutions wherever possible.
- That you deliver what you sell.

## Qualified intermediaries.

QIs make most of their revenue from the interest or fee arrangement on the deposit itself. The majority of 1031 Exchanges are handled by dedicated QI firms. Attorneys, realtors, and even CPAs can serve as QIs, provided they haven't had a concurrent business relationship with the exchanger in the two years prior.

## The competition for 1031 business.

The banks who compete for 1031 business have the capability to serve QIs or are willing to negotiate fees. Either of these can be differentiators in the 1031 space. QIs often diversify their deposits across multiple institutions, so even if they have an established banking relationship they may be open to starting with small deposits elsewhere.

## What you can start doing today

- Search for QIs in your state
- Start talking to real estate attorneys and CPAs about their work with QIs
- Read the Like-Kind Exchanges Under Section 1031 Ebook

## What you can do for the long term

- Get involved with events through the FEA
- Get involved with adjacent industries, such as:
  - Realtors
  - State boards
  - CPAs
  - Property investors
- Collaborate with a QI: consider running a webinar on 1031s targeted at high-net-worth account holders.

### Additional resources:

- [Federation of Exchange Accommodators](#)
  - The FEA is the national association representing QIs. They provide advocacy, continuing education, and a database of QIs.
- [eBook: Like-Kind Exchanges Under Section 1031](#)
- [ABA real property, trust, and estate law group](#)
- [Article on 1031 Exchange fees](#)

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