Who manages the 1031 Exchange Process?

Since 1991, IRC § 1031 has required the use of an impartial third party to hold the proceeds from the Relinquished Property sale until the close on the Replacement Property. This third party is known as a qualified intermediary.

Not only does the qualified intermediary hold the funds during the exchange period, but they also help structure the exchange, prepare the exchange documentation, continuously monitor and guide the taxpayer to ensure compliance of the exchange in accordance with Section 1031 at both the state and federal level.

While there are no federal regulations governing qualified intermediaries, with the help of the Federation of Exchange Accommodators (FEA), many states started state-level requirements to uphold high professional standards for qualified intermediaries conducting exchanges in their states. The requirements can vary state to state, but typically include some or all of the following:

* Minimum bond and insurance requirements
* Registration and licensing requirements
* Investment limitations on exchange funds
* Qualified escrow and/or trust accounts for exchanger funds
* Fund withdrawal authorization requirements

The foundation of all successful 1031 exchanges is laid by the qualified intermediary. Do your due diligence in researching qualified intermediaries to ensure you are not only getting the best service possible, but to ensure your deferred capital gains tax will hold up above IRS review.