A 1031 TALE

Old man Johnson owns an apartment house in Brooklyn, which he bought in 1959 for $17,000.00. He is tired of the complaints and rent regulations. Johnson decides to get rid of the apartment house and buy an office building. No complaints, no rent regulations, no tenants who even know what he looks like.

Johnson has been offered three million dollars for the apartment house, but the capital gains taxes on the sale will prevent him from buying the office building. Enter I.R.C. 1031.

The purchasers of the apartment building are two firemen, Murphy and Conti. They have been in the building many times on routine inspections, and know the building needs work but is sound.

So, we now have two of our players:

Johnson, taxpayer and Murphy and Conti, the buyers.
The building is the relinquished property. Now, Johnson needs to find his office building. He has 45 days from his transfer to Murphy/Conti to identify this property.

The next player is Svetlana. Along with many other things she acquired in her divorce settlement she owns an office building in Queens.

Svetlana has never set foot in Queens, nor is she likely to. She thought Queens was a tediously long entrance ramp to Kennedy Airport.

Svetlana has an aversion to real estate. She wants cash. Sell the office building!

The stage is now set, Svetlana is the third player, the seller.

Each player wants something. Johnson wants an office building without paying capital gains tax, the firemen want the apartment house, Svetlana wants cash.

To accomplish these goals, their lawyers have advised them that they need a Qualified Intermediary.

As luck would have it Conti’s godfather was a Qualified Intermediary. Conti sends Johnson to his godfather. Johnson says “Oh, Accommodator if I give to you my
apartment building will you get me an office building of equal or greater value and make the feds disappear”?

“The feds I can handle. I cannot be involved in finding an office building, but I must be paid a fee, and someday I may need a favor”.

“You must find this building fast, in fact I give you only 45 days, otherwise the feds get their usual cut”.

“Call my broker Johnny Hightide, he will find you an office building, and before you leave you must give me a deed to the office building.

Hightide, the broker, knew about Svetlana’s Queens office building and convinces her to accept Johnson’s offer.

Reluctantly Svetlana deeded the property to the qualified intermediary. She was assured he would never welsh on a deal.

The firemen are also convinced of the Qualified Intermediary’s reliability and deliver their money to him.

So now, the Qualified Intermediary has the two buildings and the cash.

He invites everyone to Puglia’s, a restaurant he frequently uses for business because of their many long tables.

After some very tender veal parmigiana, the 1031 comes down.

The Qualified Intermediary gives Svetlana her cash, Johnson gets a deed to the office building, Murphy and Conti get a deed to the Brooklyn apartment building.

The IRS agent looking through the restaurant window is not allowed in…