



AEI Capital Corporation

# QI

*What is a*

Qualified  
Intermediary

A GUIDE FOR DST INVESTORS

When an investor begins the 1031 exchange process, they have a variety of decisions. The more vital decision is selecting a Qualified Intermediary— also known as a 1031 Exchange Accommodator. These parties have three primary responsibilities to ensure compliance with the IRS’s rules in a 1031 exchange.

Responsibilities for an Qualified Intermediary include:



Holding the investor’s cash proceeds from the sale of property in escrow as required by the IRS



Documenting the investor’s identification of replacement property within the investors’ 45-day identification per IRS requirements



Facilitating and documenting the investor’s purchase of replacement property by transferring investors’ funds to the title company/seller.

Why is it important for an investor to choose a qualified intermediary with experience and worthy of your trust?

First, your Qualified Intermediary holds the cash from the sale of your property. Second, your Qualified Intermediary helps you follow the IRS’s 1031 rules, thereby deferring the capital gains taxes. 1031 Exchange Accommodators are not regulated by the Federal government and there is no national standard or licensing. Regulations vary, but most states do not require Qualified Intermediaries to be licensed, bonded/insured, audited, or monitored by the government in any way. Therefore, it is particularly important to do your homework when selecting a Qualified Intermediary for your 1031 exchange.



# When is a Qualified Intermediary required?

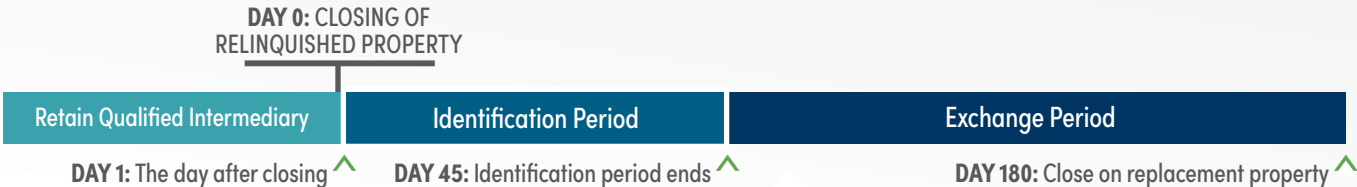
As a rule, Qualified Intermediaries are required when executing a 1031 exchange. The only situation in which a Qualified Intermediary is not needed in a 1031 exchange is when the money is being processed on the same day. Even so, it is still beneficial to use a Qualified Intermediary as they not only offer valuable guidance when navigating the complicated exchange process, but they help reduce the risk associated with the 1031 exchange should an error occur.

When funds are processed on the same day, there's always the risk a wire transfer transaction fails, or a delay in funds transfer may result in a failed 1031 exchange. If this happens, the IRS may accuse you of taking constructive receipt of the 1031 fund, which could completely void the exchange or make you liable for paying the capital gains taxes you were hoping to originally defer. The hefty tax implications are not worth saving between \$1,000 and \$2,000—the typical cost range of using a Qualified Intermediary.

risk  
reward

## Exchange timeline

From the date your property sells, you have 45 calendar days to identify replacement properties and 180 calendar days from the date of sale to close on properties identified in the initial 45 days. During these timeframes, your Qualified Intermediary should be working behind the scenes to both protect your funds and assist with the completion of the paperwork required by the IRS to process your 1031 exchange.



## Protecting your funds

Most Qualified Intermediaries are not regulated like other institutions (banks, savings & loans, brokerage firms) holding your hard-earned money. Due of this, a Qualified Intermediary should hold your 1031 funds in a “segregated account” with a large FDIC insured bank.



## 1031 exchange paperwork for IRS

Your Qualified Intermediary prepares the documentation necessary to ensure your exchange remains within IRS specifications. However, you—the taxpayer—are responsible for submitting all documentation to the IRS.

### Major items that the Qualified Intermediary needs to document are:



Formal identification of potential replacement properties on or before midnight on the 45th day after the sale of a property



A full accounting of exactly how the 1031 exchange funds are reinvested



1099 forms (submitted to you and the IRS)

## Selecting a Qualified Intermediary

Choosing a reputable and knowledgeable Qualified Intermediary is one of the most important decisions to make when executing a 1031 exchange. Working with someone who will hold your funds in a FDIC-insured bank account, understands the intricacies involved in submitting all documentation required by the IRS. They will have a clear direction on how to facilitate the purchase of your replacement property and transfer funds to the title company. This will save you thousands of dollars and possibly dealing with the IRS in the long run.



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