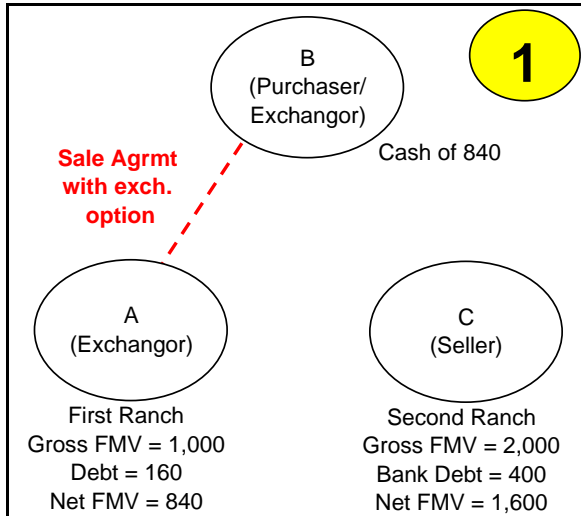
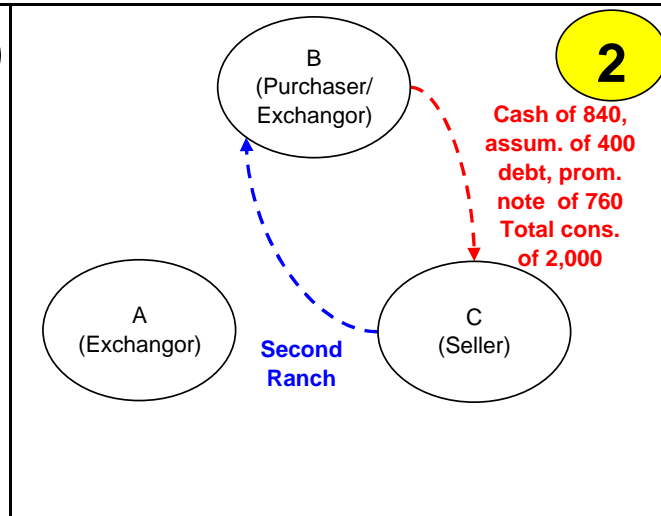


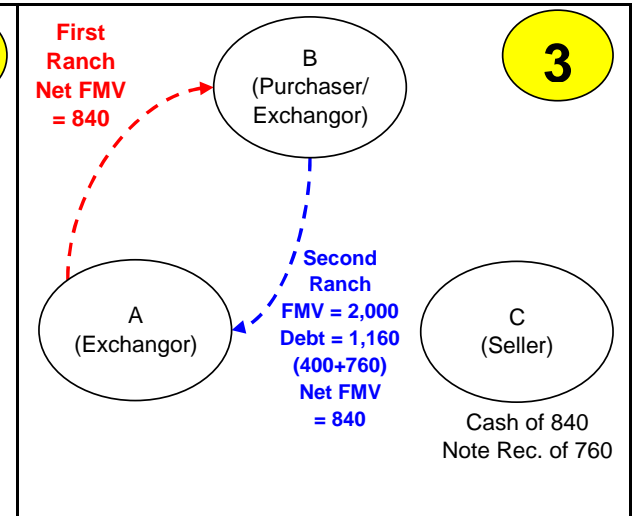
Initial Structure



Purch. of Second Ranch (at Closing)



Like-Kind Exchange (at Closing)



A entered into a written agreement with B to sell to B for 1,000x dollars a ranch (the "first ranch") consisting of land and certain buildings used by A in the business of raising livestock. Pursuant to the agreement, B placed 100x dollars into escrow and agreed to pay at closing an additional 200x dollars in cash, to assume a 160x dollar liability of A, and to execute a note for 540x dollars. The agreement also provided that B would cooperate with A to effectuate an exchange of properties should A locate suitable property. A located another ranch (the "second ranch") consisting of land and certain buildings suitable for raising livestock. The second ranch was owned by C. B entered into an agreement with C to purchase the second ranch for 2,000x dollars. Pursuant to this agreement, B placed 40x dollars into escrow, agreed to pay at closing an additional 800x dollars, assume 400x dollars liability of C, and execute a note for 760x dollars. C could not look to A for specific performance on the contract, thus, B was not acting as A's agent in the purchase of the second parcel of property.

At closing, B purchased the second ranch as agreed. After the purchase, B exchanged the second ranch with A for the first ranch and assumed A's liability of 160x dollars. With C's concurrence, A assumed C's 400x dollar liability and B's note for 760x dollars. C released B from liability on the note. The escrow agent returned the 100x dollars to B that B had initially placed in escrow. This sum had never been available to A, since the conditions of the escrow were never satisfied. For purposes of section 1031 the parties entered into an exchange of property. See *Alderson v. Commissioner*, 317 F. 2d 790 (9th Cir. 1963), in which a similar transaction was treated as a like-kind exchange of property even though the original agreement called for a sale of the property. In addition, A's 160x dollar liability assumed by B was offset by B's liabilities assumed by A, pursuant to Reg. 1.1031(b)-1(c). Accordingly, as to A, the exchange of ranches qualifies for nonrecognition of gain or loss under section 1031. As to B, the exchange of ranches does not qualify for nonrecognition of gain or loss under section 1031 because B did not hold the second ranch for productive use in a trade or business or for investment.

Ending Point

