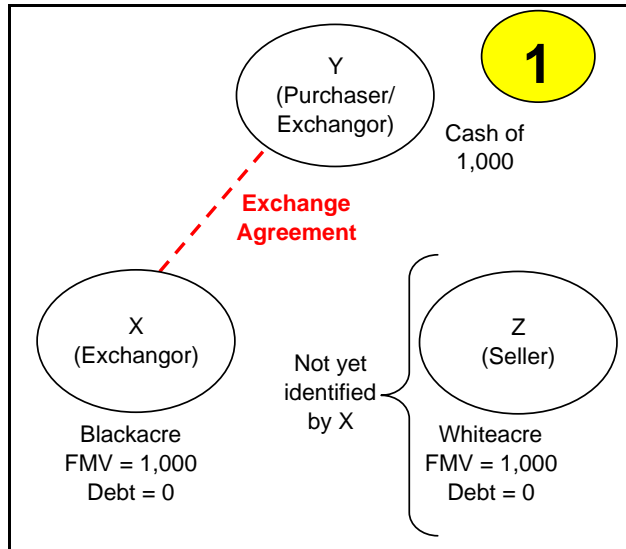
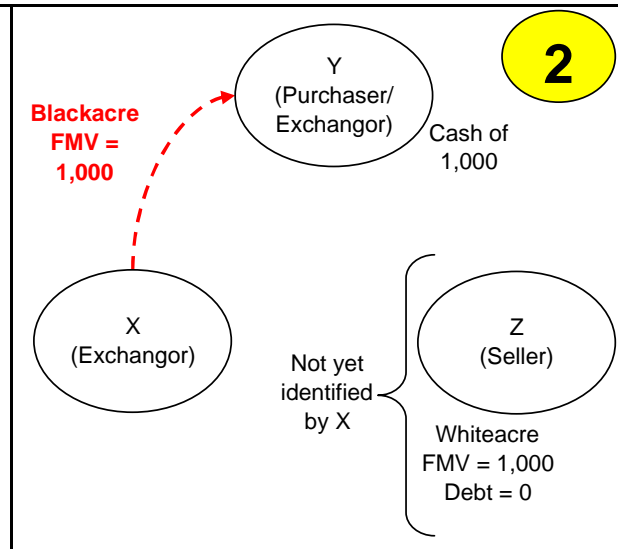


**Three Party Like-Kind
Exchange: Direct Transfer**

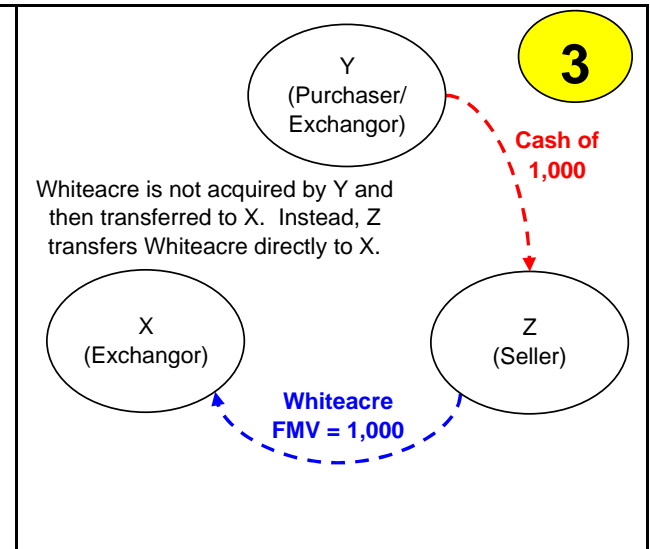
Initial Structure (May 14, 1989)



Transfer of Blackacre (May 23, 1989)



**Transfer of Cash & of
Whiteacre (July 10, 1989)**



X and Y are unrelated persons. On May 14, 1989, X and Y enter into a contract that requires X to transfer Blackacre to Y and Y to transfer to X property of a like kind with the same fair market value. Blackacre, unencumbered real property, has been held by X for productive use in its trade or business and has a fair market value of \$1,000,000. Under the contract, X is required to locate and identify property with a fair market value of \$1,000,000 that is of a like kind to Blackacre within 45 days of X's transfer of Blackacre to Y (the "identification period"), and Y is required to purchase and transfer the identified property to X before the earlier of 180 days from the transfer of Blackacre or the due date (including extensions) for X's U.S. income tax return for the taxable year in which X's transfer of Blackacre to Y occurs (the "exchange period"). If X fails to identify the property to be received in the transaction before the end of the identification period or Y fails to purchase and transfer such property to X before the end of the exchange period, Y is required to pay \$1,000,000 to X. Neither X nor Y contracts to exchange Blackacre with any other party. On May 23, 1989, X transfers Blackacre to Y. On June 1, 1989, X properly identifies Whiteacre as the property to be received. Whiteacre, owned by Z, a person unrelated to X, is unencumbered real property that has a fair market value of \$1,000,000 and is of a like kind to Blackacre. On July 10, 1989, Y purchases Whiteacre from Z, and, at Y's direction, Z transfers legal title to Whiteacre directly to X before the end of the exchange period. X, thereafter, holds Whiteacre for productive use in its trade or business. X's transfer of property to Y, in exchange for property of a like kind, qualifies as to X for nonrecognition of gain or loss on the exchange under section 1031 even though legal title to the property received by X is never held by Y.

Ending Point

