

Boot

Having nothing at all to do with footwear, “Boot” is a term that refers to the items of personal property and/or cash that are necessary to even out an exchange. Boot is property that is received in an exchange but is not “like-kind” as to other property acquired in an exchange transaction. Boot is defined as the “fair market value” of the non-qualified property received in an exchange.

While the receipt of boot will not disqualify the exchange, an Exchanger who receives boot in an exchange transaction generally recognizes gain to the extent of the value of the boot received. Some common examples of Boot are:

- Cash proceeds an Exchanger takes from escrow/settlement before the remaining proceeds are sent to the Qualified Intermediary;
- Exchanger’s cash proceeds remaining after the exchange;
- Nonqualified property, such as stocks, bonds, notes, or partnership interests;
- Proceeds taken from the exchange in the form of a note or contract for sale of the property. An Exchanger can utilize IRC §453 to recognize the gain (boot) of a seller carry-back note received in an exchange transaction under the *installment sale* rules (See Brief Exchange “Combining Seller Financing with Tax Deferred Exchanges” for ways to use the Note to defer taxable gain into the Replacement Property.);
- Relief from debt on the Relinquished Property caused by the assumption of a mortgage, trust deed, contract, or an agreement to pay other debt that is not replaced on the Replacement Property;
- Property that is not “like-kind”. For example, real property exchanged for personal property; and
- Property that is intended for personal use and not for use by the Exchanger as either his/her investment or business use property.

To avoid the receipt of Boot, the Exchanger should:

- Purchase “like-kind” Replacement Property with a value equal to or greater than the value of the Relinquished Property;
- Reinvest all of the net equity (exchange funds) from the sale of the Relinquished Property in the purchase of the Replacement Property; and
- Make sure the debt on the Replacement Property is equal to or greater than the debt on the Relinquished Property.
Exception: A reduction in debt on the Replacement Property can be offset with additional cash from the Exchanger, but increasing the debt on the Replacement Property cannot offset a reduction in the exchange equity, thereby resulting in excess exchange funds upon the completion of the exchange. Any excess exchange funds will be Boot and the capital gain tax will be due on the Boot received.

Brief Exchanges

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