

**BUILD WEALTH  
WITH A LIKE-KIND  
AIRCRAFT EXCHANGE**



**QUALIFIED INTERMEDIARY**



**Investment Property  
Exchange Services, Inc.**

*Tax Deferred Exchange Solutions Nationwide*

**AIRCRAFT EXCHANGES**

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**IPX<sup>®</sup>** Investment Property  
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**[www.ipx1031.com](http://www.ipx1031.com)**

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This information is not to be construed as legal and/or tax advice. Investors should have their transaction reviewed by their own legal and/or tax counsel.

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## Tax Benefits of Exchanges

If a business owns a full or fractional interest in an aircraft, it will eventually need to be replaced. Unfortunately, a tax liability is often associated with these transactions. The fact is the gain need not be recognized if the transactions are structured as tax deferred exchanges and the tax dollars that would otherwise be paid in a direct sale can then be utilized to purchase new aircraft. Compare a sale versus an exchange.

**Assume** the following:

- A business purchases an aircraft for corporate use for \$9,200,000
- After five years the aircraft is sold for \$2,400,000
- Since the aircraft has been depreciated over its useful life its tax basis is approximately zero
- When the aircraft is sold the entire \$2,400,000 sale price is treated as a gain
- Assume federal tax rate is 35% on depreciation recapture
- Assume the business' state tax rate is 6%  
(Federal deduction for state taxes is not included).

|                      | Exchange           | Sale               |
|----------------------|--------------------|--------------------|
| Sale Price           | \$2,400,000        | \$2,400,000        |
| Tax Paid             | \$ None            | \$ 984,000         |
| Proceeds to Reinvest | <b>\$2,400,000</b> | <b>\$1,416,000</b> |

**Result:** The business that exchanges its aircraft, instead of purchasing with after-tax dollars, will have an additional \$984,000 to invest toward the purchase of the new aircraft.

## Like-Kind Requirement

To structure a transaction as a tax deferred exchange under Internal Revenue Code §1031 both the used relinquished property and the new replacement property must be "like-kind". For personal property exchanges, such as aircraft exchanges, "like-kind" means that the used relinquished aircraft and the new replacement aircraft must either be in the same general asset class or product class or generally be considered of "like-kind" as defined in the Treasury Regulations. The property to be exchanged must be held for productive use in a trade or business or for investment purposes. For example, a business that owns a small corporate jet could sell it in a §1031 exchange and use the proceeds to buy a new larger corporate jet. Although the new corporate jet must be within the same general asset class as the used aircraft, the new aircraft could be purchased from a different manufacturer and have different features. The general asset classes give enough latitude to buy new replacement aircraft without having to worry about the specific characteristics of the aircraft. This same business, however, would not be able to sell the corporate jet in an exchange and purchase a new corporate yacht, since a yacht is from a different general asset class than a corporate jet.



## "Like-Kind" Property

To qualify as "like-kind" property for a §1031 exchange of tangible personal property the exchanger's relinquished and replacement properties must be property that has been and will be held for productive use in the exchanger's trade or business or for investment and must be in the same general asset class or product class.



## \$1031 Exchanges — An Overview

### Internal Revenue Code §1031

**“No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment.”**

§1031 exchanges provide businesses with one of the best tax strategies for preserving the value of their assets. By using an exchange the business is able to defer the recognition of taxes that would otherwise be incurred on the sale of its corporate aircraft. The business can then use the entire amount of the sale proceeds to purchase substantially more replacement aircraft. To qualify as an exchange the relinquished and replacement assets must be qualified “like-kind” properties and the transaction must be structured as an exchange. Using Investment Property Exchange Services, Inc. as the “Qualified Intermediary” will provide the business with the necessary reciprocal transfer of its business assets to create the exchange and the “Safe Harbor” protection against actual or constructive receipt of the exchange funds as required by §1031.

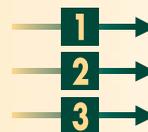
### Investment Property Exchange Services, Inc.

- Third party written guarantee on exchange funds
- \$100 million fidelity bond coverage
- \$30 million professional liability insurance
- Full-time attorney-managers and experienced exchange processors
- Substantial expertise in personal property (e.g. aircraft, helicopters, aircraft engines) and real property exchanges:
  - Simultaneous
  - Delayed
  - Improvement/Build to Suit
  - Reverse
- Complimentary exchange consultations
- Timely document preparation and turnaround
- Accredited workshops/seminars
- Informative, educational literature

## Exchange Requirements



**Relinquished Aircraft**



**Replacement Aircraft**

As a general rule of thumb, to avoid paying any taxes in an exchange, the business aircraft owner should always attempt to:

- 1** Purchase equal or greater in net sales price (value).
- 2** Reinvest all of the net equity in replacement aircraft.
- 3** Obtain equal or greater debt on replacement aircraft.

**Exception:** A reduction in debt can be offset with additional cash from exchanger, but increasing debt cannot offset a reduction in exchange equity.

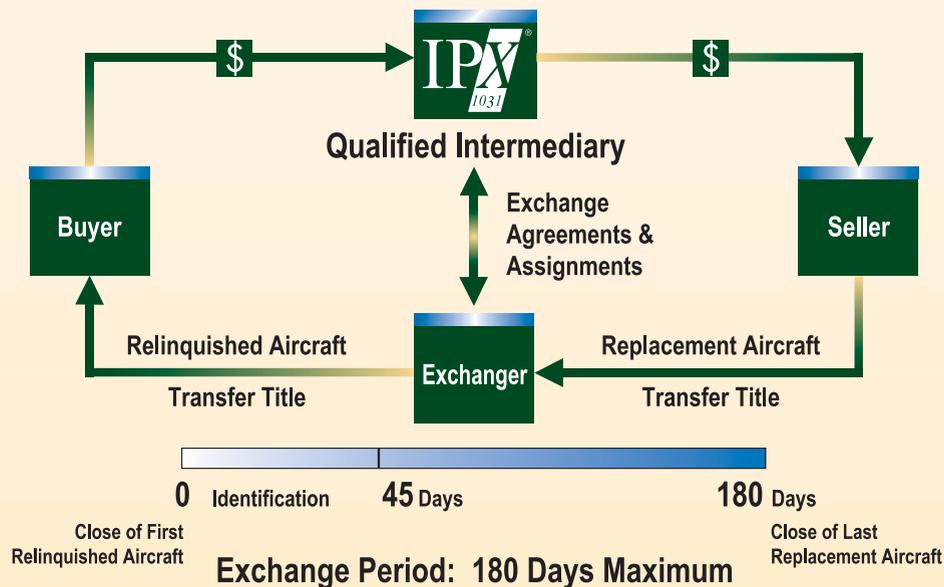
## Calculating the Tax

The gain from the sale of a business aircraft, not the profit or the sale proceeds, is subject to tax on recapture of depreciation. In addition, if the asset exchanged has appreciated, the gain attributable to appreciation will also be taxed. Business aircraft owners should consult with their tax or legal advisors prior to entering into an exchange. This formula is a guide to estimate the potential tax on the sale of a business aircraft. Note: The federal deduction for state taxes is not included.

|   |                        |
|---|------------------------|
| <b>Original Purchase Price</b>  | _____                  |
| ■ Minus depreciation taken  | ( _____ )              |
| <b>Equals Adjusted Basis</b>  | = _____                |
| <b>Sales Price</b>  | _____                  |
| ■ Minus adjusted basis  | ( _____ )              |
| ■ Minus transaction costs<br>(commissions, fees, etc.)  | ( _____ )              |
| <b>Equals Total Gain on Sale</b>  | = _____                |
| ■ Multiply by state capital gain<br>or corporate tax rate, if any   | x _____<br>= _____ (A) |
| <b>Gain from Appreciation</b>   | = _____                |
| ■ Multiply by federal capital<br>gain or corporate tax rate   | x _____<br>= _____ (B) |
| <b>Gain From Depreciation Recapture</b>   | = _____                |
| ■ Multiply by federal and state tax rate  | x _____<br>= _____ (C) |
| <b>Total of Taxes A + B + C Equals<br/>the Tax Exposure that is Deferred<br/>Through a §1031 Exchange</b> | = _____                |

**Automatic Calculation Available On Our Website**  
[www.ipx1031.com](http://www.ipx1031.com)

# Delayed Exchange Flowchart



## The Exchange Process

Contrary to popular belief a §1031 exchange is not a swap between two parties. Most exchanges involve three parties: the owner (exchanger) who is doing the exchange, the buyer who is purchasing the business' used (relinquished) aircraft and the seller who is selling the business a new (replacement) aircraft. To create the exchange of assets and to obtain the benefit of the "Safe Harbor" protections of the tax code to prevent actual or constructive receipt of the exchange proceeds, which would disqualify the exchange treatment, prudent businesses and individual aircraft owners use the services of a "Qualified Intermediary," such as Investment Property Exchange Services, Inc. ("IPX1031"). IPX1031, as the Qualified Intermediary, becomes a fourth party principal in the exchange. As illustrated in the above diagram, the steps for executing an exchange with IPX1031 are relatively simple.

- The exchanger signs a contract to sell a single or multiple relinquished aircraft to the buyer.
- IPX1031 is retained to be the Qualified Intermediary and the exchanger assigns its rights in the sale contract to IPX1031.
- Upon the sale of the relinquished aircraft the exchange funds are deposited directly with IPX1031 and IPX1031 directs that title to the aircraft be transferred directly from the exchanger to the buyer.
- The exchanger has a maximum of 180 days in the exchange period (or until the tax filing deadline, including extensions, for the year of the sale of the relinquished aircraft), to acquire all replacement aircraft.
- Unless the exchanger can acquire the new replacement aircraft within the first 45 days from the date the relinquished aircraft was sold, the exchanger must identify possible new replacement aircraft in writing to IPX1031 within the 45-day identification period.
- The exchanger signs a contract to purchase the new replacement aircraft from the seller and the exchanger assigns its rights in the purchase contract to IPX1031.
- According to the exchanger's instructions, IPX1031 transfers the exchange funds directly to the seller and instructs the seller to transfer title to the new replacement aircraft directly to the exchanger.

## Sample Cooperation Clause for the Sale Contract

Buyer hereby acknowledges it is the intent of the Seller to effect an IRC §1031 tax deferred exchange, which will not delay the sale or cause additional expense to the Buyer. The Seller's rights under this agreement may be assigned to Investment Property Exchange Services, Inc., a Qualified Intermediary, for the purpose of completing such an exchange. Buyer agrees to cooperate with the Seller and Investment Property Exchange Services, Inc. in a manner necessary to complete the exchange. (Switch Buyer and Seller in the Cooperation Clause for the Purchase Contract.)