

BUILD WEALTH WITH A TAX DEFERRED EXCHANGE



QUALIFIED INTERMEDIARY



Investment Property Exchange Services, Inc.

Tax Deferred Exchange Solutions Nationwide

Artwork & Collectibles

**Contact IPX1031 to Receive
Tax Deferred Exchange Materials
and to Schedule
an Exchange Seminar**

SPECIALIZED INDUSTRIES

(888) 701-1031 Toll Free

OFFICES NATIONWIDE



**Submit Your Exchange Order Online, Schedule an Exchange
Seminar and Obtain §1031 Information From Our Website**

www.ipx1031.com

Member: Federation of Exchange Accommodators
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.

COPYRIGHT © 2008 INVESTMENT PROPERTY EXCHANGE SERVICES, INC.

Tax Advantage of an Exchange

The benefits of a tax-deferred exchange are significant. Tax dollars deferred result in additional buying power for reinvestment in replacement property.

Assume the following:

- Individual art investor sells a painting for \$1 million
- Investor's basis is \$100,000
- Painting has been held in excess of 12 months
- Investor acquires a group of new paintings having an aggregate value of \$1 million
- Capital gain tax rate for collectibles is 28%

	Exchange	Sale
Fair Market Value of Painting	\$1,000,000	\$1,000,000
Capital Gain Tax	\$ None	\$ 252,000
Equity Available to Reinvest	\$1,000,000	\$ 748,000

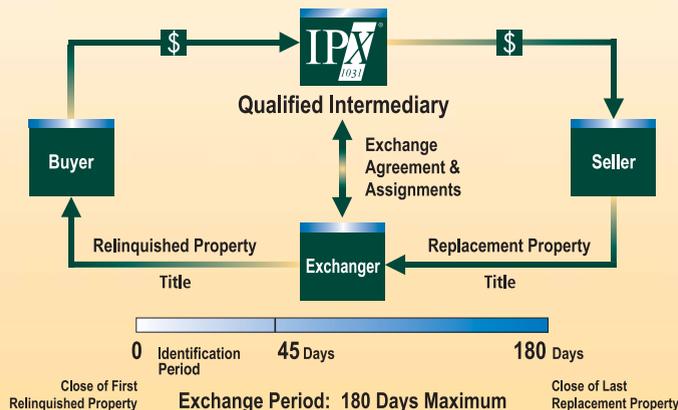
Result:

The investor who completes a §1031 exchange defers \$252,000 in taxes, and is able to purchase replacement property worth \$252,000 more than the investor who sells and reinvests with after-tax dollars.

Benefits of Art & Collectibles Exchanges

- Diversify, modify or upgrade artwork or other collection into museum quality as its value increases, without recognizing any gain on sale.
- Defer all capital gain tax from the disposition of the sold artwork or other collectible (Capital gain tax rate for collectibles is still 28%).
- The sale of the old artwork or collectible and purchase of the replacement artwork or collectible does not have to be simultaneous. Use of a Qualified Intermediary permits an investing collector to:
 - Sell directly to a buyer, a dealer or at auction
 - Buy directly from a buyer, a dealer or at auction
 - Take up to 45 days to select potential replacement artwork or collectible, and
 - Take up to 180 days to acquire the replacement artwork or collectible
- Investors can reposition their private collections to better suit the needs of intended museum or other charitable recipients, heirs, and testamentary bequests without incurring capital gain tax.
- A corporation can transform its collection to reflect its current image without paying high corporate income tax rates on the sale of the appreciated asset.
- Reverse exchanges solve timing issues related to auction sales/purchases.

Delayed Exchange Flowchart



Exchange Requirements

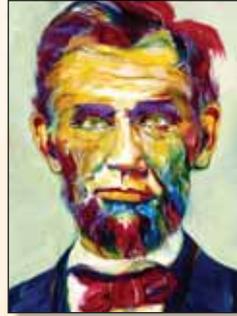
As a general requirement, to avoid paying any capital gain taxes on an exchange, the investor should always attempt to:

- Purchase equal or greater in value
- Reinvest all of the equity in replacement property
- Obtain equal or greater debt in replacement property **Exception:** A reduction in debt can be offset with additional cash from exchanger, but increasing debt cannot offset a reduction in exchange equity.

Like-Kind Property



PAINTINGS



PAINTINGS

To qualify for a §1031 exchange the investor's relinquished and replacement properties must be "like-kind" property that has been and will be held for investment or used productively in the investor's trade or business.



COINS



COINS



VIOLINS



VIOLINS



SCULPTURE



SCULPTURE



STAMPS



STAMPS

§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 investors with one of the best tax strategies for preserving the value of an investment portfolio. By using an exchange the investor is able to defer the recognition of capital gain taxes that would otherwise be incurred on the sale of investment property. The investor can then use the entire amount of the equity to purchase substantially more replacement property. To qualify as an exchange the relinquished and replacement properties 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 investor with the necessary reciprocal transfer of properties to create the exchange and the “Safe Harbor” protection against actual and constructive receipt of the exchange funds as required by §1031.

Investment Property Exchange Services, Inc.

- \$50 million written guarantee from parent company
- \$100 million fidelity bond coverage
- \$30 million professional liability insurance
- Regional attorney managers and Certified Exchange Specialists® on staff
- Substantial expertise in real estate and personal property exchanges, including:
 - Simultaneous
 - Delayed
 - Construction/Improvement
 - Reverse
 - Work-out/Foreclosure
- Complimentary exchange consultations
- Timely document preparation
- Accredited exchange workshops and seminars
- Informative, educational literature

Like-Kind Property

To obtain tax deferral treatment under IRC §1031, both the used relinquished property and the new replacement property must be “like-kind.” For personal property, such as artwork and other collectible assets, that means that the asset being relinquished must be of the same nature and character as that of the replacement asset. Differences of grade or quality are ignored. Thus, a Stradivarius violin could be exchanged for several less precious violins, but it could not be exchanged for a painting, even though both are considered collectibles. To qualify for exchange treatment, the properties to be exchanged must be held for investment or used productively in a trade or business by the taxpayer. Business use personal property that is tangible and eligible for depreciation may also be exchanged for assets of “like-class,” which belong either to the same general asset class or the same product class. Thus a Stradivarius violin which is leased to a violinist may be exchanged for a harpsichord, because both assets fall within the “musical instruments” product class sharing the same NAICS code. Contact IPX1031 and your tax professional for more information about “like-kind” in the context of artwork and other collectibles.

Investor v. Collector Status

Multiple factors may be considered when determining investment intent. Some of the actions an investing collector might take to establish qualified investment intent are:

- Maintain complete records of purchases, maintenance expenses, etc. related to the asset being disposed and the one acquired
- Seek the advice of consulting experts regarding assets being disposed of and acquired
- Have assets reappraised from time to time
- Obtain appropriate title insurance and property/ casualty insurance
- With respect to the asset, behave in a manner that is consistent with an expectation of profit as one of the main motivations to acquire and hold the asset

Owners of artwork and collectibles should consult with their tax professionals on the proper treatment of these assets.