Build Wealth with a Tax Deferred Exchange

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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.

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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 multiple asset or master exchange programs using IPX1031 as the Qualified Intermediary allow a business to:

- Implement one of the best tax strategies for preserving the value of business assets.
- Defer substantial tax liabilities from aggregate annual gains.
- Maximize capital and increase financial benefit over “trade-ins.”
- Pool recurring sale transactions of low gain per unit assets to achieve cost-effective tax deferral benefits.
- Maximize flexibility in asset sales and replacements by utilizing the full 180-day exchange period.
- Sell used equipment at the end of the business season, earn interest on funds held by IPX1031 as the Qualified Intermediary, and purchase replacement assets at the beginning of the next season, without generating “carrying costs” of excess equipment or recapture tax.
- Protect tax deferral benefits with a like-kind exchange program that complies with the technical requirements of the “Qualified Intermediary” safe harbor.
- Utilize a unique, paperless, fully electronic, total solution that meets technical IRS §1031 requirements and accommodates your accounting system needs, such as “step in the shoes depreciation” and tax and financial reporting.

“Like-Kind” Property
Generally, 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.

Investment Property Exchange Services, Inc.

- $100 million fidelity bond coverage
- $30 million in professional liability insurance
- Full-time §1031 attorneys and experienced staff
- Expertise in personal property (e.g. fleets of vehicles, equipment, aircraft) and real property exchanges:
  - Simultaneous
  - Delayed
  - Improvement
  - Reverse
- Complimentary consultations
- Timely document processing
- Accredited seminars
- Informative, educational literature
Tax Benefits of Exchanges

Tax deferred like-kind exchanges enable a business to avoid negative tax consequences associated with the replacement of its vehicles, equipment or other business assets. Structuring sales of used assets and replacement purchases as like-kind exchanges can save a corporate taxpayer approximately 35%, and an individual taxpayer 20%, of the gain on the sale of an asset which would otherwise immediately be lost to taxes. The tax dollars saved through non-recognition of recapture or capital gain can then be reinvested in new like-kind assets, allowing the business to maximize its capital. For example:

- A trucking company replaces 150 trucks per year at a cost of $90,000 each.
- The company sells 12 to 13 fully depreciated trucks per month for $30,000 each.
- Absent an exchange program, the full annual sale proceeds of $4,500,000 will be treated as taxable gain, leaving only $2,925,000 available for new purchases.
- Structuring these transactions as tax deferred exchanges under a master exchange program will result in an annual tax deferral of approximately $1,575,000.

Like-Kind Property

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”. Additionally, both the relinquished assets sold and the replacement assets acquired must be held for productive use in a trade or business or held for investment. §1031 exchanges fall into two distinct categories: personal property exchanges and real property exchanges. With very limited exception, all real property is like kind to all other real property. Conversely, for personal property exchanges, such as business use vehicles, machinery or equipment, the used relinquished asset and the new replacement asset must either be “like-kind” or “like-class.” “Like-kind” refers to two objects that are the same, such as an airplane exchanged for an airplane, or a backhoe exchanged for another backhoe. “Like-class” refers to depreciable, tangible personal property that falls within the same general asset class, listed in the Treasury Regulations, or the same product class, described in the North American Industry Classification System (NAICS). Under the like-class definition, an airplane could be exchanged for a helicopter because they both fall within the same general asset class. Similarly, the backhoe could be replaced with a bulldozer, dredging machinery, a road grader or a log splitter, because all of these assets are included within the Construction Machinery and Equipment product class identified by the same NAICS sector.

Exchange Requirements

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

1. Purchase equal or greater in sales price (value).
2. Reinvest all of the sale proceeds in replacement property.
3. Obtain equal or greater debt on 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.

Calculating the Tax

The gain from the sale of depreciated business assets, 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. Businesses 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 vehicles, equipment and other such business assets.

**Original Purchase Price**
- Minus depreciation taken

**Equals Adjusted Basis**

**Sales Price**
- Minus adjusted basis
- Minus transaction costs (commissions, fees, etc.)

**Equals Total Gain on Sale**

**Gain From Depreciation Recapture**
- Multiply by federal tax rate

**=**

**=**

**=**

**Total of Taxes A + B Equals the Tax Exposure that is Deferred Through a §1031 Exchange**

If there is a gain due to appreciation, then the federal tax on this amount must be calculated and added to the total tax that is deferred through a §1031 exchange.

Additional Information Available On Our Website
www.ipx1031.com
Contrary to popular belief, a vehicle or equipment 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) vehicles or equipment and the seller who is selling the business new (replacement) vehicles or equipment. 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 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 completing an exchange with IPX1031 are relatively simple.

- The exchanger signs a contract to sell single or multiple relinquished vehicles or equipment to the buyer.
- IPX1031 is retained to be the Qualified Intermediary under the Master Exchange Agreement. The exchanger then assigns its rights in the sale contract to IPX1031.
- Upon the sale of the relinquished vehicles or equipment the exchange funds are deposited directly with IPX1031 and IPX1031 directs that title to the vehicles or equipment 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 property), to acquire all replacement vehicles or equipment.
- Unless the exchanger can acquire all the new replacement vehicles or equipment within the first 45 days from the date the relinquished vehicles or equipment were sold, the exchanger must identify possible new replacement vehicles or equipment in writing to IPX1031 within the 45-day identification period.
- The exchanger signs a contract to purchase the new replacement vehicles or equipment 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 vehicles or equipment directly to the exchanger.

**Result:** A corporation that utilizes a cost-effective master exchange program can replace 150 trucks per year to maximize its capital and yield approximately $1,575,000 more to reinvest in new trucks.

Depreciation of this type of asset is subject to the half-year convention for placing an asset in service.

### Exchange Process

**Exchange**

| Unit Price | $30,000 | $30,000 |
| Basis*     | $-0-    | $-0-    |
| Tax Paid   | $None   | $10,500 |
| Annual Proceeds to Reinvest | $4,500,000 | $2,925,000 |
| Annual Tax Deferral | $1,575,000 | $None |

**Sale**

| Unit Price | $30,000 | $30,000 |
| Basis*     | $-0-    | $-0-    |
| Tax Paid   | $None   | $10,500 |
| Annual Proceeds to Reinvest | $4,500,000 | $2,925,000 |
| Annual Tax Deferral | $1,575,000 | $None |

**Result:** A corporation that utilizes a cost-effective master exchange program can replace 150 trucks per year to maximize its capital and yield approximately $1,575,000 more to reinvest in new trucks.

Depreciation of this type of asset is subject to the half-year convention for placing an asset in service.