

LOOKING FOR TAX SAVINGS? LOOK TO LIKE-KIND EXCHANGES

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How's this for a bind? You know your company can employ more efficient, maybe even greener techniques that will ultimately save your company money if you could just upgrade your outdated equipment. But you're justifiably concerned about the tax liabilities created by selling your old equipment, plus you'll need to tap company cash or company credit (assuming that's even available in our current environment) to purchase the new equipment.

Here's an idea you may not have considered--make use of a long-established, little-used federal tax provision called the Section 1031 tax-deferred exchange. This simple process can help businesses make valuable upgrades that may have previously been thought impossible.

Tax deferral through exchanging has been around since 1921. Section 1031 of the Internal Revenue Code was added in 1954. We're talking about something that has been available but under-utilized for decades. This is not a loophole; it's a business-friendly tax provision. It is designed to allow companies to reinvest the dollars tied up in their assets into new assets, keeping business money flowing and building a company's ability to create profits, jobs and growth.

While exchanges have long been popular in the real estate arena, they apply to virtually any type of business property--trucks, bulldozers, cranes, machinery; pretty much any depreciable asset that has a reasonable residual value when you wish to dispose of it and upgrade to a new model. Section 1031 allows the company selling a depreciated asset to defer all of the recognition of taxable gain applicable to that sale, which can often be as much as 40 percent of the sale price, if it used the proceeds to acquire similar, "like-kind" assets.

Let's look at an example. A construction company wishes to upgrade its equipment to cleaner, more efficient models. It sells five such assets at auction at an average of \$50,000 each, creating a taxable gain of \$250,000 on the fully depreciated equipment. By making use of a tax-deferred exchange and reinvesting that money in new like-kind assets, the tax obligation is fully deferred, creating a cash flow benefit of approximately \$100,000, which is used to purchase the new upgraded equipment and reduce the amount of debt and/or company equity required for the upgrade if done outside of the exchange structure.

Now is a vital time for companies to examine the alternatives for upgrading equipment. Section 1031 exchanges can be a valuable part of that strategy.

Industries Where Like-Kind Exchanges Apply:

Agriculture · Auto/Truck Rental · Collectibles · Construction · Heavy Equipment · Leasing · Manufacturing · Mining · Oil and gas · Real Estate · Telecom/IT · Transportation · Utilities · & more

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The professionals at Iowa Equity Exchange understand the complex rules of Section 1031 exchanges. We can help simplify this information for you and your clients. Section 1031 exchanges are our only business. We are members of the Federation of Exchange Accommodators, the only national association that is dedicated to the protection of the consumer in 1031 transactions. Less than 2% of all qualified intermediary service providers nationwide are members of this organization. We can creatively and strategically assist you and your clients with the sale or purchase of assets in order to maximize the tax deferral opportunities. Please contact us at your convenience.



Note: Per 1031 regulations, Iowa Equity Exchange cannot give tax and/or legal advice. Every taxpayer should review specific transactions and potential tax consequences with his or her personal tax and/or legal advisor.

4800 MILLS CIVIC PARKWAY, SUITE 205
WEST DES MOINES IA 50265
515-224-5259 OFFICE
800-805-1031 TOLL FREE

WWW.IOWAEQUITYEXCHANGE.COM