1031 Corporation
Exchange Professionals
A subsidiary of 1STBANK

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# 1031 Exchanges Apply to More than Real Estate

Whenever the phrase "1031 Exchange" comes up, most of us automatically think of exchanges of real estate since this is the most common type. However, 1031 exchanges are much broader than real estate and the Section 1031 rules apply to many different types of transactions described below.

**Like-Kind Real Estate.** Qualifying "real property" is a very broad type of asset under the "like-kind" rules of the Internal Revenue Code and Regulations. Real estate qualifying for exchanges under the "like-kind" rules can include:

- 100% ownership interests
- Fractional ownership interests
- 30+ year leasehold interests
- Conservation easements
- Transferable development rights
- Right-of-way easements
- Water rights
- Mineral rights
- Oil & gas interests
- Mutual irrigation ditch stock

**Other Property to which Code Section 1031 Applies.** Other types of property which are eligible for tax deferral under the 1031 Exchange rules include:

- Aircraft
- Automobiles and trucks
- Breeding livestock herds
- Information systems
- Machinery & Equipment
- Ships and boats
- Dairy cows
- Intangibles (i.e. mailing lists or client/patient files)

**Sales taxes are often a motivating reason a taxpayer may want to structure a 1031 Exchange**. For example, if a taxpayer sells an aircraft for $1 million and buys a replacement aircraft for $2 million, sales tax will apply to the $2 million purchase price of the replacement aircraft. If the taxpayer engages the services of an Exchange Intermediary to help him structure a qualifying "exchange," the sales tax is limited to the "boot paid" - $1 million in this case. The difference in sales tax liability can obviously be significant.

**Basic Rules**. Only qualifying assets are eligible for a 1031 exchange. To qualify, the asset must be like-kind property held for business or investment purposes. Personal use property does not qualify.

Title to the replacement property must be in the same taxpayer name(s) as what was sold. In order to fully defer taxes, the replacement property must be of equal or greater value to that which was sold. If all cash proceeds are not reinvested, or a trade down in value occurs, some taxable gain will result. IRS-prescribed time requirements (45 day and 180 day requirements) must be strictly adhered to. Finally, the taxpayer cannot receive any of the net sales proceeds from the relinquished property sale.

Generally, a Qualified Intermediary is involved in the exchange to hold funds, assist the client and his tax professional and administer the exchange. While the rules of a 1031 exchange may seem challenging, an experienced Qualified Intermediary can make these hurdles easy to navigate.

**If you have any questions, contact us at 888-367-1031 or email us at 1031@1031cpas.com**. Our Exchange Manual is also available, free of charge at www.1031cpas.com. 1031 Corporation is the Intermediary of choice for thousands of real estate professionals, CPAs and investors.

Larry Jensen, CPA
1031 Corporation
larry.jensen@1031cpas.com