



National Association
of Tax Professionals

LIKE-KIND EXCHANGES

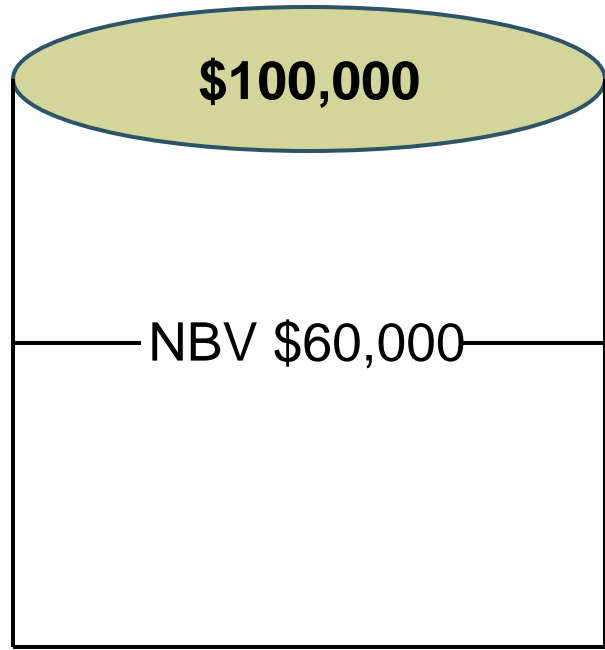
Larry Gray, CPA

THE SALE

- Capital Gain
- 1231 Gain/Loss
- 1245 Recapture
- 1250 Recapture/Un-Recapture

EXAMPLE – SALE

The Sale of an Asset (\$100,000)



Realized Gain

Boot

Recognized Gain

Basis

TYPES OF ASSETS

Gain Loss

- Personal
- Investment
- Trade or business

1031 EXCHANGE (NO GAIN)

- Exchange of property used
- Trade/business or investment
- Like-kind property
- Trade/business or investment

DEFINITION OF “1031 EXCHANGE”

No Gain

Asset Owned

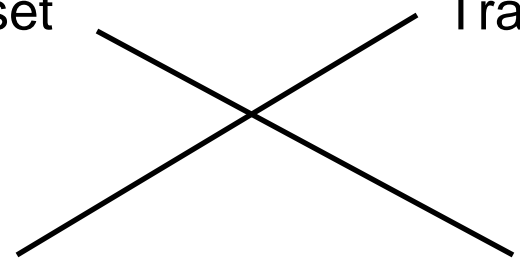
Asset Received

Trade or business asset

Trade or business asset

Investment asset

Investment asset



ADVANTAGES

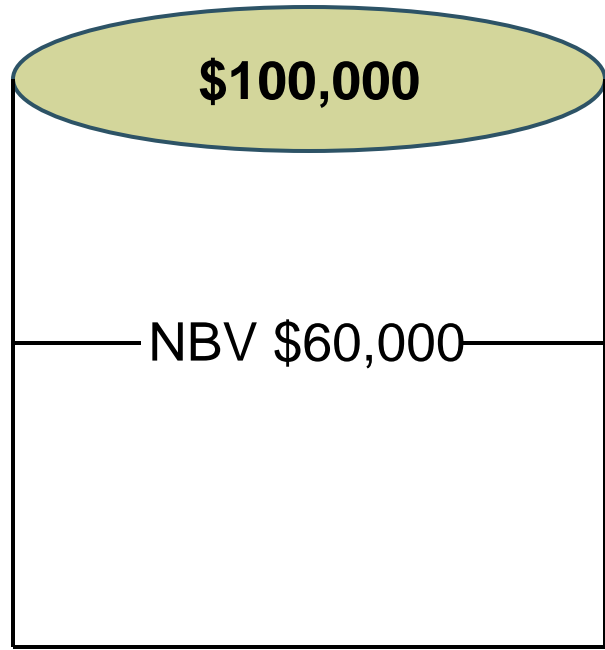
- Potential 100% tax deferred
- Property may be more marketable
- Change in business/investment strategy
- Less cash required
- Continuously invested

DISADVANTAGES

- More complicated
- Property must be like-kind/class
- Strict time requirements
- Lower depreciable basis

EXAMPLE – NO BOOT EXCHANGE

Traded Asset for a New Asset (\$100,000)



Realized Gain

Boot

Recognized Gain

Basis

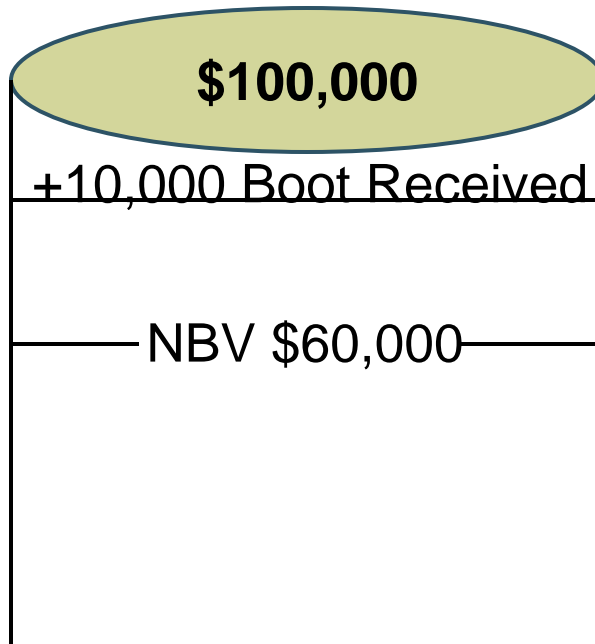
BOOT (GAIN)

- Receipt of cash
- Other unlike-kind property
- Debt relief
- Notes received

EXAMPLE – BOOT RECEIVED EXCHANGE

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Traded Asset for a New Asset (\$90,000)



Realized Gain

Boot

Recognized Gain

Basis

DEFINITION OF “TIMING”

- Simultaneous exchange
 - Same day
- Deferred exchange
 - 45 day rule
 - 180 day rule
- Reverse exchange
- Qualified intermediary

EXAMPLE – DEFERRED EXCHANGE

Sold Asset Through Qualified Intermediary

Possible Replacement

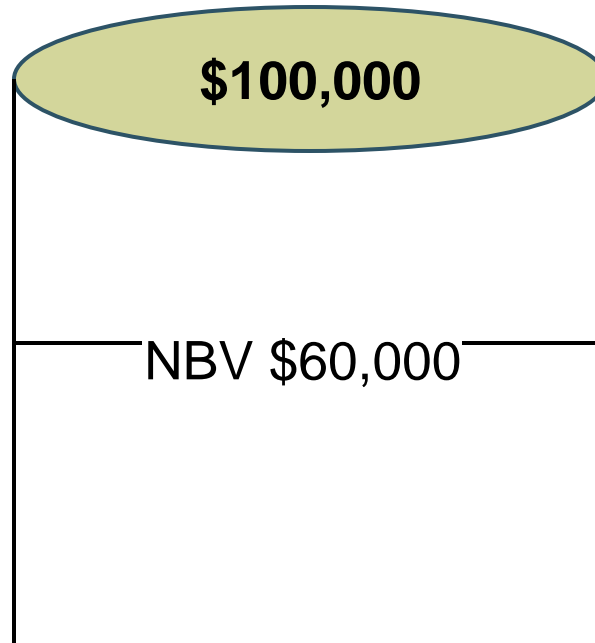
Realized Gain

Qualified Property

(a) \$110,000

(b) \$ 70,000

(c) \$ 25,000



Boot

Recognized Gain

Basis

DEFINITION OF “ASSET”

- Depreciable tangible personal property
- Real property
- Intangible personal property and non-depreciable personal property

DEPRECIABLE TANGIBLE PERSONAL PROPERTY

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- like-kind means like-class
- General asset classes
- Product classes

REAL PROPERTY

- Real property exchanged for other real property
- Easy to qualify
- Exception: Real property in U.S. exchanged for real property outside U.S.
- May fall under Section 1245 property

INTANGIBLE or NON-DEPRECIABLE PERSONAL PROPERTY

- Intangible has no physical value
- Qualify if Properties are of like-kind
- Like-kind based on character or nature

EXCLUSIONS FROM 1031

- Stock in trade or other property held primarily for sale
- Stocks, bonds or notes
- Interests in a partnership
- Goodwill (intangible)
- Residences (exclusion)

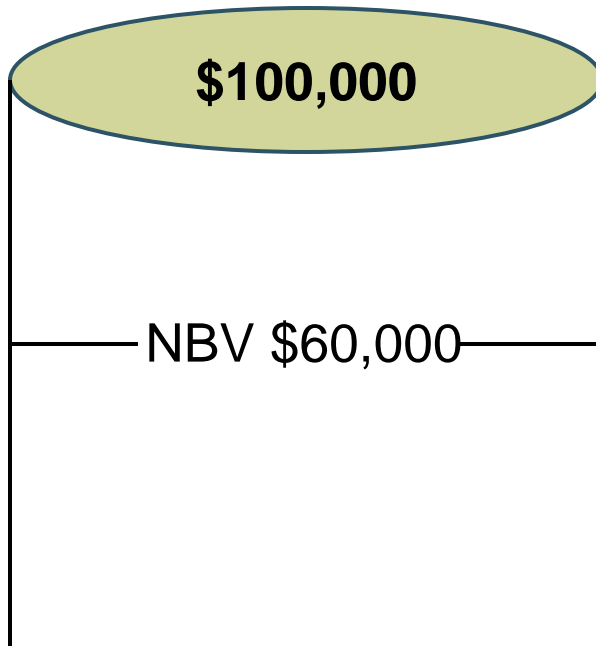
OTHER ISSUES

- Related party
- 179 expensing
- Deferred exchange not completed
- Planning the future

SUMMARY OF EXCHANGES

- Sale
- Cash received
- Cash given
- Unlike-property
- Debt relieved
- Note received
- Deferred exchange – property received

MASTER EXAMPLE



Realized Gain

Boot

Recognized Gain

Basis



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The background of the slide is white and features several decorative elements: a thick, light blue curved line arching across the top; a thick, olive-green curved line arching across the top and right side, overlapping the blue line; and a thick, olive-green vertical bar on the left side.

Larry Gray, CPA NATP