

# PERSONAL PROPERTY EXCHANGES

## "PLANES, TRAINS AND AUTOMOBILES"



### Compliments of

### PERSONAL PROPERTY EXCHANGES

Internal Revenue Code Section 1031 allows investors to exchange either "like-kind" real or personal property for other "like-kind" real or personal property. Although the rules for "like-kind" real estate are fairly broad, the rules to exchange personal property for "like-kind" or "like-class" specify that an Exchanger can only receive tax deferral if the sale of personal property is exchanged for the purchase of personal property that falls within the same Product Class or General Asset Class. Product and General Asset Classes, as described in the North American Industry Classification System (NAICS), were developed for use in the classification of establishments and products by the type of activity for which they are engaged. Depreciable tangible personal property is exchanged for property of "like-kind" if it is exchanged for property of "like-class".

### GENERAL ASSET CLASSES

- Office furniture, fixtures, and equipment;
- Information systems (computers);
- Data handling equipment, except computers;
- Airplanes and helicopters;
- Automobiles and taxis;
- Buses;
- Light general-purpose trucks;
- Heavy general-purpose trucks;
- Railroad cars and locomotives;
- Tractor units for use over-the-road;
- Trailers and trailer-mounted containers;
- Vessels, barges, tugs, and similar water transportation equipment; Industrial steam and electric generation and distribution systems.

### UNEXCHANGEABLE ITEMS

Another aspect of personal property exchanges that differs from real property exchanges is that certain items of the sale transaction, such as "goodwill" "covenants not to compete" and "inventory" does not qualify for tax deferral under IRC Section 1031. Thus, these items may not be attributed to the value of the sale for the exchange and the capital gain or loss must be recognized by the Exchanger.

### MIXED EXCHANGES

There are also many transactions that involve the sale of both real property and personal property, such as the sale of hotels, restaurants, and gas stations, wherein the Exchanger owns both the land and the personal property. In this case, the Exchanger can allocate the proceeds specifically for real property and personal property and purchase "like-kind" property with the respective funds. In a complex combined real and personal property exchange, it is important to maximize potential tax deferral benefits in advance. Asset Preservation, Inc. encourages Exchangers to always work closely with an accountant or attorney to ensure that the transaction is structured properly.



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