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## Reduce taxes and increase wealth with like kind exchanges

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Real estate investors and business owners that purchase and sell assets may elect to not pay income taxes on the sale of assets under Section 1031 of the Internal Revenue Code provided the transactions are completed within a 180 day period. These are also known as like kind exchanges. The tax provision has been around since 1921 in one form or another. Exchanges increase cash flow by avoiding income taxes and reducing the amount of debt needed to acquire new property. Exchanges help investors and business owners increase their wealth more rapidly over time. For example, an elderly individual owns 2 four family units but is no longer able to manage the properties. He can sell the properties and reinvest in a larger managed property. The investor can avoid income taxes and capital gain taxes on the sale. With careful estate tax planning, the investor's heirs can exclude an additional \$5.6 million of capital gains from income and estate taxes.

### Exchange overview

Like kind exchange option is available to any business or investor that owns trade or business or investment assets, such as equipment, real estate, or business assets, to defer, reduce or eliminate:

- \* Income taxes on the gain from the sale of business assets or investment assets;
- \* Additional debt and interest expense incurred at the time of the purchase;
- \* Income taxes on the operating income used to repay debt where the business used bonus depreciation on new assets to offset the gain on the sale of the equipment; and
- \* Reduce future depreciation recapture taxes on depreciable tangible property.

### Benefits of Section

#### 1031 exchanges

Exchange can assist in restructuring business assets:

- \* A business or investor can replace the assets he or she owns, such as selling 100 used trucks and purchasing newer, more fuel efficient and reliable trucks;
- \* Selling high maintenance rentals units and purchasing a low maintenance commercial property; or
- \* A construction company can sell construction equipment that is no longer useful and replace it with other kinds of construction equipment for projects which they can handle.

Improve the rate of return on investments by selling non income-producing to income-producing or from low appreciation potential to high appreciation potential.

Lower the average cost of new equipment and improve their rate of return. In the case of equipment, the reinvestment of 40% of the purchase price reduces the total out of pocket cost to 60% of the total purchase price and increasing the internal rate of return by an average of 15% to 25% for the fleet of assets.

Exchanges allow the transfer assets to heirs of the owner without estate tax, income taxes and capital gains for 97% of US households.

Exchanges preserve equity in business assets and increases wealth by reinvesting equity into more productive assets.

Like kind exchanges increases the overall return on investment (ROI) in future investments by reducing the net cost of new productive equipment.

#### Exchangeable Assets

The range of assets that can be exchanged runs the gamut from all types of real estate, tangible depreciable property, such as, equipment and machinery, intellectual property, such as patents and copyrights, collectibles to gold and silver bullion.

Steve Robison, Esq. LL.M Taxation, is president and Moore McLaughlin, Esq. CPA, LL.M Taxation, provide like kind exchanges services through Strategic Property Exchanges, LLC, Cincinnati, OH.

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