

Strategic 1031 Exchange Advisors

OUR BUSINESS PRINCIPALS

SECURITY

Industry-leading security measures that ensure exchange fund liquidity and principal protection

KNOWLEDGE

Expert team of CPAs, MBAs, and attorneys that provide exchange guidance for forward, reverse, build-to-suit construction, leasehold, international, personal property, multi-asset, and other complex exchanges

SERVICE

A significant value-adding resource with exceptional client service and innovative strategies that complement core business objectives

STRATEGIC
EXCHANGE
ADVISORS



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An Insight into:

Aircraft 1031 Exchanges

Aircraft, which includes jets, airplanes and helicopters, often appreciate in value or depreciate at a lower market rate than the deduction taken for tax purposes. This results in a taxpayer's recognition of both capital gain and depreciation recapture upon the sale of the asset. The combined capital gain and depreciation recapture tax liability from the sale of aircraft and aviation equipment can prove substantial. Depreciation recapture is often significant in value due to accelerated depreciation allowed by the federal government. This is true even if the aircraft or a fractional aircraft interest has only been owned for a few years.

Payment of tax on the capital gain and depreciation recapture significantly reduce a taxpayer's economic equity in the aircraft and the amount of investable capital available to purchase replacement aircraft. Therefore, taxpayers should consider implementing a 1031 exchange strategy when disposing of, and subsequently purchasing, qualified aviation assets in order to defer all or a portion of the amounts due noted above. Additionally, the 1031 exchange can be structured in the reverse order with acquisition occurring before disposition.

Like-Kind Definition for Aircraft Exchanges

Exchanged properties must be like-kind to one another. The like-kind application for personal property assets, such as aircraft and aviation equipment, is narrowly defined. In general, most aircraft and aviation equipment are treated as like-kind property for 1031 exchange purposes if within the same IRS General Asset Class as used for depreciation purposes. The

exception to this generalization applies to aircraft used as common carriers for passengers and freight, which requires those types of aircraft be exchanged for aircraft of similarly use.

Sales & Use Tax Issues

Taxpayers must also carefully consider compliance with local Sales & Use tax laws when purchasing or disposing of aviation assets, even if the taxpayer is performing a 1031 exchange. Upon the sale, sales tax is usually due to a local tax authority and is typically required to be collected by the seller of the relinquished aircraft. Similarly, use tax may be payable by the purchaser of the replacement aircraft if the seller does not collect and remit the sales tax. However, some states have exceptions to these Sales & Use tax requirements when the taxpayer performs an exchange. Due to the jurisdictional differences of local taxing authorities, taxpayers should consult with their accountant, attorney and intermediary when structuring an exchange.

Domestic and International Exchanges

Investors should take note that aviation exchanges can be performed at the domestic and international level. However, non-US aircraft must be exchanged for other non-US aircraft while US aircraft must be exchanged for other US aircraft. Application of this rule often focuses on the location of predominant use of the aircraft, not where the asset is located at the time of sale.

Please contact Strategic 1031 Exchange Advisors with any aircraft exchange questions or issues you may have.