

# 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

An Insight into:

## Business/Multi-Asset 1031 Exchanges

When selling a business a taxpayer must decide whether the sale will be structured as an asset sale or stock sale. In making this determination, the taxpayer must consider how he or she intends to reinvest the sale proceeds. Taxpayers wishing to invest in real estate and/or like-kind personal property should consider using a 1031 exchange strategy.

When performing an exchange, a taxpayer must allocate value between real estate, personal property, and goodwill. To the extent possible, value allocations for assets being sold (the “Relinquished Property”) should be influenced by the assets the taxpayer intends to purchase (the “Replacement Property”). In order to maximize the deferral of tax, the majority of value for assets being sold should be allocated to those assets being exchanged. The least amount of value should be allocated to assets not being exchanged or assets that do not qualify for exchange treatment, such as goodwill. These value allocations must be supported by reasonable comparisons and must be agreed upon by the taxpayer and the purchaser. Thus, the taxpayer should consider the exchange allocation characteristics well before entering into any formal agreement to sell the business.

Exchanges under Section 1031 of the Internal Revenue Code are often referred to as a “Like-Kind” Exchange due to the requirement that exchanged properties must be like-kind to one another. The like-kind requirement for real estate is broadly defined, thus allowing taxpayers to exchange, for example, a hotel for raw

land, or a retail shopping center for an office building. However, the like-kind application for personal property is much more narrowly defined. There are three main classifications for personal property held for investment or used in a trade or business:

- *Depreciable, Tangible Personal Property*: includes aircraft, automobiles, FF&E, livestock, railroad cars and watercraft.
- *Non-Depreciable, Tangible Personal Property*: includes art, collectibles, other memorabilia and contracts.
- *Intangible Personal Property*: includes copyrights, FCC licenses and patents. Specifically excluded from exchange qualification are goodwill or going concern, trademarks or tradenames, and non-compete agreements.

When making a “like-kind” determination for personal property, a taxpayer must often consider the nature or character of the assets being exchanged or the nature or character of the rights associated with the exchanged assets. In general, most tangible personal property assets are treated as like-kind property for 1031 exchange purposes if they are included within the same IRS General Asset Class (i.e., for depreciation purposes).

Investors should take note of the fact that exchanges can also be performed on assets at both a domestic and international level.

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

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