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Overview

When selling assets at auction, there are several tax saving mechanisms available to taxpaying businesses. The most common of these tax strategies are Section 1031 Like-Kind Exchanges (LKEs) and Dealer Pass-Throughs.

Fundamentally, an LKE is intended to defer **income tax** on any gains (not just Capital Gains) associated with selling an asset. A Dealer Pass-Through is akin to a trade-in, as it reduces **sales tax** when selling an asset through a dealer and purchasing new assets from the same dealer.

The Dealer Pass-Through...

Structurally, a Dealer Pass-Through observes the following:

1. Taxpayer assigns original asset to auction company
2. Auction Company sells asset
3. Auction Company funds Dealer for sale
4. Taxpayer receives credit from Dealer
5. Taxpayer applies credit to new asset

From a financial perspective, the Taxpayer treats this transaction as a trade-in and receives the sales tax benefit of a reduced purchase price.

For example, if the new asset has a list price of \$200,000 and the original asset brought \$60,000 at auction, the Taxpayer pays sales tax on ~\$140,000 (depending on state and local tax laws). In a 7% sales tax bracket, this results in a net benefit of \$4,200.

...vs. Like-Kind Exchange

A Like-Kind Exchange is an established tax deferral strategy on the sale and purchase of similar property (ex. construction equipment for construction equipment). LKEs help businesses replace assets with something similar without recognizing gain, thereby deferring **income tax** (35-40% of realized gain).

One of the specific regulations governing LKEs requires that to perform an approved (or Safe Harbor) exchange, a company must enter into an agreement with a Qualified Intermediary (QI) for fund management **prior to selling any LKE assets**. Assuming the QI relationship is formalized before any particular sale, a Section 1031 Like-Kind Exchange follows this process:

1. Taxpayer sells original asset at auction
2. Buyer pays Auction Company for asset
3. Auction Company sends funds to QI
4. QI pays Seller for new asset (within 6 mo.)
5. Seller transfers new asset to Taxpayer

On the financial side, if we assume that the original asset was purchased seven years ago and is fully depreciated for tax purposes, the benefit of the same transaction managed under an LKE would look like the following*:

Without Accruit LKE

| | |
|------------------------|-----------------|
| Asset Sales Value | \$60,000 |
| Remaining Tax Basis | \$0 |
| Recognized Gain | \$60,000 |
| Income Tax Rate | 37% |
| Tax Due on Sale | \$22,200 |

With Accruit LKE

| | |
|------------------------|------------|
| Asset Sales Value | \$60,000 |
| Remaining Tax Basis | \$0 |
| Recognized Gain | \$0 |
| Income Tax Rate | 37% |
| Tax Due on Sale | \$0 |

➔ **Your Like-Kind Exchange Benefit: \$22,000**

* The cash flow benefit available through Like-Kind Exchanges is dependent on numerous factors both internal and external to a taxpayer's business. Contact Accruit for a complementary Benefit Analysis. 877.793.9215 or info@accruit.com

LKE vs. Dealer Pass-Through Benefit: Side by Side Comparison

Both LKEs and Dealer Pass-Throughs represent a benefit to the seller, but the difference in the amount of benefit is dramatic.

On the same \$60,000 sale discussed above, your benefit with a Pass-Through is considerably less than with an LKE:

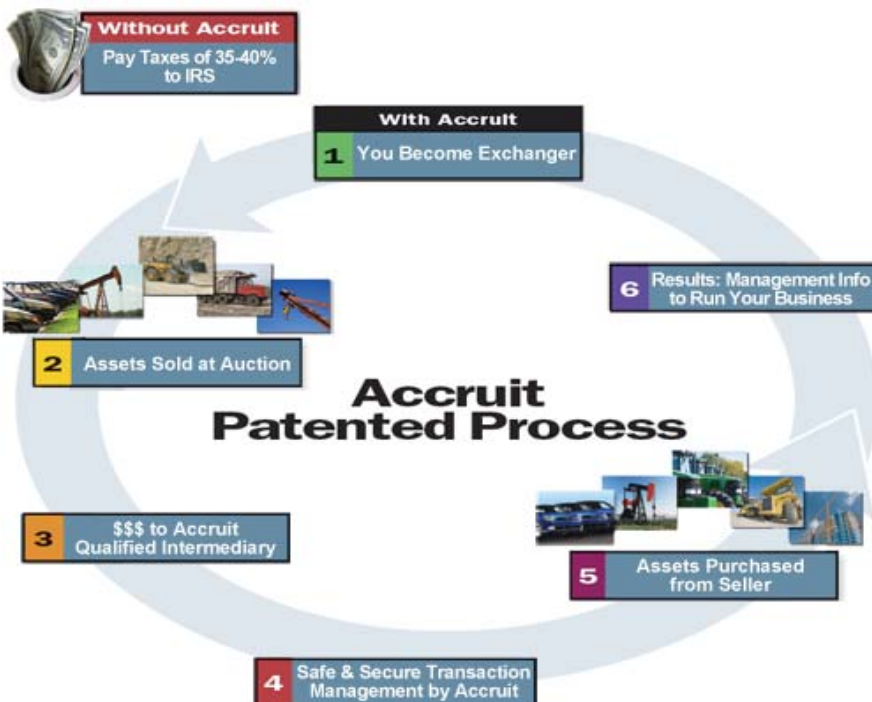
| | | | |
|---|----------------|-----------------------------|-----------------|
| Tax due on new asset w/o Pass-Through \$200,000 * 7% | \$14,000 | LKE vs. Pass-Through | |
| Tax due on new asset w/ Pass-Through \$140,000 * 7% | \$9,800 | LKE Benefit | \$22,200 |
| NET PASS-THROUGH BENEFIT | \$4,200 | Pass-Through Benefit | \$4,200 |
| | | NET LKE ADVANTAGE | \$18,000 |

Like-Kind Exchange Advantages

The Like-Kind Exchange cash flow advantage is obvious, but 1031s are also superior to Pass-Throughs in several other important ways. Some other advantages include:

- Up to six months to buy new assets
- Purchase new or used replacement assets
- LKEs work on any sales and purchases
- LKEs work for any type of assets
- LKEs part of the Internal Revenue Code since 1921
- LKEs can defer tax indefinitely

Accruit's patented process* (the only one of its kind in the industry) also represents a far simpler and more efficient way of doing business. Compare the chart below with the Pass-Through process on the previous page.



End-to-End Service

A key component of our success – as well as the success of our clients – owes to a passion for customer service.

Instead of entrusting your critical 1031 program to a call center, Accruit's personalized service model assigns a dedicated member of our highly trained client services team to your account. This professional is intimately familiar with your operations and is personally responsible for making sure that your LKEs are effectively and efficiently managed from inception through completion.

It's Like Free Cash...

Let Accruit show you how to safely and securely keep *your* money at work in *your* business. Call today for a free consultation.

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The Total 1031 Like-Kind Exchange Solution

*U.S. Patent No. 7,379,910, and other patents pending