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Case Study: Silver State Equipment

Silver State Equipment* (SSE) has, as its primary lines of business, the rental and sale of heavy equipment. With several local branches across Nevada, SSE has been especially successful renting equipment to both commercial and residential builders. Given the high usage rates associated with their rented equipment, they typically upgrade their equipment every three years.

Silver State considered multiple cash and asset management strategies, including LKEs and Bonus Depreciation. The results associated with one of their most common transactions, the sale and repurchase of a track dozer for their rental fleet, illustrates the value of a 1031 exchange program.

Scenario 1: LKE vs. No LKE. In the absence of an LKE program, SSE would realize a tax burden of \$18,824 on the sale, leaving only \$65,676 to apply toward the purchase of a replacement dozer.**

With an approved LKE program, however, the company maintains all proceeds from the original sale to roll forward into the purchase of a replacement asset.

Scenario 2: LKE vs. Bonus Depreciation: Using the same example and assuming that SSE had taken 50% Bonus Depreciation during the first year, we see the impact of the “Bonus Hangover” effect. In the absence of an LKE program, the company has only \$58,188 to invest in a replacement asset; however, with an Accruit LKE program in place, SSE has significantly more cash flow to apply to the sale of a new dozer.

	Before LKE	With LKE
Original Equipment Cost	\$130,000	\$130,000
Tax Depreciation Allowed	\$92,560	\$92,560
Tax Basis at Sale	\$37,440	\$37,440
Sale Price of Equipment	\$84,500	\$84,500
Taxable Gain on Sale	\$47,060	\$47,060
Tax Due on Gain (40% Tax Rate)	\$18,824	\$0
Cash Available for Replacement Equipment	\$65,676	\$84,500

→ Cash Flow Benefit with Accruit LKE: **\$18,824**

	Before LKE	With LKE
Original Equipment Cost	\$130,000	\$130,000
Tax Depreciation Allowed	\$111,280	\$111,280
Tax Basis at Sale	\$18,720	\$18,720
Sale Price of Equipment	\$84,500	\$84,500
Taxable Gain on Sale	\$65,780	\$65,780
Tax Due on Gain (40% Tax Rate)	\$26,312	\$0
Cash Available for Replacement Equipment	\$58,188	\$84,500

→ Cash Flow Benefit with Accruit LKE: **\$26,312**

For companies like Silver State, Accruit LKE solutions represent a powerful cash benefit proposition. Over the course of a year, Silver State conducts multiple single exchange transactions. When we weigh their recognized LKE deferral benefit and their accrued interest against their total annual program fees, **the ROI associated with their cash flow benefit is more than 1,500%** (and it's even higher in the Bonus Depreciation scenario). It's important to remember that these funds are deferred instead of permanently captured, but if the LKE program is continued, the deferral is *potentially indefinite*.

* Modeled on an actual Accruit client case.

** Assumes 5-year MACRS depreciation on asset held for three years without bonus depreciation applied during the first year.

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