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## Equipment Exchanges

Under Section 1031, exchangers may defer capital gains taxes on the sale of personal property, as opposed to real estate, by exchanging into other "like-kind" property. The personal property must be held for investment purposes or for use in a trade or business. An exchange of personal property may be desirable because it has been fully depreciated and its sale price exceeds the tax basis. In the case of business swaps involving real estate, personal property may be associated with the exchange. In order to avoid taxable gain on personal property in business swaps, it may be desirable to exchange fully depreciated personal property. Swaps of apartment complexes and buildings may involve similar considerations.

The definition of "like-kind" property, for personal property purposes, is much more restrictive and is generally limited to assets that are like in class. Examples of exchanges of "like-class" properties include exchanging cars for cars, tractor units for over the road with other tractors, buses for buses, trailers for other trailers or trailer-mounted containers, airplanes for airplanes, etc. Classes that may be exchanged for each other are determined based upon the North American Industry Classification System ("NAICS"). Intangible and non-depreciable property may also be exchanged. Examples include exchanging certain copyrights for each other, certain patents for each other and certain pieces of art for each other. An ultimate determination as to whether or not personal property is like-class must be addressed prior to the transaction.

All I.R.C. Section 1031 exchanges of personal property involve the same time limitations and restrictions as listed in the "Restrictions" portion of this website. The preceding is not an exhaustive list of the personal property exchange rules and exchangers are encouraged to consult with their tax and legal advisors as to desirability of executing a personal property exchange.

Services provided by IPE 1031 are not legal services. No attorney-client relationship exists between IPE 1031, its officers or employees, and exchangers. Taxpayers considering an exchange transaction are strongly encouraged to consult with tax and/or legal counsel prior to undertaking a Section 1031 exchange transaction.