

Edmund & Wheeler, Inc. QI

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Section 1031 Tax Deferred Exchanges Can Assist in Building Wealth



Artwork & Collectibles are eligible for capital gains deferral.

Section 1031 of the US Tax Code
has been around since 1921.

Many real estate investors have discovered the
power of deferring capital gains when buying
and selling real estate.

But did you know that Section 1031 can be used for
personal property as well?

We have provided this piece to introduce
you to the concept of deferring capital gains taxes
when selling, and then buying
valuable personal property.

We welcome your questions. We are pleased
to provide you with consultation at no charge.

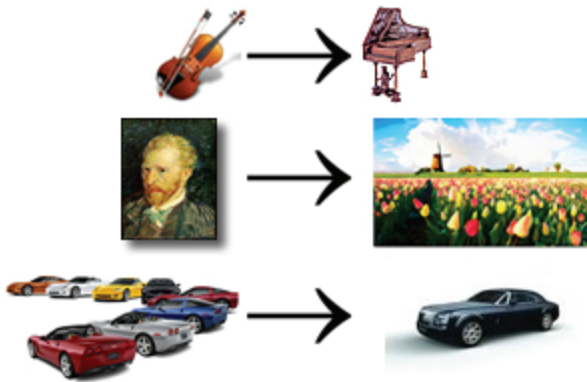
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What are the advantages of an Exchange?

The bottom line is simple. When you use Section 1031 as you are selling and buying personal property, you are able to leverage what you would have paid in capital gains taxes to increase your purchasing power when you replace your property with like-kind property.

What is like Kind?

With personal property, the like-kind test is literal. Musical instruments are like kind with musical instruments, paintings are like kind with paintings, and sculpture is like kind with sculpture.



For Example

- An individual sells a guitar for \$500,000
- Investor's basis is \$100,000
- Guitar has been held in excess of 12 months
- Investor acquires a violin for \$600,000
- Capital gain tax rate is 28%

	Exchange	Sale
Fair Market Value of Guitar	\$500,000	\$500,000
Capital Gains Tax	\$None	\$140,000
Equity Available to Reinvest	\$500,000	\$360,000

As a Result

The individual who uses Section 1031 defers \$140,000 in taxes and is able to purchase his violin with \$140,000 of Uncle Sam's money.

*It is that simple, call or email for details **BEFORE** you receive money on your sale!*

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What are the Requirements?

Using Section 1031 can be very straight forward, or very complex depending on the circumstances of the transaction. Using a Qualified Intermediary with a consultative practice can help take some of the mystery out of an exchange.

Basically, to qualify for Section 1031 treatment you must:

- Use the item in your trade or business, or have held it for investment purposes for the previous 12 months.
- Not be considered a "dealer" as in holding the item strictly for sale.
- Reinvest the entire net sales price from your sale in your replacement property (you can of course trade down in value, but taxes will be due on that amount).
- Replace any debt that was carried on the item you sold, if not, you must add cash to the transaction.
- Your item must pass the "like-kind" test.
- You can NOT use Section 1031 AFTER the sale if you have had constructive receipt of the proceeds. **Think ahead!**

Some Basic 1031 Rules

- Once you sell your property (Relinquished Property), you have 45 days to identify (in writing) what you are going to purchase. (Replacement Property)
- There are specific rules that you must follow surrounding how the identification process is carried out.
- After you sell your Relinquished Property, you have 180 days to complete the purchase of your Replacement Property.
- There are NO extensions available.
- To facilitate a Section 1031 exchange you MUST use a Qualified Intermediary (QI). The QI has many responsibilities, most important of which is to safeguard your proceeds! **Pick a good one!**

Benefits of Art & Collectibles Exchanges

Once you understand the benefits of using Section 1031, you will never buy and sell Arts & Collectibles the same way again. Many utilize Section 1031 only once, for that very special transaction, but many use it over and over again, leveraging what they would have paid in capital gains into increased wealth.

Imagine a concert violinist through the years, consistently upgrading their instrument. Using Section 1031, the violinist will use ALL of the proceeds from the sale of their instrument to achieve their goals, never paying capital gains taxes along the way.

- A collector can diversify using Section 1031 as long as they stay in the same type of property.
- Upgrade their artwork & collectibles to museum quality, along the way, never paying capital gain taxes.
- Investors can reposition their private collections to better suit the needs of intended museum or other charitable recipients, heirs and testamentary bequests without incurring capital gains.
- Reverse exchanges solve timing issues. Buy what you want first, and then sell what you have with the same tax deferral outcome.
- Sales do not have to be simultaneous. When a Qualified Intermediary is used it permits:
 - ✓ Sell directly to a buyer, a dealer or at auction
 - ✓ Buy directly from a seller, a dealer or at auction.
 - ✓ Take up to 45 days to identify replacements, and up to 180 to close the deal!
- And perhaps the most impressive benefit of using Section 1031 is the incredible compounding effect. Exchange early, exchange often and work with a Qualified Intermediary that can get to know you and your strategy.

Edmund & Wheeler, Inc. has been facilitating Section 1031 exchanges for nearly 30 years!

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Investor Vs. Collector

Many factors are considered when evaluating the status of the owner of personal property. It is very important that this distinction be made for tax purposes.

There is a difference between collecting Corvettes, then buying a Stingray for fun and pleasure. If you play the violin professionally, you use your instrument in your business or trade.

A few of the actions an investing collector might take to establish a qualified investment include:

- With respect to the asset, behave in a manner conducive and consistent with the expectation of profit as the main motivation to acquire and hold the asset.
- Maintain a complete set of books & records regarding the asset including the purchase, maintenance, modifications, etc.
- Always seek the advice of professionals regarding the disposition of assets being purchased and sold. **YOU CAN NOT UTILIZE SECTION 1031 AFTER THE FACT.**
- Have the asset regularly appraised and consider keeping an adequate insurance policy.
- Keep a diary of the market activity of similar assets, their selling price, their activity at auctions and notable sales.

Who is Edmund & Wheeler, Inc.?

We are one of the oldest, most respected facilitators of Section 1031 in the US. The company is known in the New England states as the "go to guys" for all things related to Section 1031.

We have completed thousands of successful exchanges worth hundreds of millions of dollars with none EVER challenged by the IRS.

We are bonded and insured and take great pride in the fact that not a single investor has ever lost a single penny when dealing with our firm.