



OUR QUALIFIED INTERMEDIARY ADVANTAGES BRING YOU PEACE OF MIND.



Experience, nationwide service, financial strength—the Qualified Intermediary you choose should offer these, along with solid credentials in 1031 tax-deferred exchanges. That is what you can expect from First American Exchange. First American Exchange Company maintains a multi-million dollar fidelity bond and errors and omissions insurance from a leading underwriter.

First American Exchange Company is a member of The First American Family of Companies (NYSE: FAF) and is a member of the Federation of Exchange Accommodators.

ADDITIONAL SERVICES

In addition to offering 1031 exchange services, First American offers title insurance policies for vessels and aircraft. EAGLE Protection® Policies provide protection against documentation errors, fraud and other title problems that can occur.

Visit www.firstam.com/transportation or call 800.247.4035 for additional information regarding the benefits of title insurance.

First American Exchange is a Qualified Intermediary and is precluded from giving tax or legal advice. You must consult with your tax or legal advisor about your specific circumstances.

welcome

TO A POWERFUL TOOL THAT CAN WORK TO YOUR FINANCIAL ADVANTAGE.

In an ordinary sale of your personal property investments, you are taxed on capital gain as well as depreciation recapture. The recognition of the two combined is often considerable, as many personal property assets are frequently depreciated down to little or no tax basis. Therefore, your tax attorney or tax advisor may suggest a tax-deferred exchange under Section 1031 of the Internal Revenue Code.

A 1031 tax-deferred exchange allows you to dispose of your real or personal property investments while deferring capital gains tax and, in most cases, depreciation recapture. Let the power of a 1031 exchange help you to save tax dollars and preserve your equity as you purchase more profitable or productive “like-kind” property.

CONTACT US BEFORE YOU SELL

Before starting the process of selling a property that may be a part of an exchange transaction, call First American Exchange Company or access our website at www.firstexchange.com. Let us help you reap the rewards of your investment. It’s a smart move.

preserving equity

saving tax dollars

benefiting from experts

personal property EXCHANGES



First American Exchange Company

A QUALIFIED INTERMEDIARY IN 1031 TAX-DEFERRED EXCHANGES



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First American Exchange Company

Section 1031 of the Internal Revenue Code provides for the deferral of capital gains taxes on real or personal property held for productive use in a trade or business or for investment.

While real property may be exchanged for any other real property, the like-kind standards for personal property are much more restrictive. Items of personal property are of like-kind if they are either within the same General Asset Class or the same Product Class (being a six-digit code within the North American Industry Classification System), or can otherwise be demonstrated to be like-kind.

Real property cannot be exchanged for personal property, as they are not like-kind.

Personal Property refers to property, both tangible and intangible, that is not considered real property. Some examples of exchangeable personal property assets are:

- Airplanes and helicopters
- Marine vessels
- Trucks and farming equipment
- Livestock
- Fine art
- Patents and copyrights
- Radio and television broadcasting licenses
- Sports contracts



EXAMPLES:

You acquire an airplane for \$1,000,000, which is its initial tax basis. Over time you take depreciation deductions in the amount of \$250,000, and add capital improvements in the amount of \$50,000. Your original purchase price, minus the depreciation of \$250,000, plus the capital improvements of \$50,000, results in an adjusted basis of \$800,000. If you sell the airplane in a taxable sale for \$1,200,000, you will have to recognize all of the gain of \$400,000 and pay the associated tax shown below.

Original purchase price	\$1,000,000
Depreciation	-250,000
Capital improvements	+50,000
Adjusted basis	\$800,000
Sale price	\$1,200,000
Adjusted basis	-800,000
Gain	\$400,000
Depreciation recapture (\$250,000 x 35%) (max.)	\$87,500
Capital gains tax on balance of gain (\$150,000 x 15%)	22,500
Total tax on sale	\$110,000



DEPRECIATION RECAPTURE

The recapture provisions of Internal Revenue Code Section 1245 generally apply only to depreciable personal property (“Section 1245 property”).

In a taxable sale of Section 1245 property, depreciation is recaptured as ordinary income [and taxed at ordinary income rates (maximum rate of 35% for individuals)], but only to the extent of gain recognized. In the above example, if the taxpayer were to dispose of the airplane in a taxable sale, since his gain is greater than the depreciation taken, all of the depreciation taken (\$250,000) would be recaptured at ordinary income rates.

In a 1031 exchange, however, depreciation recapture on Section 1245 property is only applicable to the extent of: (1) the taxable boot recognized in the exchange, plus (2) the fair market value of any non-Section 1245 property received in the exchange, but which still qualifies for nonrecognition under Section 1031.

Therefore, in the above example, if the taxpayer acquired a replacement airplane in a 1031 exchange for \$3,000,000, and reinvested all of his equity, there would no boot recognized in the exchange and no non-Section 1245 property received. Consequently, no depreciation recapture or capital gains tax would be due.

The following chart illustrates the benefits of completing an exchange over a taxable sale, assuming a loan balance of \$300,000:

	SALE	EXCHANGE
Sales price	\$1,200,000	\$1,200,000
Loan payoff	- 300,000	- 300,000
Depreciation recapture and capital gains tax	- 110,000	deferred
Available for reinvestment	\$790,000	\$900,000

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MAKES THE PROCESS SEAMLESS FOR YOU

[STEP 1] PURCHASE CONTRACT—RELINQUISHED PROPERTY

You and your buyer enter into a Purchase Contract with respect to the sale of your property (known as the “relinquished property”). This Relinquished Property Purchase Contract should contain a “cooperation clause” obligating the buyer to cooperate in structuring the transaction as a tax-deferred exchange. Contact us for a sample “cooperation clause.”

[STEP 2] RELINQUISHED PROPERTY EXCHANGE DOCUMENTS

Next, contact First American Exchange to start the tax-deferred exchange process. We will prepare an Exchange Agreement, an Assignment of the Relinquished Property Purchase Contract (assigning your rights as seller to us), a Notice of the Assignment (for delivery to the buyer), and instructions to the settlement agent necessary to complete the transaction. All of these documents must be signed and dated before or as of the date of closing.

[STEP 3] CLOSING THE RELINQUISHED PROPERTY

When the conditions of closing have been met, your relinquished property will be conveyed to the buyer. While the conveyance will be directly from you to the buyer, it will represent a transfer from you to First American Exchange in exchange for other property that you will receive at a later date. It also represents the sale from First American Exchange to the buyer for cash. The cash proceeds from the sale of the relinquished property must be delivered directly to First American Exchange. At no time should you be in either actual or constructive receipt of the cash proceeds.

[STEP 4] RELINQUISHED PROPERTY PROCEEDS AND FORMS

Following the relinquished property closing, First American Exchange will hold the exchange proceeds and provide you with forms to identify potential replacement properties within the 45-day identification period.

[STEP 5] PURCHASE CONTRACT—REPLACEMENT PROPERTY

After you have identified suitable “like-kind” replacement properties and made a decision as to which identified properties you intend to acquire, you will enter into a Purchase Contract with the seller. This Replacement Property Purchase Contract should also contain a “cooperation clause” obligating the seller to cooperate with you in completing your tax-deferred exchange. Contact us for a sample “cooperation clause.”

[STEP 6] REPLACEMENT PROPERTY EXCHANGE DOCUMENTS

First American Exchange will then prepare an Assignment of the Replacement Property Purchase Contract (assigning your rights as buyer to us), Notice of the Assignment (for delivery to the seller), and instructions to the settlement agent necessary to complete the transaction. All of these documents must be signed before or as of the date of closing.

[STEP 7] CLOSING THE REPLACEMENT PROPERTY

When the conditions of closing have been met, First American Exchange will deliver the exchange proceeds to the settlement agent to acquire the replacement property. The seller will convey the replacement property directly to you. This conveyance will represent a purchase from the seller by First American Exchange and a transfer to you in completion of the exchange. Remember that to qualify for tax-deferred treatment, the closing on all replacement property must occur by the earlier of 180 days from the date of closing on your first relinquished property or the due date of filing your federal income tax return for the year in which your first relinquished property was sold, including extensions.

[STEP 8] KEEPING YOU INFORMED AND FINAL RECONCILIATION

Prior to or at the conclusion of your exchange, First American Exchange Company will provide you with a copy of your exchange documents, including a statement reflecting the receipt and disbursement of all exchange funds. With this information, you and your tax advisor will complete Form 8824 to be filed with your federal income tax return, as well as any state forms required to report the transaction as an exchange.

Certified Exchange Specialists® are on staff to assist you.