

Improve Your Dealership's Cash Flow

Accruit offers LKE services for all dealers.



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Improved cash flow, debt reduction and better margins are goals common to most dealers, regardless of size, location or brand; however, the methods each dealer employs to reach those goals are different. One that works is leveraging Section 1031 of the Internal Revenue Code, which governs exchanges of personal and real property as a method of deferring taxes on the sale of depreciated assets.

Accruit, an AED Preferred Provider, specializes in working with dealers to realize these goals using Like-Kind Exchange (LKE).

Headquartered in Denver, Accruit facilitates LKE transactions. Todd Fisher and Brent Abraham created the country's first small-ticket repetitive LKE program in 1990 for a large energy company and co-founded Accruit in 2000. From the start, Accruit focused exclusively on helping increase cash flow for dealers through LKE. To date Accruit has increased cash flow for AED members by more than \$250 million.

"Accruit is the only company that

provides a total 1031 LKE solution including integrated qualified intermediary services, transaction management and real-time depreciation reporting," says Jim Burnett, director of business development for Accruit. "Having all critical LKE components in one program ensures Accruit's clients have access to a complete audit trail on all aspects of their programs."

Today, Accruit has more than 80 clients across the equipment, leasing, energy, and transportation markets. On behalf of their clients, Accruit manages assets worth \$3.6 billion through LKE programs.

What Is LKE?

Section 1031 to the Internal Revenue Code allows companies to sell a depreciated asset and defer any associated gain when the proceeds of the sale are used to purchase an asset of similar classification. Three rules qualify a transaction as an LKE – personal property must be exchanged, must be used in a trade or business, and must be of similar classifications.

In addition, there are three critical components of an LKE program: The

taxpayer must have an established Qualified Intermediary hold funds, the LKE service provider should integrate seamlessly into the taxpayer's business processes, and the LKE service provider should maintain an asset-level audit trail for all LKE transactions.

A Qualified Intermediary is an important piece of the LKE puzzle, and it's one of the roles Accruit plays in the LKE process.

To qualify as an LKE, all proceeds from an asset sale must be deposited with a recognized Qualified Intermediary until a replacement asset is purchased.

In this transaction, no gain is realized by the taxpayer. Therefore, any related taxes are deferred. When this process is followed repetitively for generations of assets, the gain and tax is often deferred indefinitely.

"What dealers get is an opportunity to increase cash flow," says Burnett. "They are able to pull cash out of their rental fleets and keep that money working in their businesses, instead of paying it out in taxes."

Accruit offers two LKE programs: 1) a series of repetitive LKEs in which

LKE provides many benefits such as increased cash flow and interest savings.

a taxpayer performs numerous transactions over the course of the year and 2) a single exchange product that can handle a single asset. This second product allows smaller dealers to benefit from LKE.

“Our single exchange program makes it economical for any dealer to reap the benefits without paying too much,” says Burnett. “The cost is very low for single exchanges.”

Here’s how it works: Say a dealer sells only one depreciated assets out of its rental fleet every year. Accruit manages that one asset and its subsequent replacement through a single exchange without the dealer investing more than one hour of time. For example, consider the sale of an excavator originally purchased for

	Before LKE	After LKE
Sales Price (65%)	\$84,500	\$84,500
Tax Basis (After depreciation)	\$18,720	\$18,720
Gain on Sale	\$65,780	\$65,780
Tax on Gain (40%)	\$26,312	\$0
Available Cash for new equipment	\$58,188	\$84,500

\$130,000 and held for three years. The taxpayer has increased cash flow by \$26,312.

Exceptional Service

Accruit assigns each dealer it works with a dedicated client service representative who monitors all aspects of the program. Real-time online reporting is also provided for all aspects of the program.

For a single exchange, the dealer works through an Internet interface and with a client service representative. With a repetitive program, Accruit integrates its system into the dealer’s systems so information can be easily transmitted to Accruit.

Accruit reviews all transactions to be sure the dealer is realizing the maximum benefit from LKE.

“We don’t want dealers to have to increase head count and we don’t ask them to install new software,” says Burnett. “We are dedicated to minimizing the impact on the dealer’s business.”

Dealers can also increase and decrease their benefits, allowing them to prepare for a downturn. For example, if the economy is doing well, the dealer may not need as much cash flow. He can reduce the benefit and pay more tax.

“It’s a very active tax strategy,” says Burnett. “You have an active cash management tool in your business that allows you to respond to the economy.”

Preferred Provider Status

Accruit joined AED to support the industry that supports it.

“Our membership in AED provides a window into the heavy equipment industry that is unsurpassed,” says Burnett. “No other group offers the in-depth perspective into the equipment industry. From *Construction Equipment Distribution* magazine to AED’s Executive Forum and Annual Meeting, AED provides the best industry-related data and training programs available.

“The validation and constant review of our service by AED ensures we remain dedicated to our heavy equipment clients. Additionally, the Preferred Provider status provides us with instant recognition and respect in the market. We deeply appreciate AED for the tremendous support they offer our company.”

Wagner Equipment, a Caterpillar dealer covering Colorado, New Mexico and Western Texas, has been working with Accruit since 2003.

“It’s a huge tax deferral,” says Cody Eldridge, vice president and CFO of

Wagner Equipment. “We have a large rental fleet, and we’re able to defer a big chunk of our gains. The Accruit folks and software are just incredible.”

According to Eldridge, the software is efficient and easy to use. They enter the data and the software does the rest.

“It’s a fairly effortless process after the data entry,” says Eldridge.

Romco Equipment, a Volvo, Hitachi, Ingersoll Rand and Gomaco dealer in Dallas, has worked with Accruit for two years.

“The benefits are very real,” says Craig Burkert, CFO of Romco. “It’s the cash flow and interest savings that are the most beneficial. Accruit even produces depreciation schedules for us.”

According to Burkert, their Accruit client service rep is exceptional.

“She handles all our questions and guides us through the process,” he says.

Flagler Construction Equipment, based in Orlando, Fla., recently began working with Accruit. Flagler represents Volvo, BTI, Cedarapids, Gomaco, Mauldin Pavers, Rockland attachments, Broce Brooms and others.

“We just started with Accruit,” says Chris Wilmot, president of Flagler, “but we think it’s going to be a very useful business tool to help us manage taxable income. We have high hopes for the program.”

Wilmot says they chose to work with Accruit because of the Accruit’s knowledge of the industry. Also, Wilmot says Accruit’s employees are accessible and have made the transition easy.

“Through Accruit’s association with AED, we know they understand our business,” says Wilmot. “They have hired people who don’t need to be educated in managing a construction equipment asset. Accruit has the experience to be a valued supplier in our industry.”