

Transportation



Koshnogos Trucking Case Study: 1031 Like-Kind Exchange program drives substantial cash flow benefit for mid-sized tractor/trailer leasing operation

Koshnogos Finance* is a medium-sized tractor and trailer leasing company serving the Pacific Northwest. Given the high usage rates associated with their leased trucks, they typically upgrade their clients' trucks every four years. One common transaction for Koshnogos is the sale and repurchase of a tractor for inclusion in their lease portfolio.

The following side-by-side analysis illustrates the financial benefit of a 1031 like-kind exchange (LKE) program for a business like Koshnogos.

	Pre-LKE Program Sales**	Post-LKE Program Sales
Original Equipment Cost	\$115,000	\$115,000
Tax Depreciation Allowed	\$115,000	\$115,000
Tax Basis at Sale	\$0	\$0
Sale Price of Equipment	\$60,000	\$60,000
Taxable Gain on Sale	\$60,000	\$0
Tax Due on Gain (40% Tax Rate)	\$24,000	\$0
Cash Available for Replacement Equipment	\$36,000	\$60,000

→ **Total LKE Cash Flow Benefit: \$24,000**

Prior to establishing an LKE program, the gain tax on the original tractor will be \$24,000, leaving only \$36,000 available for purchasing a replacement machine. Making the same assumptions as were made for the original equipment, when a \$115,000 replacement tractor is sold in four years, it will generate an additional \$24,000 in gain taxes for Koshnogos Truck Leasing. With an approved LKE program, however, Koshnogos will maintain all proceeds from the original sale to roll forward into their replacement asset (as demonstrated above).

Whether you auction one leased asset a quarter, or regularly turn over your entire portfolio, Accruit will tailor a program that fits your business and your budget.

* Koshnogos is a composite reflecting the experience of multiple transportation LKE businesses.

** Assumes 5-year MACRS depreciation on an asset held for 3 years with Bonus Depreciation applied in the first year.

