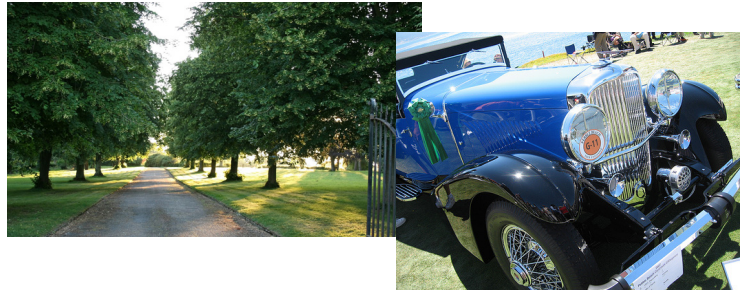




Accruit



Case Study: 1031 Exchanges and Vintage Motorcars

The Situation

Since his retirement from professional racing, Joe Croydon and his wife Marilyn* have been avid collectors and restorers of vintage Grand Prix motorcars (including several classic models from Maserati, Lotus and Tyrrell). As they became more deeply involved in this hobby, the Croydons amassed a premier collection of superbly restored vintage Formula 1 and pre-F1 cars. In watching the auto collector's market, they recognized some unique and attractive investment opportunities. As is common with vintage car collectors, they were also involved in a few personal "love affairs" with certain automobiles.

The Problem: Capital Gains

Joe and Marilyn's collection includes several cars in which another investor has voiced interest – to the tune of \$2.5 million. After going through countless part orders, mechanic expenses and original purchase prices, the couple has determined that the basis in these vintage automobiles is \$527,000; thus, their sale would result in a capital gain of \$1.97 million. With the current capital gains tax rate for collectibles at 28%, taxes due on the sale would amount to \$552,440. This amount represents a significant hit to the estate and would allow for a far smaller future investment in the burgeoning investment automobile market.

The Services: Accruit's Total 1031 Exchange Solutions

The couple's long-time accountant had devoted sometime to understanding the financial implications of Accruit's 1031 Exchange services for private investors like the Croydons, and in March of 2009 he introduced them to the concept of deferring Capital Gain recognition as a strategy for maintaining the maximum value of their automobile collection. The Croydons contacted Accruit, completed a few simple forms and began the process of identifying replacement investments.

The Process:

Forward and Reverse 1031 Exchanges

The intended purchaser of the Croydon's automobiles planned on performing a complete evaluation of the vehicles, including validation of race history. As a result, the sale was expected to occur within approximately two months. In the meantime, Joe found one automobile he believed to be a worthy investment, one of 20 Lamborghini Reventóns ever manufactured. However, the Lamborghini's owner wanted to complete the transaction before Joe's buyer was prepared to finalize that purchase.

Accruit stepped in and initiated the process for conducting a reverse exchange, whereby the Lamborghini would be purchased for Joe and Marilyn in advance of the sale of their original automobiles. In order to maximize the benefit from the 1031 Exchange, the couple would have to reinvest their total sales amount – \$2.5 million. However, the price of the rare Lamborghini was \$1.2 million, meaning the Croydons still had \$1.3 million left to spend on other investment assets.

Upon sale of the vintage F1 cars, Accruit received the remaining sales proceeds and held them securely in trust for Joe and Marilyn. Within the next month, they identified several cars they intended to add to their collection. Two of these, a 1969 Yenko Camaro and a 1981 BMW M1, became available through a broker with whom the couple had an established, long-term relationship. Accruit paid the broker directly on the couple's behalf – a total of \$313,500.

At about the same time, it came to the couple's attention that a 1933 Duesenberg Model J was selling at auction the following month. This was the car that most interested the couple, and they won the bid at \$1 million. Accruit again sent payment on their behalf (for the bulk of the sales price, the couple sent the balance directly), and the entire 1031 transaction was completed (save for their CPA's preparation of their taxes at the end of the year).

The Results:

Financial Overview:

Original Collection Value:	\$2,500,000
Purchased Replacements:	
2008 Lamborghini Reventón	\$1,200,000
1969 Yenko Camaro	\$180,000
1981 BMW M1	\$133,500
1933 Duesenberg Model J	\$1,000,000
Total Replacement Value:	\$2,513,500
New Investment Required:	\$13,500
Taxes Deferred:	\$552,440



Estate Planning:

Not only were Joe and Marilyn able to restructure their automobile collection without incurring an immediate tax consequence, but their CPA also advised them that this deferral may very well become permanent once the assets are passed on to the next generation and afforded an automatic step-up in basis. Should this be the outcome, not only will the family be able to maximize their investment to capitalize on market trends, but they also keep – potentially permanently – a half million more dollars in their estate for the benefit of their children.

** This case is modeled on an actual Accruit client. In order to protect the client's anonymity, we have slightly modified the details.*

About Accruit, LLC

Accruit is the leading qualified intermediary for personal property in the country and the only qualified intermediary to have a patented process and online exchange management system (U.S. Patent No. 7,379,910, and other patents pending). Accruit has acted as the qualified intermediary for a number of the most prestigious businesses in the country, assisting them in deferring more than a billion dollars in tax liability. For more information on Accruit and 1031 exchanges see the company's Web site at www.Accruit.com or e-mail info@accruit.com.



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