



## Impact of Tax Reform on Sec. 1031 (Like-kind exchanges)

The Tax Cuts and Jobs Act (TCJA) **eliminated the deferral of gain in a like-kind exchange of personal property**. Sec. 1031 like-kind exchanges for the deferral of gain is still permitted for real property (real estate exchanges).

Examples of personal property that will no longer be able to utilize like-kind exchange for the deferral of gain include vehicles, machinery and equipment, livestock, intangibles, aircraft, railcars, boats, artwork and collectibles. It will now be required to calculate a selling price and gain or loss for like-kind exchanges of personal property in accordance with the TCJA. **Traded assets with a gain or loss will now be a reportable transaction on IRS Form 4797**. Prior law allowed for the trade value to be a reduction in the cost basis of the new asset, which provided for the deferral of depreciation recaptured as income at the time of the trade.

To help with the offset of potential gains calculated on trades in 2018, the **new law also allows for full expensing of tangible business use personal property for the year placed in service for new and used assets**. This full expensing (often referred to as 100% bonus depreciation) is temporary; currently set to expire in 2022. Bonus depreciation will be reduced to 80% for 2023, 60% for 2024, 40% for 2025 and 20% for 2026. **Businesses can also elect to expense more depreciation through section 179 under the new law**. The new law increased the maximum deduction from \$500,000 to \$1 million. It also increased the phase-out threshold from \$2 million to \$2.5 million. The section 179 changes are not set to expire.

The key piece of tax information we'll need you to provide us for preparation of your business tax return will continue to be the **"bill of sale" when an asset purchase is made that has a trade-in asset considered**. We'll need to know the traded asset value (selling price) in order to calculate any gain or loss to be reported on the tax return. You'll want to keep in mind the impact of income from depreciation recapture on trades when you consider asset purchases in 2018.