

## Iowa Tax Reform Guidance: Like-Kind Exchanges of Personal Property

On December 22, 2017, President Donald Trump signed Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act (TCJA). This law repealed the deferral of gain or loss from exchanges of like-kind personal property held for productive use in a business or for investment under Internal Revenue Code (IRC) section 1031.

The repeal generally applies to exchanges completed after December 31, 2017, unless the taxpayer began the exchange by transferring property or receiving replacement property on or before that date. The deferral of gain or loss from like-kind exchanges previously applied to both real and personal property. For federal tax purposes, the deferral of gain or loss under IRC section 1031 now only applies to exchanges of like-kind real property not held primarily for sale.

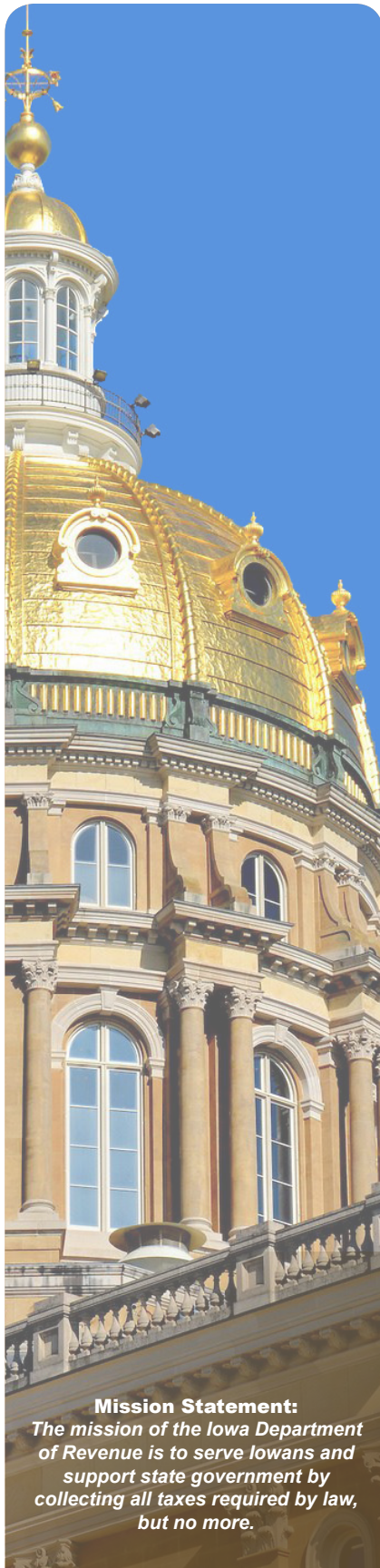
### What is a like-kind exchange of personal property?

Generally speaking, a like-kind exchange of personal property under the IRC involves the reciprocal transfer of similar items of personal property between parties, as opposed to a transfer of personal property for monetary consideration only. Because of the federal TCJA, such transactions will no longer be considered a tax-deferred exchange under IRC section 1031, but will instead be two separate transactions: a sale of personal property and the purchase of other personal property.

This may have various federal tax consequences for a taxpayer, including but not limited to the requirement to recognize ordinary income or capital gain/loss on the sale, and differences in the availability and amount of depreciation and the tax basis for the purchased property. Taxpayers who would like more information on like-kind exchanges may reference federal [form 8824](#), its [instructions](#), or may reference [IRS Publication 544](#).

### How will like-kind exchanges of personal property be treated for Iowa tax purposes?

Iowa Senate File 2417, an extensive state tax reform bill to improve Iowa's tax structure signed by Iowa Governor Kim Reynolds on May 30, 2018, conforms with many provisions of the federal TCJA, but in most cases not until tax years beginning on or after January 1, 2019. One provision permits certain taxpayers to elect the application of IRC section 1031 as it existed prior to its amendment by the federal TCJA to defer gain or loss on exchanges of qualifying like-kind personal property completed during the tax year beginning on or after January 1, 2019, but before January 1, 2020 (tax year 2019).



**Mission Statement:**

*The mission of the Iowa Department of Revenue is to serve Iowans and support state government by collecting all taxes required by law, but no more.*

Therefore, the Iowa tax treatment of like-kind exchanges of personal property will depend on the tax year and type of taxpayer involved, as follows:

- **Tax years 2017 (fiscal-year filers only) and 2018:** For all taxpayers, transactions involving the disposition and acquisition of personal property that are completed after December 31, 2017, but before tax year 2019, and that would have qualified as a like-kind exchange of personal property under IRC section 1031 prior to its amendment by the federal TCJA, must be treated as a like-kind exchange of personal property for Iowa tax purposes.
- **Tax year 2019:** For an individual, an estate or trust, or a pass-through entity other than a corporation or financial institution, transactions involving the disposition and acquisition of personal property that are completed during tax year 2019 and that would have qualified as a like-kind exchange of personal property under IRC section 1031 prior to its amendment by the federal TCJA may, at the election of the taxpayer, be treated as a tax-deferred like-kind exchange of personal property for Iowa tax purposes. For all other taxpayers, transactions involving like-kind personal property will not be eligible for the deferral of gain or loss under IRC section 1031 prior to its amendment by the federal TCJA, and will be treated for Iowa tax purposes in the same manner as they are for federal tax purposes.
- **Tax years 2020 or later:** For all taxpayers, transactions occurring in tax years beginning on or after January 1, 2020, that involve like-kind personal property will not be eligible for the deferral of gain or loss under IRC section 1031 prior to its amendment by the federal TCJA, and will be treated for Iowa tax purposes in the same manner as they are for federal tax purposes.

The Department has created the [IA 8824 worksheet](#) for use in tax years 2017 and 2018 to aid taxpayers in applying and documenting like-kind exchanges of personal property for Iowa tax purposes, and in calculating and reporting the required Iowa income tax adjustments resulting from such exchanges. Taxpayers are not required to include this worksheet with their tax return, but should keep it for their records. Taxpayers are responsible for providing documentation of a qualifying like-kind exchange of personal property at the Department's request.

Information and rules on electing the application of IRC section 1031 prior to its amendment by the federal TCJA to like-kind exchanges of personal property in tax year 2019 by qualifying taxpayers will be provided by the Department in the future.

### What does this mean?

- For federal tax purposes, the tax-deferred like-kind exchange of personal property under IRC section 1031 has been repealed for exchanges completed after December 31, 2017.
- For Iowa tax purposes, the tax-deferred like-kind exchange of personal property under prior IRC section 1031 still applies to all taxpayers who complete exchanges after December 31, 2017, but prior to tax year 2019, and to certain taxpayers who complete exchanges during tax year 2019, even though such tax deferral is not available at the federal level.
- Iowa taxpayers should use the [IA 8824 worksheet](#) to document and calculate a qualifying like-kind exchange of personal property for Iowa tax purposes and should keep the worksheet for their records.
- The tax-deferred like-kind exchange of real property not held primarily for sale under IRC section 1031 still applies for Iowa tax purposes to the same extent it applies for federal tax purposes.