

Revenue Ruling 79-143

ISSUE

Does an exchange of numismatic-type coins held for investment for bullion-type coins held for investment qualify for nonrecognition of gain under *section 1031 of the Internal Revenue Code of 1954*?

FACTS

An individual taxpayer who is not a dealer in foreign or domestic coins purchased United States \$20 gold coins as an investment. After the coins had appreciated in value, the taxpayer exchanged them for South African Krugerrand gold coins of equal total fair market value. A gain was realized by the taxpayer as a result of the exchange. The taxpayer will hold the South African Krugerrand gold coins as an investment.

The United States \$20 gold coins exchanged by the taxpayer are numismatic-type coins. The value of numismatic-type coins is determined by their age, number minted, history, art and aesthetics, condition, and metal content. The South African Krugerrand gold coins received by the taxpayer are bullion-type coins. The value of bullion-type coins is determined solely on the basis of their metal content.

LAW AND ANALYSIS

Section 1031 (a) of the Code provides that no gain or loss is recognized upon an exchange of property (not including evidences of indebtedness) held for productive use in trade or business or for investment for property of a like kind to be held either for productive use in trade or business or for investment.

Section 1.1031 (a)-1 (b) of the Income Tax Regulations provides that as used in *section 1031 (a) of the Code*, the words "like kind" have reference to the nature or character of the property and not to its grade or quality. One kind or class of property may not, under that section, be exchanged for property of a different kind or class.

Section 1031 (e) of the Code provides that the exchange of livestock of one sex for livestock of the other sex is not an exchange of property of like kind for purposes of the nonrecognition provision of *section 1031 (a)*, because, as the committee report cited below points out, the different sexes of livestock represent investments of different types, in one case an investment for breeding purposes, in the other an investment in livestock raised for slaughter. *Section 1031 (e)* was enacted to clarify what was considered to be the correct interpretation of *section 1031 (a)*. See S. Rep. No. 91-552, 91st Cong., 1st Sess. 102 (1969), 1969-3 C.B. 423, 488-489.

Similarly, in this case, although the coins appear to be similar because they both contain gold, they actually represent totally different types of underlying investment, and therefore are not of the same nature or character. The bullion-type coins, unlike the numismatic-type coins, represent an investment in gold on world markets rather than in the coins themselves. Therefore, the bullion-type coins and the numismatic-type coins are not property of like kind.

HOLDING

The exchange of United States \$20 gold coins for South African Krugerrand gold coins does not qualify for nonrecognition of gain under *section 1031 (a) of the Code*.

Rev. Rul. 76-214, 1976-1 C.B. 218, which holds that the exchange of Mexican 50-peso gold coins for Austrian 100-corona gold coins, both of which are official government restrikes, qualifies for nonrecognition of gain under *section 1031 (a) of the Code*, is distinguishable because that Revenue Ruling involves only the exchange of bullion-type coins for bullion-type coins.