TALKING POINTS

Below are the comments the FEA is sharing with members of Congress about the proposed cap. Please feel free to use them in your comments with colleagues and friends.

- Section 1031 is an important tool used by business owners, farmers and ranchers, middle-class taxpayers, and others to transition into locations that more efficiently meet their needs, instead of being tax-locked into obsolete assets.
- The proposed cap on Like-Kind Exchanges at $500,000 is misguided because larger investors are critical to repurposing and renovating commercial real estate in our post-pandemic economy. The COVID-19 pandemic imposed unexpected and unprecedented trauma on commercial property – particularly retail, hotel and office space. A significant percentage of these properties need to be repurposed.
- These are the types of large-scale projects that revitalize entire neighborhoods, generate significant job growth, and result in widespread community improvement. Section 1031 is an effective tool to encourage this activity while avoiding market disruptions. Allowing businesses to continue to utilize Section 1031 prevents many assets from becoming shuttered blight.
- Additionally, recent economic impact studies concluded that Like-Kind Exchanges are a powerful stimulant of transactional activity that, in addition to the benefits described above, generates significant local and Federal tax revenue and contributes to the health of the US economy. The studies found that exchanging buyers make real estate investments that are substantially greater than non-exchanging buyers, resulting in improved communities in which to live, work and play. These studies quantified that limiting or repealing Section 1031 would cause significant economic contraction and job loss.
- Most importantly, under Section 1031, taxes are merely deferred, not eliminated!

1031 EXCHANGES

Section 1031 Like-Kind Exchanges are a deferral not a deduction or loophole. The taxes get paid in the end and the transactions generate significant federal and state taxes as a result of the increased transactional activity.

STATE OF COMMERCIAL REAL ESTATE

COVID-19 pandemic shuttered countless strip shopping centers, shopping malls, retail centers and restaurants. It is estimated that up to 25% of the strip shopping centers will go bankrupt. The fallout continues with hotels and office buildings. Virtual meetings will permanently replace significant business travel, and many people will work from home exclusively.

SEND 1031 MESSAGE TO CONGRESS

▶ www.ipx1031.com/action

TALKING POINTS

2 KEY 1031 STUDIES

ERNST & YOUNG STUDY

▶ **1031 promotes job growth and labor income**

- Additionally, a macroeconomic study initiated by Ernst & Young in 2017 concluded that if section 1031 were limited or repealed, it would shrink GDP by a whopping $9.3 billion per year.
- Ernst & Young recently updated their study and found that in 2021, 1031 Exchanges supported approximately 976,000 jobs, generating $48.6 billion of labor income, and adding $97.4 billion to the US Gross Domestic Product (GDP).
- All this economic activity generates over $13 billion in annual tax revenue for the federal, state, and local governments ($8.2 billion of which is received by the federal government) plus $6 billion per year of additional federal income taxes due to foregone depreciation (reduced deductions) on the Replacement Property.
- This creates a combined total of more than $19 billion of tax revenue PER YEAR.
- The projected revenue created by capping 1031 is $1.97 billion per year.
- With tax revenue supported by 1031 Exchanges being nearly 10 times the revenue score for limiting 1031 Exchanges, it is mathematically clear that capping 1031 would adversely affect both the public and private sectors of this country.
- Remember, the capital gains taxes get paid when the investor cashes out.

LING & PETROVA STUDY

A microeconomic study by Professor David C. Ling, University of Florida and Professor Milena Petrova, Syracuse University

▶ After looking at 1.6 million transactions, they concluded that 80% of the exchangers did one 1031 and then sold their property in a taxable sale. This debunks the theory that people exchange until the grave. It is a matter of timing; all the capital gains taxes get paid in roughly a 15-year window.

▶ 1/3 of all exchangers pay some tax in the year of the exchange. They don't defer all the gain but pay tax on that portion (boot).

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SAVE 1031

1031 EXCHANGES

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IPX 1031