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Like-Kind Exchanges (LKE) Celebrate 100 Years in Tax Code Century-Old Provision Will Be Vital in Reimagining Real Estate After Pandemic

ANKENY, IOWA – 2021 marks the 100th year anniversary of the like-kind exchange in the Internal Revenue Code, according to the Federation of Exchange Accommodators, the industry association for the Qualified Intermediaries (QIs), or professionals who facilitate like-kind exchanges of real estate.

“For 100 years, Section 1031 has been an important part of the federal tax code. Now, more than ever, Section 1031 is needed to help the real estate market and the economy recover from the COVID-19 pandemic,” said FEA President Julie Baird. “Large amounts of retail and office space have already become vacant or underused as businesses transition to different operating models. Like-kind exchanges will play a critical role in repurposing that real estate for its highest and best use.”

A 1031 like-kind exchange allows business owners or real estate investors to exchange business-use or investment real property for “like-kind” business-use or investment real property without recognizing gain on the sale of the relinquished property. In a 1031 exchange, taxpayers are not taxed on the sale transaction if they do not take any profit from the transaction and reinvest into “like-kind” real property.

“Like-kind exchanges provide significant benefits to taxpayers of all sizes and help stimulate growth in a variety of industries and small businesses across the country,” said Baird.

According to industry studies, Section 1031 fosters shorter holding periods for the productive reinvestment of capital, accelerated transactional activity, increased levels of investment, increased job creation and faster economic growth.

Baird added that Section 1031 exchanges also help to promote conservation and environmental policies. Conservation easements may be exchanged to improve water quality, reduce soil erosion, and maintain critical wetland and wildlife habitat. Farmers and ranchers use Section 1031 exchanges to improve the quality of their operation, acquire higher grade land, or combine acreage.

“Absent the 1031 exchange tax-deferral, business owners and real estate investors could be forced to downsize their businesses, farms, ranches, and real estate holdings if they do not have enough cash flow to acquire replacement property or are required to pay tax on the gain and depreciation recapture,” said Baird. “The economic benefits of Section 1031 and the 100-year-old tax policy objectives behind it remain relevant and have withstood the test of time.”

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About the FEA: The Federation of Exchange Accommodators (“FEA”) is the only national trade association organized to represent professionals who facilitate like-kind exchanges under Internal Revenue Code Section 1031. Members of FEA include qualified intermediaries, their primary tax and legal counsel, as well as affiliated industries, like Delaware Statutory Trust (“DST”) sponsors, banks, real estate brokers, title companies, and settlement/escrow agents. FEA members range from small, privately held businesses to publicly traded title insurance companies and banks throughout small towns and big cities across the nation.