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Section 1031 Like-Kind Exchanges:

Sustaining American Businesses During Economic Uncertainty

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Section 1031 Like-Kind Exchanges: Stimulate Business Growth of All Sizes

- Important to the efficient operation and ongoing vitality of thousands of American businesses in a wide range of industries, business structures and sizes.
- Used by Small and mid-size business owners and middle-class taxpayers to transition into facilities and locations that more efficiently meet their needs, instead of being tax-locked into yesterday's inefficiencies.
- Allows taxpayers to shift into more productive like-kind property, change geographic location, and diversify or consolidate holdings.

Section 1031 Like-Kind Exchanges: Stimulate Needed Capital Investment

- As a result of the economic fallout from the coronavirus pandemic, large amounts of retail and office space are expected to become vacant or underused as businesses transition to different operating models.
- Like-kind exchanges encourage capital investment for the highest and best use of real estate, which improves communities and increases the local and state tax base.

1031 Example: Encouraging Capital Investment for Highest and Best Use of Real Estate

Flooring Store Located in an Urban Industrial Area

- Store location was no longer positioned to best serve business's growing suburban customer base.
- The store's urban industrial was undergoing revitalization, which increased demand for affordable and low-income housing in the area.

Like-Kind Exchange

- Allowed store to sell building in the city and purchase two replacement properties in suburban areas.
- Allowed store to move closer to its customers while freeing up property in the urban neighborhood for much-needed affordable housing.

Section 1031 Like-Kind Exchanges: Help Repurpose Available Real Estate

- Like-kind exchanges allow capital to efficiently and effectively flow to where it's most needed.
- According to a [2015 study by Professors David Ling & Milena Petrova](#), like-kind exchanges give businesses and entrepreneurs more incentive and ability to make real estate and capital investments.
- Taxpayers engaged in like-kind exchanges invested 33% more capital in replacement property than non-exchanging buyers.
- The [Ling & Petrova study](#) found that without the Section 1031 tax incentive, many transactions would be delayed or abandoned and real estate values would erode.

1031 Example: Repurposing Vacant Office Complex During Previous Economic Downtown

Large Office Tower in a City Center

- Property was owned by a bankrupt financial institution

Like-Kind Exchange

- A life insurer acquired the building and moved an operating subsidiary in the space.
- Allowed a dark office tower that would have been an ongoing blight in the city center to become an economically vibrant and profitable space.
- Like-kind exchanges can be used as a similar tool when repurposing large retail and other commercial structures that may unexpectedly become available as a result of post-pandemic business models.

Section 1031 Like-Kind Exchanges: Create Jobs

- Like-kind exchanges generate jobs and taxable revenue for unrelated businesses upstream and downstream from the exchange transaction
- Jobs generated by like-kind exchanges include:
 - Real estate agents
 - Title and property insurers
 - Escrow/settlement agents
 - Lenders
 - Appraisers
 - Surveyors
 - Attorneys
 - Inspectors
 - Contractors
 - Building supply vendors and more

1031 Example: Improving Community Opportunities

Farmland on the Outskirts of a Metropolitan Area

- Farmer owned a parcel of land located on the outskirts of a growing metropolitan area

Like-Kind Exchange

- Farmer sold the parcel of land to a local YMCA to construct a new building.
- The transaction created new jobs at the YMCA, improved surrounding roads and increased recreational opportunities for the community.
- In return, the farmer acquired a single family rental property to use as a tool in retirement savings.

Section 1031 Like-Kind Exchanges: Help Family Farmers and the Environment

- Farmers and ranchers use Section 1031 to relocate, consolidate or improve their operations without diminishing cash flow.
- Retiring farmers are able to exchange their most valuable asset, their farm or ranch, for other real estate without diminishing the value of their life savings.
- Like-kind exchanges are used in conservation easements to improve water quality, reduce soil erosion, maintain wetlands and sustain critical wildlife habitat.
- These exchanges enable landowners to acquire replacement farmland or ranchland in less environmentally sensitive areas.

1031 Example: Keeping the Farm in the Family

A Farmer Helps Son Start His Operation

- A 65-year old farmer owned an 80-acre farm that had been in the family for decades.
- The farmer's son was starting his operation and desired to acquire the ancestral farm.

Like-Kind Exchange

- Farmer sold the family farm to his son and exchanged into a larger, higher quality parcel located near another separate tract of farmland.
- Allowed the farmer to help his son start his own operation while passing the family farm to the next generation without fear of severe tax ramifications.

Section 1031 Like-Kind Exchanges: Taxes are Deferred, Not Eliminated

- A common myth of Section 1031 is that taxes are eliminated.
- The truth is at some point the tax is paid.
- The [Ling & Petrova study](#) found that the overwhelming majority (88%) of properties acquired through an exchange are later sold in a taxable transaction, at which time the tax is paid.
- The remaining 12% includes ALL non-taxable transfers such as: subsequent exchange, foreclosure, eminent domain, partition or other court ordered transfer, divorce, partnership dissolution, gift and death.
- One-third of all exchanges pay some tax during the year of the exchange because some taxable boot is received.

Section 1031 Like-Kind Exchanges: Threats to Section 1031

- The threats to Section 1031 can come from either political party.
- **Republican threats:** Immediate expensing of real property; indexing of capital gain; Zero rate for capital gains.
- **Democratic threats:** The Biden campaign has called for the repeal of Section 1031; President Obama called for capping Section 1031 gains at \$1 million per year, per taxpayer; Capital gains mark-to-market, championed by Sen. Wyden (D-OR) and academics

Section 1031 Like-Kind Exchanges: Repeal Would Hurt Cash-Strapped Businesses

- Eliminating or limiting like-kind exchanges in the best of times would have a negative impact
 - increase the cost of capital
 - slow the rate of investment
 - increase asset holding periods
 - reduce real estate transactional activity
- In the face of the current pandemic, recession and economic upheaval, the contractionary impact on American business and the U.S. economy would be even more severe.

Section 1031 Like-Kind Exchanges: We Need Your Support

- Contact your members of Congress and let them know about the economic importance of like-kind exchanges.
- The [take action](#) page on the www.1031taxreform.com website provides a template letter explaining the negative economic impact of repealing Section 1031, and the negative impacts on investment and the commercial real estate industry in general.
- If you would like to send a letter to your members of Congress, please visit <https://www.1031taxreform.com/take-action/>.