

TOP 10 ECONOMIC BENEFITS OF SECTION 1031 LIKE-KIND EXCHANGES

- 1) Section 1031 Like-Kind Exchanges (LKEs) encourage investment and reinvestment in U.S. assets, and makes it easier for taxpayers to relocate or upgrade into assets that better meet their business needs.
- 2) §1031 was enacted in 1921 for two primary purposes: 1) to avoid unfair taxation of ongoing investments in property and 2) to encourage active reinvestment.
- 3) §1031 has survived reform efforts for almost 100 years because A) it is based on sound tax policy that prevents taxation of cash flow when there is “continuity of investment” and no cashing out, and B) it stimulates the economy through transactional activity.
- 4) 1031 Like-Kind Exchanges have a substantial economic stimulus effects on a myriad of industries, including real estate, contractors, title insurers, lenders, equipment dealers and manufacturers, transportation, energy and agriculture.
- 5) 1031 Like-Kind Exchanges ensure both the best use of real estate and a used personal property market that significantly benefits start-ups and small businesses.
- 6) Eliminating 1031 Like-Kind Exchanges or restricting their use would have a contraction effect on our economy by increasing the cost of capital. Without 1031 Like-Kind Exchanges, businesses and entrepreneurs would have less incentive and ability to make real estate and capital equipment investments.
- 7) The forced immediate recognition of gain upon the disposition of investment real estate and other capital assets will result in a higher cost of capital, greater reliance on debt financing, and will serve as a deterrent to investment in new assets.
- 8) Retention of §1031 is complementary to the immediate expensing of equipment and buildings proposal contained in the House Republican Blueprint. However, these proposals are not equivalent substitutes for the benefits of §1031, especially when viewed in conjunction with the non-deductibility of interest.
- 9) Requiring the recognition of gain on 1031 Like-Kind Exchanges would hamper the ability of businesses to be competitive in our global marketplace.
- 10) 1031 Like-Kind Exchanges are essentially revenue neutral over the tax life of depreciable assets because gain deferred is directly offset by a reduction in future depreciation deductions available for assets acquired in an exchange.