



# TALKING POINTS

## FACT SHEET

---

**Internal Revenue Code Section 1031 is an important tool used by business owners, farmers and ranchers, entrepreneurs, and others to transition into locations that meet their needs, create efficiencies, and eliminate a tax lock-in effect.**

---

**IRC Section 1031 Like-Kind Exchanges** provide a tax deferral when investors exchange investment or business use property for other investment or business use property.

Section 1031 is not tax forgiveness, tax avoidance, or a loophole. Tax is ultimately paid when Replacement Property is sold.

The transaction activity spurred by the tax deferral incentive generates significant federal, state, and local taxes.

The COVID-19 pandemic shuttered countless properties including strip shopping centers, malls, restaurants, hotels and offices.

Strip centers were one of the most sought-after Replacement Properties during and after COVID.

Capital invested from 1031 Exchanges spurs recovery in all sectors of commercial real estate.

- Any proposed cap or repeal of Section 1031 is misguided because larger investors are critical to repurposing and renovating commercial real estate in our post-pandemic economy. High interest rates and the COVID – 19 pandemic imposed unexpected trauma on commercial property – particularly the retail, hotel, and office sectors.
- Large scale projects revitalize neighborhoods, generate jobs, and result in widespread community improvement. Section 1031 is an effective tool to encourage this activity while avoiding market disruptions. Allowing businesses and individual investors to continue to utilize Section 1031 prevents many properties from becoming shuttered blight.
- Recent economic impact studies show that Like-Kind Exchanges are a powerful stimulant of transactional activity. This activity generates significant local and Federal tax revenue and contributes to the health of the US economy. The studies also found that 1031 buyers invest substantially more capital in their Replacement Properties than non-1031 buyers. These improvements positively affect local communities. The studies conclude that limiting or repealing Section 1031 would cause significant economic contraction and job loss.
- Importantly, under Section 1031, taxes are merely deferred, not eliminated.



## IRC Section 1031

Like-Kind Exchanges provide a tax deferral when investors exchange investment or business use property for other investment or business use property.

Section 1031 is not tax forgiveness, tax avoidance, or a loophole. Tax is ultimately paid when Replacement Property is sold.

The transaction activity spurred by the tax deferral incentive generates significant federal and state taxes.

Removing the tax lock-in effect promotes the highest and best use of properties and removes friction in the commercial real estate market.



# TALKING POINTS

## ECONOMIC IMPACT STUDIES

### ERNST & YOUNG MACROECONOMIC STUDY

- ▶ This study concludes that Section 1031 promotes job growth and labor income.
  - A 2017 version of the study demonstrated that if Section 1031 was limited or repealed, the U.S. Gross Domestic Product (GDP) would **shrink by a whopping \$9.3 billion per year**.
  - In a 2022 update, the authors found that 1031 Exchanges supported **976,000 jobs**, generating **\$48.6 billion of labor income**, and adding **\$97.4 billion** to the GDP.
  - All this economic activity **generates over \$14.2 billion in annual** tax revenue for the federal government plus an additional **\$4.9 billion per year** of tax revenue for state and local governments. **Together, 1031 Exchanges generate more than \$19 billion of tax revenue annually.**
  - The revenue projected to be generated by capping 1031 is \$2.5 billion per year.
  - The tax revenue created by 1031 exchange activity is nearly **eight times the revenue to be raised by limiting Section 1031.**

### LING & PETROVA MICROECONOMIC STUDY

- ▶ This study, conducted by Professors David C. Ling, University of Florida and Milena Petrova, Syracuse University looked at nearly 1.6 million commercial real estate transactions over a 17 year period.
  - The authors found that 80% of the taxpayers did one 1031 Exchange and then sold their Replacement Property in a taxable sale. This study debunks the theory that people exchange until the grave. All of the tax gets paid in a roughly 15-year window.
  - The study also found that one-third of all taxpayers pay some tax in the year of the exchange (i.e. do not defer all of their tax).