



The Voice of the 1031 Industry



### An Update from the FEA Government Affairs Committee

July 2015

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## GOVERNMENT AFFAIRS UPDATE

*Brent Abraham, Suzanne Goldstein Baker & Max Hansen, Chairs*

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### FEA GOVERNMENT AFFAIRS COMMITTEE

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### Members Spark Impactful, Essential In-District Meetings

Attending events and meetings with Members of Congress to advocate for Section 1031 takes a large sacrifice in terms of time, effort, and money. FEA and GAC leaders do this regularly every month. But FEA members are creating new opportunities to deliver our message of preservation through in-district meetings. And it is making an impact. Previous calls to action have included a request for FEA members to contact their Members of Congress to arrange meetings to discuss like-kind exchanges and to show legislators that Section 1031 has a real impact on their district and state.

FEA leadership would like to thank those members who have stepped up to bat and asked for meetings with their elected representatives. In particular, FEA members John Maggi and Margo McDonnell have taken the call to action to heart. In June, John was able to arrange meetings with Pennsylvania Senators Pat Toomey and Bob Casey Jr., and with Representative Pat Meehan (7-Penn.) to share his experience. John reached out to FEA leadership. John and President-Elect Margo worked together and met with these Members. Their collaboration created opportunities that would not have occurred otherwise.

Every member can make the effort to reach out to their Representative and Senators. Sharing personal experiences constituents have with Section 1031 with legislators is powerful, and makes meetings on the Hill all the more effective. Members of

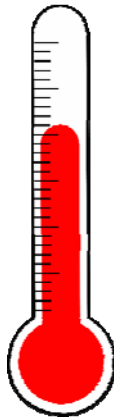
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Dan Wagner  
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## FEA PAC Update



**2015 FEA PAC  
Fundraising Goal:**

**\$ 150,000.00**

## Thank You to Our 1031 PAC Donors

Thank you PAC donors! The FEA 1031 PAC is a vital part of our strategy to influence Congress to keep 1031 exchanges.

**For information on how to make  
a personal PAC contribution,**

Congress want to hear from their constituents. In-district meetings can offer more local focus to our issues and face time with the Member. District meetings effectively augment our Capitol Hill visits with policy staffers. Please consider reaching out to your local legislators. Your voice is essential to spreading the message that Section 1031 like-kind exchanges matter on a local and national level. FEA and GAC leadership will assist in every way, and you will be better off for the effort.

## Call to Action

FEA members are making an impact on the effort to preserve like-kind exchanges. Members of Congress need to hear that Section 1031 matters in their district and state. Personal experiences make the issue real. Consider these steps to help create new opportunities to penetrate our legislative message:

1. **If you have not already done so, please make an additional member (company) contribution of \$2,500 to help fund the effort to preserve Section 1031 like-kind exchanges.**
2. **Write letters to your Members of Congress at www.1031taxreform.com. Encourage your clients and contact to do the same.** Use and distribute this handout to help further our message.
3. **Contact your local legislators and ask for an in-district meeting.** Members' Congressional webpages at www.senate.gov and www.house.gov are a great way to make initial contact. GAC leaders Brent Abraham, Suzanne Goldstein Baker, and Max Hansen and members of the GAC will help you along the way.

**Support from individuals and member companies is imperative to preserving our industry.**

## Ling and Petrova Economic Study Released

### "The Economic Impact of Repealing or Limiting Section 1031 Exchanges in Real Estate"

On Thursday, July 9, the Real Estate Like-Kind Exchange Coalition, of which FEA is a member, released new findings from a microeconomic study detailing the condition of like-kind exchanges and the impact a repeal of Section 1031 would have on the real estate industry in the United States.

The study, "The Economic Impact of Repealing or Limiting Section 1031 Exchanges in Real Estate" reviewed more than 1.6 million commercial real estate transactions between 1997 and 2014, and found widespread use of Section 1031, shows that like-kind exchanges improve and increase investment, and that common

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misperceptions about the provision are false. Read the overview and download the new study at [www.1031taxreform.com/ling-petrova/](http://www.1031taxreform.com/ling-petrova/)

The study confirms findings from the Ernst & Young macroeconomic study released in March 2015. Together, the studies show the impact that a repeal of Section 1031 would have on the economy:

- real estate values would drop;
- the cost of capital would increase;
- average holding periods would increase;
- the velocity of investment in the economy will decrease;
- rents will rise; and
- the economy will contract.

In addition to these conclusions, the study found that 88% of replacement properties acquired through an exchange were eventually sold through a conventional, taxable sale, rather than exchanged again. As a result, taxes owed and paid to the government increased by an average 19% when compared to sales of non-exchanged replacement property acquired subsequent to a conventional sale. The study shows that the popular misconception that taxpayers engage in repeated exchanges, delaying taxes indefinitely, and sometimes completely until death, is false.

The findings of both studies further the argument that like-kind exchanges matter: they provide an essential incentive to improve properties, produce an increase in investment, reduce leverage and reduce holding periods. Like-kind exchanges help the economy keep moving. A repeal of the provision would unfairly burden several important industries, would harm the economy as a whole, and cost the government in the long run.

### Important Links for the Ling and Petrova Microeconomic Study:

Read the Study Overview at [www.1031taxreform.com/ling-petrova/](http://www.1031taxreform.com/ling-petrova/)

Download PDFs of the [Study Synopsis](#) or the [Entire Study here](#).

## Important Findings from the Ling & Petrova Study

### Did you know?

- The use of like-kind exchanges is widespread. Across the country, nearly 6% of all commercial real estate transactions are like-kind exchanges. In high-tax states like California, Oregon, Colorado and Arizona, like-kind exchanges make up between 10-18% of real estate transactions.
- 88% of exchanged real estate replacement properties are eventually disposed of at a taxable sale, showing that misperceptions about indefinite deferral or tax avoidance are false.
- Exchanged properties later sold at conventional, taxable sales produce an increase of approximately 19% in taxable gain over non-exchanged properties subsequently sold at conventional sale. Section 1031 investors are more likely

to make greater capital improvements to real estate properties acquired through an exchange than properties purchased by the same owner through an ordinary sale. Capital expenditures in improvements to exchanged properties tend to be higher by about \$0.27/sf-\$0.40/sf.

- Investors in like-kind exchanges use 6% less leverage compared to ordinary acquisitions. This makes the real estate market more stable and reduces financial system-wide risk.
- Holding periods for properties acquired through 1031 exchanges are shorter.



### ***Are you the FEA Key Contact for your Member Company?***

**The FEA 1031 PAC is a vital part of our strategy to influence Congress to keep 1031 exchanges.**

The FEA 1031 PAC is limited to owners and employees of our members companies. The key contact for a member company must give FEA permission to solicit. We must have this permission form completed before you can participate by contributing to the FEA 1031 PAC and help preserve IRC Section 1031.

If you have not given FEA permission, please take a moment to complete and return the [FEA 1031 PAC Permission to Solicit form](#). Even if you are the only employee of the company, we need your completed form in order to provide you with additional information on the FEA 1031 PAC.

**Only individuals can give to the FEA 1031 PAC.**

**It's quick and easy to do!  
Every dollar counts.**

### ***"What Good is the PAC?"***

Your contributions to the FEA 1031 PAC, along with contributions to the FEA are critical. The PAC has afforded us the opportunity to host and attend fundraisers for legislators who we think can champion our cause or who are otherwise critical policy-makers.

Attending a fundraiser guarantees an opportunity to speak directly to the legislator, rather than through a staffer.

Members of FEA leadership sponsored a recent fundraiser for House Ways & Means Chairman Paul Ryan in April and were able to speak privately with Rep. Ryan for 20 minutes. In so doing, we were able to identify misunderstandings and directly debunk myths about 1031. We would not likely have gotten this level of access and focus with Rep. Ryan in Washington.

We are hosting a fundraiser for Rep. Roskam (R-IL) in July. FEA members have recently sponsored and/or attended fundraisers for:

Sen. Michael Bennet (D-CO)	Sen. Johnny Isakson (R-GA)
Rep. Kevin Brady (R-Tex.)	Rep. Sam Johnson (R-Tex.)
Sen. Sherrod Brown (D-Ohio)	Rep. Mike Kelly (R-PA)
Sen. Richard Burr (R-NC)	Sen. Rob Portman (R-Ohio)
Sen. Mike Crapo (R-ID)	Sen. Jim Renacci (R-Ohio)
Rep. Bob Dold (R-Ill.)	Rep. Paul Ryan (R-Wisc.)
Sen. Michael Enzi (R-WY)	Rep. Adrian Smith (R-Neb.)
Sen. Chuck Grassley (R-Iowa)	Rep. Pat Tiberi (R-Ohio)
Sen. Dean Heller (R-Nev.)	Rep. Sam Johnson (R-Tex.)
Rep. George Holding (R-NC)	

### **About the FEA Government Affairs Committee**

The FEA Government Affairs Committee promotes taxpayer-friendly legislation, monitors regulatory activity, provides commentary to the IRS, House Ways and Means Committee, and Senate Finance Committee, and has met with the Joint Committee on Taxation as well as state and federal legislators. The GAC is led by co-chairs Brent Abraham, Suzanne Goldstein Baker, and Max Hansen, in partnership with our lobbying partners Williams & Jensen.

The FEA Government Affairs Committee actively responds to legislative and regulatory initiatives at both the state and federal levels and advocates on behalf of the FEA and consumers.

Additionally, the FEA monitors the activities of state legislatures and regulatory agencies through the vigilance of our members. In several significant instances, the FEA provided commentary and testimony to state legislatures and regulatory agencies that shaped their approach to the licensing and regulation of exchange professionals and influenced state taxation and procedures for exchange transactions.

The commitment and perseverance of FEA members, the Government Affairs Committee, and our volunteer leaders have made the FEA The Voice of the 1031 Industry.

For more information on the threats to section 1031 and how you can help, visit [www.1031TaxReform.com](http://www.1031TaxReform.com)

### **Federation of Exchange Accommodators**

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