



The Voice of the 1031 Industry



An Update from the FEA Government Affairs Committee

October 2015

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GOVERNMENT AFFAIRS UPDATE

Brent Abraham, Suzanne Goldstein Baker & Max Hansen, Chairs

The Hidden Power of Section 1031: The Incentive on Main Street

We know that the power of like-kind exchanges lies in the tax deferral benefit. It provides an incentive to taxpayers to buy, sell, and improve properties. All this primary activity spurs business, and investment in businesses, surrounding that primary exchange transaction. These businesses are not the taxpayer; they are businesses secondary to the exchange, providing services that improve or facilitate the transfer of the property: builders and engineering firms, building suppliers and vendors, plumbers, carpenters, electricians, landscapers, title insurers, escrow agents, real estate brokers, appraisers, surveyors, lenders, attorneys and accountants. Viewing the exchange transaction as the catalyst for all of this ancillary commercial activity, it is clear that the Section 1031 tax deferral incentive helps drive the economy, locally and nationally, and keeps the real estate and manufacturing markets moving.

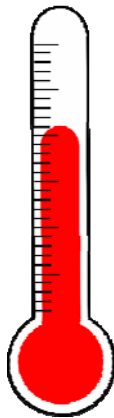
We know about this benefit, but detractors of Section 1031 like-kind exchanges don't see—or don't credit Section 1031 with—this economic stimulus. Because the benefit Section 1031 provides is indirect, the link is not obvious, and leads many to see only half of the story. And, the perception that this incentive benefits only the rich is damaging and untrue. Writing about the ways

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John Wunderlich

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, please

Section 1031 affects your business and your community in letters to Members of Congress, and encouraging your clients to do the same, is a helpful way to broaden the message about the economically and socially positive impact of Section 1031 in our everyday lives.

Like many tools that work indirectly, Section 1031 often does not receive credit for the benefit it provides. The pool of legislators who are not familiar with Section 1031 is shrinking. Still, many know the provision only by its ranking as a large tax expenditure—as an expense to the government. **The government's expenditure number shows only part of the story—the cost of only the taxes deferred, NOT the value of the benefits that come from the deferral, or the impact like-kind exchanges have on stimulating related business activities.**

As an incentive to taxpayers, like-kind exchanges work well; they generate primary transactions. The Ling-Petrova study finds that the use of like-kind exchanges over the last decade is widespread, with nearly 6% of all commercial real estate transactions between 1997 and 2014 involving an exchange. The National Association of REALTORS® survey found that 63% of responding REALTORS® had participated in a like-kind exchange between 2011-2014. Taxpayers are drawn to like-kind exchanges because they preserve capital and cash flow, and make financial sense.

What do taxpayers do with the value of the incentive before paying those deferred taxes back to the government through depreciation or ordinary sale? They spend and reinvest it in the local economy. The Ling-Petrova study shows that taxpayers invest an average of 33% of the value of the purchase price of replacement property in capital improvements—nearly \$305,000 (average) per property. Exchanging taxpayers improve replacement property, and later, nearly 88% sell that replacement property outright in a taxable sale, rather than disposing of it through a second exchange. In a typical real estate transaction, at least 15 different businesses, employing ordinary working people, benefit from the use of the deferred tax dollars. The incentive from like-kind exchanges is responsible for \$0.27-\$0.40 in improvements per square foot in exchanged property, going directly back to the local economy.

As an economic tool, Section 1031 works, too: all of this taxpayer activity accrues to the benefit of the greater economy by encouraging investment, supporting manufacturing and labor income, providing velocity to the economy and contributing significantly to GDP. The Ernst & Young study on like-kind exchanges reveals that repeal of Section 1031 will significantly, adversely affect the overall economy. **Repeal of Section 1031 raises the cost of capital, increases holding periods, shrinks the economy, and reduces federal tax revenue. Legislators should be concerned about this.**

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Save the Date!



FEA 2016 Annual Conference
September 14 - 16, 2016
Las Vegas, Nevada

Monte Carlo
Las Vegas Resort and Casino
www.montecarlo.com

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Because the benefits of Section 1031 like-kind exchanges are nuanced and require some understanding, policy makers can be quick to suggest a cut. These legislators see only the initial benefit to the taxpayer, and cost—not the economic power that comes from the tax deferral incentive.

FEA GAC legislative activity along with the activity of our peers and your grassroots letters have helped to explain this hidden benefit to legislators, and have helped turn several influential Members of Congress from skeptics to supporters.

The legislative history of Section 1031 shows us that the effective purpose of like-kind exchanges is two-fold: 1) to avoid the unfairness of taxing a paper gain, allowing the taxpayer to retain cash flow in a continuing investment through the availability of the deferred taxes (an incentive to improve property), and 2) to generate reinvestment activity that benefits local and overall U.S. economies. By design and evolution, Section 1031 like-kind exchanges benefit multiple parties: the taxpayer making the exchange, the interconnected businesses secondary to the exchange transaction and local communities that benefit from properties improved with available tax deferred cash, and the rest of the nation, through a robust economy.

Sharing your and your clients' experiences about the power of this incentive is crucial to the survival of Section 1031 like-kind exchanges. Encourage your clients to write to their Members of Congress, include links to the www.1031taxreform.com site and economic studies on your website, and use your company blog to share your support and educate others about Section 1031.

GAC Activity



At the FEA 2015 Annual Conference, (from left) Brent Abrahm, Milena Petrova, David Frasiak, Max Hansen, Suzanne Goldstein Baker, and Robert Carroll presented on government affairs activity and the economic studies released earlier this year.

GAC Presents at FEA Annual Conference



David Franasiak, our Williams and Jensen legislative lobbying partner, and economic study authors Robert Carroll (EY) and Professor Milena Petrova (Syracuse University) joined GAC co-chairs Brent Abraham, Suzanne Goldstein Baker, and Max Hansen to present during the FEA's legislative summary session at the 2015 Annual Conference in Austin, Texas.

David spoke about the current anti-establishment environment in Washington and the current and historical threats that Section 1031 faces. He reminded attendees that in little over a year, we will have a new president and Congress, and should be prepared to increase our advocacy efforts.

Ernst & Young Economist Robert Carroll presented findings from the FEA-lead macroeconomic study released in March, "Economic Impact of Repealing Section 1031 Like-Kind Exchange Rules."

Professor Milena Petrova presented findings of the microeconomic study, "The Economic Impact of Repealing or Limiting Section 1031 Like-Kind Exchanges in Real Estate," co-authored by Professor David C. Ling, of the University of Florida.

FEA was a sponsor of both studies.

Call to Action

In wrapping up the conference in Austin, it was clear that FEA members and conference attendees are part of the solution. During the past few years, the industry has rebounded significantly, and has done a great job fighting to stay out of legislative bills in Congress. FEA members have stepped up and contributed.

Still, there are many QI companies who are not FEA members. We need to broaden our membership base so we can spread the burden of financing our advocacy effort and strengthen our association.

Do you know any non-member Qualified Intermediaries? Introduce non-members to the FEA. Tell them how you have benefited from being a member.

Invite them to become members; invite them to the regional fly-in meeting in D.C., and the 2016 Annual Conference. Forward their contact information to Lynn Harkin at director@1031.org and a member of our Membership Committee will reach out to them.

FEA members have sacrificed and contributed this year, and the industry has benefited. Growing membership will help spread the burden that our members bear.

Affiliates First

FEA Recognizes Affiliates First on Website

Use an FEA Affiliate Member to assist you with your business. Check out the [FEA Affiliate Members page](#) dedicated to our affiliate partners. This is a list of Affiliate Members in alphabetical order by company, with their key contacts.

(Be sure to login first to click on a company name to see more details about that member company.)

Visit the Affiliates First page on www.1031.org

Affiliate Member Spotlight



Resource Royalty, LLC

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Resource Royalty is an energy company that **does not drill**. By purchasing income producing royalties, or sub-surface real estate, Resource Royalty provides a unique opportunity to divest from traditional brick and mortar real estate, while maintaining 1031 exchange eligibility. Energy Royalties provide a diversification opportunity by presenting investors with a risk-averse entry into the energy space. They also provide competitive monthly income streams that are generally enjoyed by traditional real estate assets and require little overall management. Our team has decades of energy and investment experience and has collectively done more than \$300 million into energy minerals.

Contact: Wolf Hanschen, wolf@hanschen.com



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 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.

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. Peter Roskam (R-Ill.)
Sen. Michael Enzi (R-WY)	Rep. Paul Ryan (R-Wisc.)
Sen. Chuck Grassley (R-Iowa)	Rep. Adrian Smith (R-Neb.)

Sen. Dean Heller (R-Nev.)

Rep. Pat Tiberi (R-Ohio)

Rep. George Holding (R-NC)

Rep. Sam Johnson (R-Tex.)

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

Federation of Exchange Accommodators

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