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FEDERATION of EXCHANGE ACCOMMODATORS

The Voice of the 1031 Industry

Member Alert

The FEA Government Affairs Committee brings you this Member Alert

A Short Timetable Possible for Tax Reform

With Control of Congress, Republicans May Use Plans Already in the Works

Important Points

- Alignment of Republican Senate, House and White House presents a dangerous scenario for Section 1031
- Congress may work from existing proposals to quickly pass tax reform, including the House Republican Blueprint
- We can be successful in preserving Section 1031 with increased member involvement and financial support
- A **GAC all-member conference call** is scheduled for **Friday, November 18, 2016** at 1 p.m. ET.
- Members are challenged to raise at least $5,000 from each FEA member company

FEA Sees a Quick Turnaround on Tax Reform

The alignment of a Republican Senate, House, and White House presents a dangerous scenario for Section 1031. Current and previous proposals can be utilized immediately, because they have already been partially developed.

The timing of tax reform could be quick. Politico's Brian Faler quoted House Ways and Means Chairman Kevin Brady (R-TX) as writing tax legislation "as we speak," and noted the president-elect would like to push tax reform early in his presidency. Section 1031 could become a pay-for for Republican tax reform proposals, or be deemed unnecessary in a tax package that includes immediate expensing and lower tax rates.

Republicans can use the budget reconciliation process to pass sweeping legislation in a matter of months with a simple majority vote in the House and Senate. Democrats could do little to stop it. This process has been used before by previous Administrations when one party controlled both chambers of Congress and the White House.

The Blueprint for Tax Reform

The House Republican Blueprint seeks to radically simplify the tax code, lowering corporate and individual rates among other changes. The House Republican Blueprint (HRB), or "A Better Way" (Proposal - Snapshot) as formally known, would permit 100% expensing and unlimited loss carryforward for all tangible and depreciable personal property assets and real estate improvements, but not land.

Republican members of the House Ways and Means Committee believe the proposal will create jobs and growth, simplify the tax code, and refocus the IRS on taxpayers.

Why is the Blueprint a threat to Section 1031? There is no specific mention of a repeal or modification of Section 1031, but there is no mention of retention of like-kind exchanges, either.

FEA believes several unintended consequences may arise from the Blueprint's use of 100% expensing:

- The proposal does not provide an equivalent substitute for like-kind exchanges.
- Section 1031 would need to be retained for land exchanges.
- Not all assets may fall into the expensing categories.
- Not all companies would choose 100% expensing if they had a choice.
- Not all states may recognize 100% expensing, negating efforts to simplify the process for taxpayers.
- The changes may not help small businesses with limited capital
- With neither the ability to expense land nor the option to defer gain through Section 1031, a lock-in effect would occur, causing a chilling effect in the real estate market, resulting in economic contraction.
- Businesses will lose the ability to deduct interest expense causing companies to spend equity on capital assets versus leveraging debt for expansion and growth.

Attend the GAC Conference Call

Join us for a FREE member Government Affairs conference call detailing the impact of the election, the results of our meetings with members of Congress, and our path forward on November 18, 2016 at 1 p.m. ET / 12pm CT / 11am MT / 10am PT. This call is open to all FEA members. Members only, please. Sign up on the Events section at 1031.org.

Please note the new sign-up location for the GAC all-member conference call.

Contribute Your Financial Support

We need the financial support of each member company. In addition to support through our dues structure, individuals can contribute funds directly to the FEA, or to the FEA 1031PAC (Political Action Committee). If your company has not signed this year's PAC approval forms, or you need information about giving, please contact Naomi Weitzel at 312-580-9603 or at naomi.weitzel@cdec1031.com.

At the 2016 Annual Conference, each FEA member company was challenged to raise at least $5,000 to help preserve the industry and our livelihood. Members can meet this $5,000 challenge through contributions to either the FEA or to the FEA 1031 PAC.

Brent Abrahm, Suzanne Goldstein Baker, Max Hansen
FEA Government Affairs Committee Co-Chairs