



The Voice of the 1031 Industry

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Section 1031 Like-Kind Exchanges Talking Points

Like-Kind Exchanges Stimulate Business Growth of All Sizes

- Section 1031 is important to the efficient operation and ongoing vitality of thousands of American businesses in a wide range of industries, business structures and sizes.
- Small and mid-size business owners and middle-class taxpayers use Section 1031 to transition into facilities and locations that more efficiently meet their needs, instead of being tax-locked into yesterday's inefficiencies.
- Section 1031 allows taxpayers to shift into more productive like-kind property, change geographic location, and diversify or consolidate holdings.

Like-Kind Exchanges Stimulate Needed Capital Investment

- As a result of the economic fallout from the coronavirus pandemic, large amounts of retail and office space are expected to become vacant or underused as businesses transition to different operating models.
- Like-kind exchanges encourage capital investment for the highest and best use of real estate, thus improving communities and increasing the local and state tax base.

Like-Kind Exchanges Help Repurpose Available Real Estate

- Section 1031 like-kind exchanges are a useful tool in repurposing available retail and office space because they allow capital to efficiently and effectively flow to where it's most needed.
- According to a [2015 study by Professors David Ling & Milena Petrova](#), Section 1031 like-kind exchanges give businesses and entrepreneurs more incentive and ability to make real estate and capital investments.
- Taxpayers engaged in like-kind exchanges invested 33% more capital in replacement property than non-exchanging buyers.
- The [Ling & Petrova study](#) found that without the Section 1031 tax incentive, many transactions would be delayed or abandoned and real estate values would erode.

Like-Kind Exchanges Create Jobs

- Like-kind exchanges generate jobs and taxable revenue for unrelated businesses upstream and downstream from the exchange transaction, such as real estate agents, title and property insurers, escrow/settlement agents, lenders, appraisers, surveyors, attorneys, inspectors, contractors, building supply vendors and more.

Like-Kind Exchanges Help Family Farmers and the Environment

- Farmers and ranchers use Section 1031 to relocate, consolidate or improve their operations without diminishing cash flow.
- Retiring farmers are able to exchange their most valuable asset, their farm or ranch, for other real estate without diminishing the value of their life savings.
- Like-kind exchanges are used in conservation easements to improve water quality, reduce soil erosion, maintain wetlands and sustain critical wildlife habitat.
- These exchanges enable landowners to acquire replacement farm or ranchland in less environmentally sensitive areas.

Taxes are Deferred, Not Eliminated

- A common myth of Section 1031 is that taxes are eliminated. However, the truth is at some point the tax is paid.
- The [Ling & Petrova study](#) found that the overwhelming majority (88%) of properties acquired through an exchange are later sold in a taxable transaction, at which time the tax is paid.
- The remaining 12% includes ALL non-taxable transfers such as: subsequent exchange, foreclosure, eminent domain, partition or other court ordered transfer, divorce, partnership dissolution, gift and death.
- One-third of all exchanges pay some tax during the year of the exchange because some taxable boot is received.

Eliminating Like-Kind Exchanges Would Hurt Cash-Strapped Businesses

- Eliminating or limiting like-kind exchanges in the best of times would have a negative impact, increasing the cost of capital, slowing the rate of investment, increasing asset holding periods, and reducing real estate transactional activity.
- In the face of the current pandemic, recession and economic upheaval, the contractionary impact on American business and the U.S. economy would be even more severe.