Economic impact of repealing like-kind exchange rules

Repeal of the Section 1031 like-kind exchange rules would cause US GDP to decline by US$8.1 billion annually in the long run.

What is a like-kind exchange?

A like-kind exchange is an exchange of business-use or investment property for similar assets. Common examples are exchanges of office and industrial properties, apartment buildings, farmland, automobiles, trucks, heavy equipment, and farm machinery. Businesses ordinarily have to pay tax on a realized gain when selling an asset. But under the tax code since 1921, like-kind exchanges are not subject to immediate taxation — the tax is deferred. In the example below, Construction LLC trades in used machinery for like-kind machinery owned by Dealer LLC. Construction LLC defers tax on the gain of $50, (i.e., $90 cost of replacement property less $40 tax basis of relinquished property) and pays tax on the $10 of non-like-kind property received.

Repeal would reduce annual US GDP in all three scenarios analyzed

Construction, real estate, transportation, and rental and leasing industries would be especially hard-hit based on estimated gross impacts (in US$b; direct, indirect, and induced).

Why is the potential repeal of the like-kind exchange rules an important issue?

- Continuity of interest
- Lock-in effect
- Velocity of reinvestment

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