



1031 EXCHANGES

Section 1031 Like-kind Exchanges are a deferral not a deduction or loophole. The taxes get paid in the end and the transactions generate significant federal and state taxes as a result of the increased transactional activity.

STATE OF COMMERCIAL REAL ESTATE

COVID-19 pandemic shuttered countless strip shopping centers, shopping malls, retail centers and restaurants. It is estimated that up to 25% of the strip shopping centers will go bankrupt. The fallout continues with hotels and office buildings. Virtual meetings will permanently replace significant business travel, and many people will work from home exclusively.

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TALKING POINTS

2 KEY 1031 STUDIES

ERNST & YOUNG STUDY

- ▶ **1031 promotes job growth and labor income**
 - Additionally, a macroeconomic study initiated by Ernst & Young in 2017 concluded that if section 1031 were limited or repealed, it would **shrink GDP by a whopping \$9.3 billion per year.**
 - Ernst & Young recently updated their study in 2021 and concluded 1031 Exchanges will support **568,000 jobs** (260,000 in businesses using 1031, and another 308,000 from suppliers to those businesses).
 - It will generate **\$27.5 billion in labor income** which in turn will generate **\$55 billion value added to the GDP.**
 - Additionally, it will generate **\$5 billion in Federal taxes** from the jobs plus **\$6 billion per year of additional federal income taxes due to foregone depreciation** (reduced deductions) on the replacement property and **\$2.8 billion state & local taxes.**
 - **Just the \$5 billion generated from the jobs in one year far exceeds the estimate in the 2021 Biden budget that says capping 1031 at \$500,000 raises on average of \$1.95 billion per year over 10 years.**
 - Why would anyone change Section 1031? It doesn't raise any money.
 - Remember the capital gains gets paid in addition to this when the investor cashes out.

LING & PETROVA STUDY

A microeconomic study by Professor David C. Ling, University of Florida and Professor Milena Petrova, Syracuse University

- ▶ After looking at 1.6 million transactions, they concluded that 80% of the exchangers did one 1031 and then sold their property in a taxable sale. This debunks the theory that people exchange until the grave. All of the capital gains taxes get paid in roughly a 15-year window.
- ▶ 1/3 of all exchangers pay some tax in the year of the exchange. They don't roll over all of the gain and therefore pay federal tax on that portion.

SEND 1031 MESSAGE TO CONGRESS

- ▶ www.ipx1031.com/action