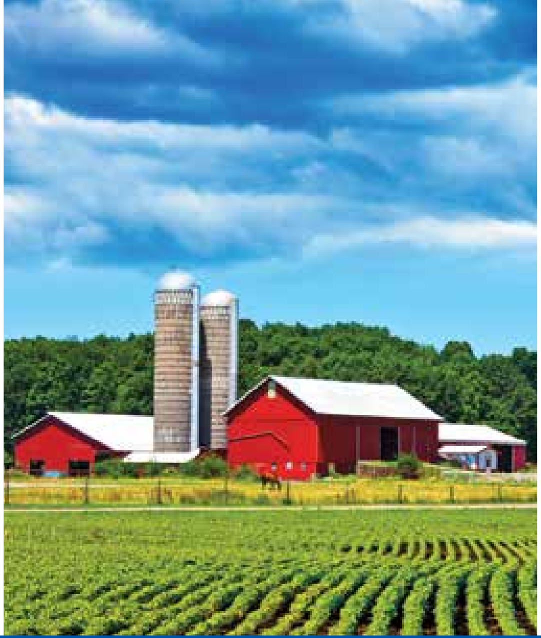




Section 1031 Like-Kind Exchanges: Sustaining American Businesses During Economic Uncertainty

Like-Kind Exchanges Stimulate Business Growth Of All Sizes

Section 1031 like-kind exchanges are 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. These exchanges allow taxpayers to shift to 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.

Encouraging Capital Investment for Highest and Best Use of Real Estate

A flooring store located for decades in an industrial area in a large city found its location was no longer positioned to best serve its growing suburban customer base. Additionally, the store's urban industrial area was undergoing revitalization, which increased demand for affordable and low-income housing in the neighborhood. Using a like-kind exchange, the store sold its building in the city and purchased two replacement properties in suburban areas. The exchange allowed the store to move closer to its customers while also freeing up property in the urban neighborhood for much-needed affordable housing.

According to a 2015 study by Professors David Ling and Milena Petrova, Section 1031 like-kind exchanges give businesses and entrepreneurs more incentive and ability to make real estate and capital investments.

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 and Milena Petrova, Section 1031 like-kind exchanges give businesses and entrepreneurs more incentive and ability to make real estate and capital investments. In addition, taxpayers engaged in a like-kind exchange invested 33% more capital in replacement property than non-exchanging buyers. In fact, 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.

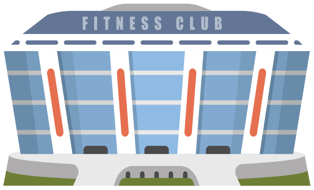
Repurposing a Vacant Office Complex During a Previous Economic Downturn

During the previous recession, a large office tower in a city center owned by a bankrupt financial institution unexpectedly came to market. As part of a like-kind exchange, a life insurer acquired the building, moved an operating subsidiary into the space and turned a dark office tower that would have been an ongoing blight in the city center into an economically vibrant and profitable space. Today, like-kind exchanges can be used as a similar tool when repurposing large retail and other commercial structures that may unexpectedly become available as a result of altered post-pandemic business models.

Like-Kind Exchanges Create Jobs

These investments also 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.

Improving Community Opportunities



As part of a like-kind exchange, a farmer sold a parcel of land located on the outskirts of a metropolitan area to a local YMCA to construct a new building. The transaction created new jobs at the YMCA, improved surrounding roads and increased recreational and fitness opportunities for the community. In return, the farmer acquired a single family rental property, which can be used as a tool for retirement savings.

Eliminating or limiting like-kind exchanges in the best of times would have a negative economic impact

Like-Kind Exchanges Help Family Farmers

Farmers and ranchers use Section 1031 to relocate, consolidate or improve their operations without diminishing their 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.

Keeping the Farm/Ranch in the Family – The Beginning Farmer

A 65-year-old farmer owned an 80-acre farm that had been in the family for decades. The farmer's son was starting his operation, and he desired to acquire the ancestral farm. The farmer sold the family farm to his son and was able to exchange into a larger, higher quality parcel located near another separate tract of farmland.

The like-kind exchange allowed the farmer to help his son start his operation while passing the family farm on to the next generation without fear of severe tax ramifications.

Taxes Are Deferred, Not Eliminated

A common myth of Section 1031 is that taxes are eliminated. However, the truth is that at some point the tax is paid. In fact, the 2015 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. Note that 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. Additionally, 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 economic 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 coronavirus pandemic, recession and economic upheaval, the contractionary impact on American business and the U.S. economy would be even more severe.

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