CAPITAL SQUARE

Save 1031

Section 1031 of the Internal Revenue Code governing tax-deferred (or like-kind) exchanges is under attack. The Biden administration would modify or repeal Section 1031 as a part of their proposal to raise taxes for infrastructure spending. Amending or repealing Section 1031 would be extremely harmful to the economy and tens of thousands of real estate investors who rely on Section 1031.

For many years, Capital Square has worked with industry trade groups to educate Congress on the benefits of Section 1031. We have friends in Congress but we need to get the word out in every congressional district. Each of us needs to act NOW. This is not about politics; this is about economics – retaining the strength and vitality of the US real estate economy.

We encourage you to send a letter to Congress. This only takes a few minutes. Simply click on the link below to generate a letter to your members of Congress.

TAKE ACTION

Sincerely,

Louis Rogers

Founder & CEO
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Benefits of Section 1031 Exchanges. The many benefits of Section 1031 are summarized below. It is critical that each of us contact Congress to express our support for Section 1031.

Section 1031 is a vital part of the US economy, creates thousands of jobs, produces billions of dollars in taxes, and generates substantial state and local taxes. The many benefits of Section 1031 are summarized below:

- Approximately 20-30% of all commercial real estate transactions are structured as Section 1031 exchanges. Repealing Section 1031 would destroy the real estate economy and create a real estate recession. Many real estate owners would be harmed and those trying to recover from the COVID pandemic would be devastated.
- Section 1031 is a vital part of the US economy. Ernst & Young estimates that on an *annual basis* 1031:
    - creates 710,000 jobs,
    - contributes $7.8 billion in federal, state and local taxes,
    - contributes $34.4 billion of labor income, and
    - $69.1 billion of value added to the US economy.

  The numbers are staggering!! Those jobs, taxes and income would be lost.
- Modifying Section 1031 would create the dreaded “lock in” effect, where owners of real estate retain their property forever and refinance over and over again instead of selling on a taxable basis.
- The revenue projected by the Biden administration is not realistic; the statistics assume that every exchange would take place as a taxable sale, when, in reality, many would simply hold their real estate. Thus, the revenue projected would not be collected.
- Section 1031 contributes $6 billion per year of additional income due to foregone depreciation (reduced deductions) on the replacement property, according to EY.
- Local governments who rely on transfer and real estate taxes would be devastated by the dramatic loss of revenue as transaction volume plummets.
- Tens of thousands of jobs would be lost as real estate transactions grind to a

halt, including title companies, escrow companies, realtors, lawyers, accountants, appraisers, contractors, materialmen, carpenters, electricians, plumbers, and others. This would create a ripple effect and harm many real estate service providers who are currently paying substantial federal, state, and local taxes.

- Exchangers generally have greater equity and lower leverage, reducing risk for investors and lenders.
- Section 1031 encourages liquidity in the real estate market, making for a vibrant real estate market.
- 38% of all exchanges involve multi-family housing. With a shortage of quality housing, this is a bad time to reduce multi-family housing.
- Farmers rely on Section 1031 to consolidate their holdings.