

## 1031 ISSUE BRIEF

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- Since 1921, the tax code has allowed taxpayers to defer capital gain when exchanging real property used in a trade or business for property of a like kind.
- After many years of careful legislating and regulatory rulemaking, policymakers have crafted a like-kind exchange provision that supports healthy real estate markets, and important social and environmental objectives, such as the preservation of family-owned farms and ranches and the conservation of land for the benefit of the public and future generations.
- The reforms, such as strict timelines for exchanges, ensure it is used for its intended purpose and is not abused by taxpayers.
- Like-kind exchanges allow businesses to grow organically, with less unsustainable debt, by reinvesting gains on a tax-deferred basis in new and productive assets. In this way, like-kind exchanges create a ladder of economic opportunity for minority-, veteran-, and women-owned businesses and cash-poor entrepreneurs that may lack access to traditional sources of financing.
- Academic and outside research has found that exchanges spur capital expenditures, increase investment, create jobs for skilled tradesmen and others, reduce unnecessary economic risk, lower rents, support property values, and generate substantial state and local tax revenue.
- Roughly 40 percent of like-kind exchanges involve rental housing. Section 1031 is an important source of capital for affordable and workforce housing.
- Farmers, ranchers, and forest owners use like-kind exchanges to combine acreage, acquire higher-grade land, mitigate environmental impacts, and otherwise improve operations.
- Land conservation organizations rely on exchanges to preserve open spaces for public use or environmental protection.
- Like-kind exchanges are a critical source of retirement security, particularly for small business owners and the self-employed who do not have access to an employer-provided pension plan. Exchanges allow individuals approaching retirement to convert an active business into a reliable and long-term stream of retirement income.
- Section 1031 is integral to the health of today's real estate marketplace: somewhere between 10-20 percent of all commercial real estate transactions involve a like-kind exchange. They help get languishing properties into the hands of new owners who will invest in job-creating capital expenditures and improvements that put properties to their best and most productive uses.
- Exchanges helped stabilize property markets at the height of the COVID-19 lockdown and will facilitate a faster and smoother transition as many real estate assets are repurposed in the post-COVID economy.