

Summary of EY Macroeconomic Impact Study

Economic Contribution of IRC Section 1031 Like-Kind Exchanges to the US Economy in 2021

Research conducted by Ernst & Young (EY) provides insight into the economic activity supported by the I.R.C. Section 1031 like-kind exchange rules within the US economy in 2021. The research demonstrates the value of like-kind exchanges to the greater US economy, including employment and wage contribution, adding to GDP, and generating consumer spending.

The study measures not only the direct impact on taxpayers engaged in like-kind exchanges, but also the ancillary stream of indirect economic activity spawned by exchanges that involves suppliers to exchanging taxpayers and related consumer spending from income generated by employees and other businesses within the supply chain.

Although the EY report uses economic factors from 2019 (pre-pandemic) to estimate the economic impact for only one year, 2021, to the extent that that these factors are consistent, these findings may be reflective of annual economic activity.

Key findings¹ are that I.R.C. §1031 like-kind exchanges:

- ▶ **Promote job growth and labor income.** Overall, §1031 exchanges support 568,000 jobs and \$27.5 billion of labor income in the United States during 2021. Given that it is likely that total volume of exchange activity is underestimated, job growth and labor income could be as much as 710,000 and \$34.4 billion, respectively.
- ▶ **Contribute to US GDP.** Like-kind exchanges will generate \$55.3 billion in value added in the United States in 2021. Given that it is likely that total volume of exchange activity is underestimated, value added could be as much as \$69.1 billion. “Value added” measures a sector’s or industry’s contribution to gross domestic product. (Earlier research by EY found that repeal of §1031 would slow economic growth, shrink investment and ultimately reduce GDP.²)
- ▶ **Contribute to federal, state, and local tax revenue.** Taxpayers engaged in like-kind exchanges, along with suppliers and related consumer spending will generate approximately \$7.8 billion in federal, state, and local taxes during 2021. Of that, \$4.965 billion is federal, and \$2.805 billion is generated at the state and local level. Additionally, an average of \$6 billion per year of additional income taxes are paid due to foregone depreciation (reduced deductions) on the replacement property acquired in the exchange.
- ▶ **Reduce the cost of capital and increase investment in the US economy.** This results in faster and more efficient redeployment of capital for economic rather than tax reasons.

¹ EY, “Economic Contribution of the Like-Kind Exchange Rules to the US Economy in 2021,” May 2021

² EY, “Economic Impact of Repealing Like-Kind Exchange Rules,” November 2015

Greater investment results in more jobs, labor income and value added, not only at taxpayer businesses engaged in like-kind exchanges, but also at suppliers to those taxpayers, as well as businesses that rely upon consumer spending, such as retail stores, restaurants and entertainment.

- ▶ **Reduce impediments to transfers, i.e. the “lock-in” effect.** Section 1031 encourages businesses of all sizes to relocate into properties that better meet current and future needs, promoting the highest and best use of property and more efficient business growth.

Table E-1. Economic activity supported by the like-kind investment at businesses that make use of the like-kind exchange rules in 2021

	Businesses that make use of the like-kind exchange rules	Suppliers and related consumer spending	Total
Employment	260,000	308,000	568,000
Labor Income	\$11 billion	\$16.5 billion	\$27.5 billion
Value Added	\$22.4 billion	\$32.9 billion	\$55.3 billion

Table 4. Sensitivity analysis: Economic activity supported by the like-kind investment at businesses that make use of the like-kind exchange rules assuming 10% of commercial real estate transactions use like-kind exchanges (by dollar volume)

	Businesses that make use of the like-kind exchange rules	Suppliers and related consumer spending	Total
Employment	325,000	385,000	710,000
Labor Income	\$13.7 billion	\$20.7 billion	\$34.4 billion
Value Added	\$27.9 billion	\$41.1 billion	\$69.1 billion

Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Labor income is a component of value added. Figures are rounded.

Source: EY analysis.

These estimates indicate the economic activity supported by the like-kind exchange rules in 2021. The rules may support more or less activity in later years depending on differences in the level of like-kind exchange transactions.