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Trending towards tax reform: You can make a difference - by Patricia Flowers

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“Together we can make a difference”...I am sure you have heard this saying in reference to many different topics, but this one takes on new meaning as we work to educate Congress and others in highly public positions on the benefits of Section 1031 Tax Deferred Exchanges; not only for the tax savings, but for its ability to stimulate the local economies and keep many different industries in business. Now with a Republican House and Senate, there is a stronger push towards tax reform than we’ve seen in quite some time. Even with the current President, who is well immersed in real estate, tax reform related to 1031 Tax-Deferred Exchanges would quite possibly affect your business, your clients and anyone involved with investment property transactions: real or personal property (i.e. cars fleets, trucks, farm machinery and other heavy equipment, airplanes, rail cars, boats, art and collectibles).

1031 Exchanges have existed since 1921. These exchanges allow owners of business and investment properties to defer paying capital gains taxes if they reinvest all proceeds from the sale of a currently owned property (relinquished property) into a like-kind property (replacement property). Taxes on capital gains are not recognized on the property sale if the money is used to purchase other property. The payment is deferred until property is sold with no reinvestment.

Exchanges encourage active reinvestment, which is even more relevant today. Section 1031 not only permits efficient use of capital to preserve and manage cash flow, it also encourages U.S. businesses to reinvest in their domestic operations, rather than moving business activity out of the country.

Not only for “the rich”, many owners appreciate the income from their investments to supplement their current income and save for the future. Taxpayers utilize exchanges for asset preservation, diversification or consolidation of their portfolio, greater cash flow or leverage into new property, relocation of investments, eventual “stepped-up basis” for heirs, and for building wealth.

The House Republicans created a Blueprint for Tax Reform called A Better Way. It is expected to be the model for tax reform in 2017. Tax Reform itself may not be a bad idea, but the current proposal pairs 100% immediate expensing with unlimited loss carry forward for all tangible & depreciable personal property assets and real estate improvements, except land. The proposal would also eliminate the business interest expense deduction. While the proposal does not repeal Section 1031, if this Blueprint becomes law, there is no guarantee that Section 1031 will be preserved.

As an industry our goal is to ensure that a repeal or restriction of Section 1031 is NOT included in any tax reform bill that is introduced. At a recent Washington DC meeting with the National Association of Realtors (NAR), Ways and Means Chairman Kevin Brady admitted the committee is considering eliminating the provision. Rep. Peter Roskam, Chair of the Tax Policy Subcommittee of

the Ways and Means Committee then added that they want to hear from taxpayers about their concerns. "We haven't made our decisions yet," said Roskam. "We're listening."

Congress is listening. We ask that you please take 60 seconds to share your thoughts on 1031 with Congress: <http://take-action.ipx1031.com/>. By simply following this link, you can automatically send an email to your Representative and Senators voicing your support to keep 1031 Tax Deferred Exchanges in the Tax Code.

Eliminating the option of structuring transactions as 1031 Tax-Deferred Exchanges would not only cause a sharp drop in real estate transactions, but the additional business and services generated from the 1031 transactions would fall as well. Ernst & Young, LLP released a macro-economic study on the impact of repealing or limiting 1031 exchanges in 2015 that quantified that the U.S. economy would actually contract if Section 1031 was repealed or limited, finding that GDP would be reduced by approximately \$8.1 billion per year.

This and other in-depth national studies confirm 1031 Exchanges touch many different industries, from construction to brokerage to banking, and stimulate property redevelopment and overall economic activity. That would not occur if owners faced immediate taxes on their gains and therefore they would simply hold their property indefinitely. Please take action and let your legislators know how important Section 1031 is to you, your business and your clients. You can make a difference.

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