RE: SUPPORT FOR RETAINING SECTION 1031 TAX DEFERRED EXCHANGES

The Honorable Orrin Hatch and the Honorable Ron Wyden and Members of the Senate Finance Committee:

I am a real estate investor and own a number of single-family rental properties in different states. I am writing to you to express my support for keeping Section 1031 exchanges in the tax code in its present form. 1031 exchanges are a key driver of investment real estate activity both large and small and exchanges help create jobs and support the national economy.

1031 exchanges are an important fixture in the economy and the real estate industry. This is particularly true in the investment real estate market where approximately 25% of all transactions involve an exchange on either the sale or purchase. 1031 exchanges allow investors to freely adjust their investments among like-kind properties, allowing for a more efficient allocation of capital. Exchanges allow investors and business owners to change geographic locations, consolidate, diversify, and redeploy into different types of investment assets. <u>This investment activity also creates jobs, financial opportunities and provides a valuable stimulus to many economic sectors.</u>

The transactional activity created by 1031 exchanges creates additional jobs (and also income for taxpayers taxed at higher ordinary income tax rates) for a wide range of ancillary services related to real estate transactional activity including the following groups:

- Residential real estate agents and residential real estate firms
- Commercial brokers and brokerages
- Closing and title companies
- Banks and real estate lenders of all types
- Property appraisers and appraisal services
- County recorders who obtain additional transfer taxes from investment transactions
- Property maintenance companies who repair properties before sale
- Environmental companies
- Virtually any person or company related to the transfer of an investment property

If investors are unable to defer gains by using Section 1031, many prospective sellers will simply hold on to their properties and will not sell at all. Most of the projected additional tax revenue will not materialize because investors with significant gains will simply hold their property rather than face a sizeable tax consequence. The result would be a significant decrease in transactional activity, and a significant reduction in the inventory of available investment properties.

Eliminating Section 1031 would have a negative impact that would extend far beyond the real estate market, into the overall national economy. It is foreseeable that the elimination of Section 1031 would result in a decrease in property values as investment properties become more illiquid. Eliminating Section 1031 would adversely impact the U.S. economy by discouraging investment, causing a reduction in Gross Domestic Product, a contraction in the economy, and would unfairly burden certain industries and taxpayers. Even worse, the lower GDP results in lowered tax revenue, thus, repeal of Section 1031 would not be revenue neutral.

Section 1031 is based on sound tax policy. The essential logic is that the investor, in exchanging one appreciated property for another like-kind property, has not *realized* the gain inherent in the relinquished property. They have merely *changed the form* of their investment. Since the basis of the relinquished property becomes the basis of the replacement property, the built-in gain is still there; it will be taxed later when the investor actually realizes the gain by selling the property for cash. Section 1031 accurately reflects the economic reality of investment continuity in which no profit is realized, thus there is no premise for taxation.

As you consider tax reform, I wanted to express my support for 1031 exchanges and ask that you consider keeping 1031 exchanges in the tax code in their present form.

Thank you for your consideration.

Sincerely,

Scott Saunders

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