

Economic contribution of the like-kind exchange rules to the US economy in 2021

Prepared on behalf of the 1031 Like-kind Exchange Coalition

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May 2021

Key findings

Economic activity supported by like-kind exchange rules in 2021

Annual impact relative to size of US economy in 2021

568k Total jobs supported by like-kind exchange rules



46%

260k jobs

Businesses that make use of like-kind exchange rules



21%

122k jobs

Suppliers to businesses that make use of like-kind exchange rules



33%

186k jobs

Related consumer spending

\$27.5b Total labor income supported by like-kind exchange rules



40%

\$11b labor income

Businesses that make use of like-kind exchange rules



27%

\$7.4b labor income

Suppliers to businesses that make use of like-kind exchange rules



33%

\$9.1b labor income

Related consumer spending

\$55.3b Total value added supported by like-kind exchange rules



40%

\$22.4b value added

Businesses that make use of like-kind exchange rules



27%

\$14.8b value added

Suppliers to businesses that make use of like-kind exchange rules



33%

\$18.1b value added

Related consumer spending

Overview of like-kind exchange rules

- ▶ Like-kind exchange rules: “the exchange of real property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like kind which is to be held either for productive use in a trade or business or for investment.”

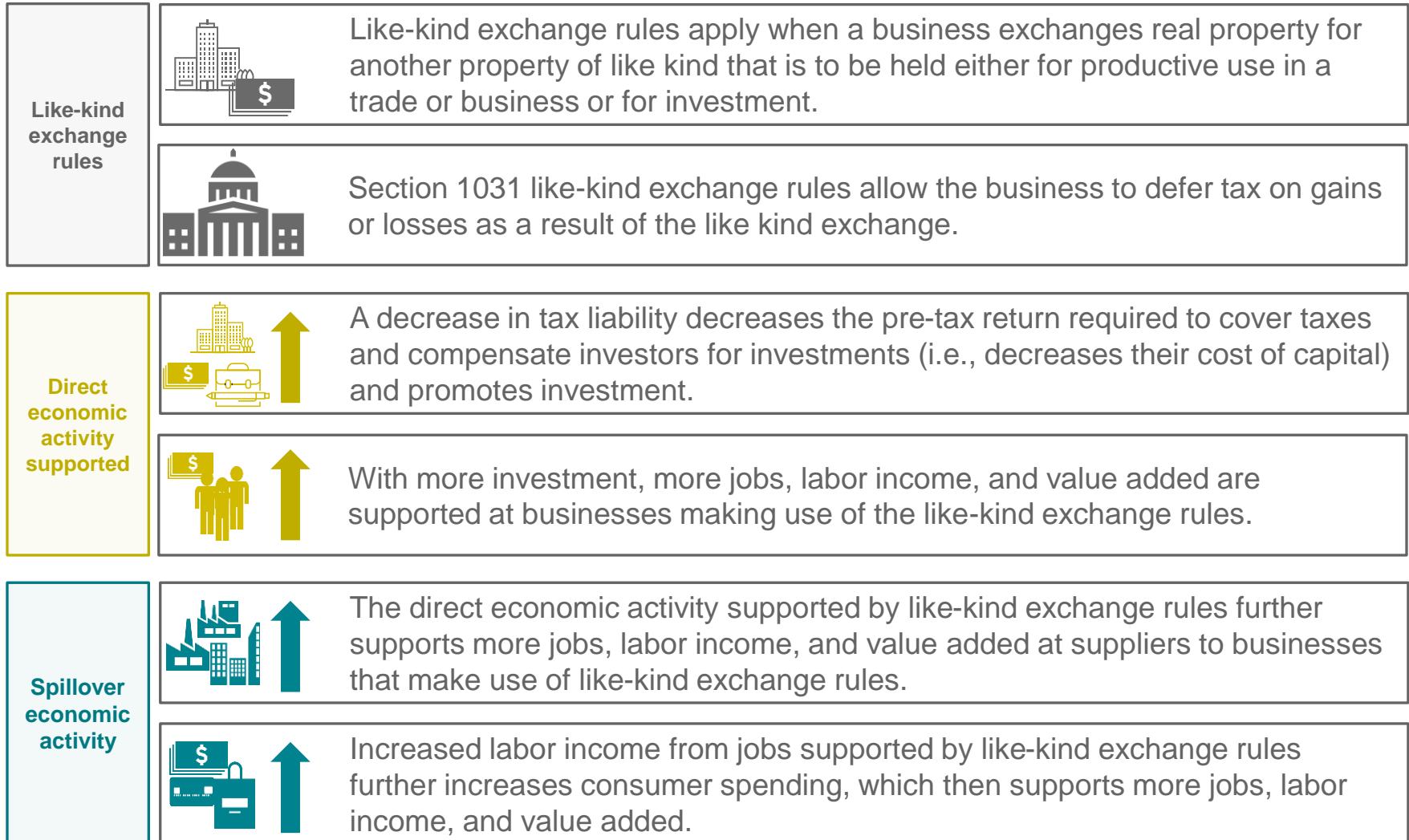
Internal Revenue Code Section 1031

- ▶ A taxpayer exchanging like-kind property is not required to recognize a taxable gain or loss at the time of the exchange; tax is deferred.
- ▶ Businesses: Expand opportunities to relocate to better locations, increase the ability to exchange older and sometimes inefficient assets for more efficient properties, and otherwise better align business assets with current and future business needs.
- ▶ Overall economy: Reduce the tax impediments to the transfer of property, which helps improve the overall allocation of capital by making it easier to assign assets to their most productive uses.

Tax and economic policy rationale for like-kind exchange rules

- ▶ Rationales for deferring tax on gains and losses realized in like-kind exchanges
 - ▶ Encourages investment and transactional activity. Imposing tax on continuing investment discourages and slows the velocity of investment, resulting in market illiquidity and increased cost of capital.
 - ▶ Better matching of investments with business needs. Tax deferral permits a business to expand opportunities to relocate, consolidate or acquire better, more efficient assets that meet current and prospective needs.
 - ▶ Improved allocation of capital. Reducing impediments to the transfer of property improves the overall allocation of capital and encourages the highest and best use of real property.
 - ▶ Preservation of cash-flow. A like-kind exchange preserves cash flow and avoids liquidation of other assets or increased reliance on debt financing due to tax considerations.

Modeling approach



Key results: Economic activity supported by like-kind rules

Economic activity supported by the like-kind investment at businesses that make use of the like-kind exchange rules

	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

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.

Employment supported by the like-kind exchange rules, by industry, 2021

NAICS description	Companies that make use of the like-kind exchange rules	Suppliers and related consumer spending	Total
Leisure and hospitality	84,000	36,000	120,000
Trade, transportation, and utilities	73,100	52,700	125,800
Financial activities	28,700	44,000	72,700
Education and health services	25,200	38,000	63,200
Professional and business services	24,400	65,000	89,400
Manufacturing	10,100	17,400	27,500
Other Services	8,600	34,900	43,500
Construction	3,900	4,900	8,800
Information	1,200	5,600	6,800
Natural resources and mining	900	9,700	10,600
Total	260,000	308,000	568,000

Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Figures are rounded.

Source: EY analysis.

Taxes paid by, and related to, businesses that make use of like-kind exchange rules, 2021

	Businesses that make use of like-kind exchange rules			Related suppliers	Related consumer spending	Total
	Business taxes	Employee taxes	Total direct			
Dollars in millions						
Federal taxes	\$660	\$1,330	\$1,990	\$1,330	\$1,645	\$4,965
Individual income taxes	\$120	\$890	\$1,010	\$680	\$840	\$2,530
Payroll taxes	\$370	\$370	\$740	\$490	\$610	\$1,840
Corporate income taxes	\$140	\$0	\$140	\$90	\$110	\$340
Excise taxes	\$25	\$35	\$60	\$40	\$50	\$150
Customs duties and fees	\$5	\$35	\$40	\$30	\$35	\$105
State and local taxes	\$440	\$695	\$1,135	\$745	\$925	\$2,805
Property taxes	\$180	\$150	\$330	\$220	\$270	\$820
Sales taxes	\$110	\$150	\$260	\$170	\$210	\$640
Individual income taxes	\$0	\$300	\$300	\$200	\$250	\$750
Excise, license, and other taxes	\$110	\$95	\$205	\$130	\$160	\$495
Corporate income taxes	\$40	\$0	\$40	\$25	\$35	\$100
Total taxes	\$1,100	\$2,025	\$3,125	\$2,075	\$2,570	\$7,770

Note: All estimates are relative to the US economy in 2021. Figures are rounded.

Source: EY analysis.

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