



Ensure Tax Reform Proposals Protect Small Business Growth

PRESERVE SECTION 1031 "LIKE KIND" EXCHANGES

Background

Section 1031 of the Tax Code permits the seller of property to defer capital gains taxes from a transaction, if the exchange is for property that is of a "like-kind" and is held for "productive use in a trade or business or for investment."

For nearly one hundred years, this provision has been an efficient and effective tool for real estate owners to expand investment opportunities and small businesses to grow their business and hire new employees.

In the 113th Congress, House and Senate discussion drafts suggested repeal of Section 1031 as part of potential comprehensive tax reform packages.

Importance of Section 1031 for AAHOA Members

- By deferring tax payments on the exchange of property, hotel owners have more available capital to invest in additional properties, effectively growing their small businesses
- Each additional property creates opportunity to hire new employees, protect jobs, and invest in the local community
- Section 1031 of the Tax Code is not meant for property owners to exploit a tax loophole - once an investor decides ultimately not to reinvest in another property, he/she will subsequently pay the taxes on the proceeds



Impact of Section 1031 on the U.S. Economy

- On average, a replacement property obtained through a 1031 exchange is \$305,000 to \$422,000 more valuable than the original property
- In nearly 90 percent of the cases, taxpayers ultimately pay taxes on capital gains and pay substantially more than had the exchange not occurred

Repeal Would:

- Reduce GDP by \$61B to \$131B over 10 years
- Reduce investment by \$7B
- Reduce workforce income by \$1.4B

Please Defend Like Kind Exchanges