

SUPPORT OF I.R.C. SECTION 1031: LIKE-KIND EXCHANGES

*Tax Reform Proposals Should Continue to Support
Small Businesses and Investment*



BACKGROUND

In February of 2014, the House Ways and Means Committee released a proposal to reform cost recovery and tax accounting rules as part of a comprehensive effort to overhaul the Internal Revenue Code (Tax Code). Unfortunately, the proposal calls for the repeal of Section 1031 of the Tax Code. Section 1031 permits the seller of property to defer taxes on the gain 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. Repealing Section 1031 will dramatically reduce the access to capital that many small business owners use to develop their businesses and create jobs.

WHY AAHOA SUPPORTS LIKE-KIND EXCHANGES

- Over 80% of AAHOA members own more than one property and many have successfully executed a like-kind exchange to grow their businesses
- AAHOA supports the overall objective of simplifying and improving the current Tax Code and believes Section 1031 supports these objectives
- By deferring tax payments on the exchange of property, hotel owners have more available capital to invest in additional properties
- Each additional property creates opportunities to hire new employees, develop infrastructure and invest in the local community
- Once the investor decides ultimately not to reinvest in another property, he will subsequently pay the taxes on the proceeds
- Hoteliers are not seeking to exploit a tax loophole; rather, they are employing the Tax Code to efficiently transfer property in the short-run, with the full expectation of paying taxes on the gain ultimately realized after the final transaction



CONCLUSIONS

As small business owners, hoteliers support the Committee's goals to simplify and update the Tax Code. Similarly, AAHOA appreciates and supports the Committee's desire to ease tax burdens on small businesses. Section 1031 exchanges are essential to providing access to capital, which allows small businesses to grow. Therefore, AAHOA urges support in preserving the like-kind exchange rules.

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