



1031 CORP.
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Re: IRC Section 1031 Tax-Deferred Exchanges

Dear Chairman Camp, Ranking Member Levin, Representative Johnson and Representative Pascrell:

I am the owner of a small company specializing in the facilitation of exchanges under IRC §1031. I work primarily with individual investors and owners of small and medium size businesses primarily in the Mid-Atlantic region.

Every day, I see how taxpayers benefit from their exchange transaction and the opportunities it creates for their businesses. I often facilitate the exchange of rental properties in resort areas along the Eastern Seaboard. I have seen this strategy be particularly beneficial to those along the Jersey Shore who have dealt with multiple hurricanes and Nor'easters in recent years. For those that have decided they no longer want to own property so close to the water or cannot afford the flood insurance, they can exchange for other business use or investment property inland. For those who were not deterred, they are looking to acquire some of those properties, rebuild or repair so they meet the new FEMA guidelines and hold as rentals. Shore rentals remain strong and this is a good investment. These investors continue to provide families, like mine, with affordable rental opportunities in an area we love to vacation. This keeps tourist dollars at the Jersey Shore and is also a win-win for local, state and federal tax agencies that will benefit from additional tax from their rental income.

This is just one example of the many ways real estate investors have used 1031 exchanges. When acquiring replacement property in a 1031 exchange, I often speak with taxpayers about the improvements they plan to make on their new properties – everything from painting to minor renovations to complete rebuilds. Exchanges not only continue to employ qualified intermediaries, title agents, real estate professionals, loan officers and other parties to the transaction but also contractors, architects, etc.

Section 1031 provides a deferral benefit that permits efficient use of capital to preserve and manage cash flow, encouraging U.S. businesses to reinvest in their domestic businesses, rather than offshoring business activity. It is not a tax savings or avoidance vehicle. At some point, the tax does get paid. Payment of tax occurs 1) upon sale of the replacement asset, or 2) incrementally, through increased income tax due to foregone depreciation, or 3) by inclusion in a decedent's taxable estate, at which time the value of the replacement asset could be subject to estate tax at a rate more than double the capital gains tax rate.



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In short, this section of the Code is fair and it is working well for a broad spectrum of taxpayers at all levels, in all lines of business, including individuals, partnerships, limited liability companies and corporations.

Section 1031 tax-deferred exchanges provide a vital stimulant to our economy, fueling transactions that create and fuel jobs. Section 1031 provides significant benefits to taxpayers of all sizes with a “trickle down, spillover” economic stimulus effect on a myriad of industries and small businesses across the country. Economic policy efforts focus on encouraging investment in productive assets, encouraging additional borrowing by qualified investors, increasing the velocity of transactions, redeploying underutilized or idle assets, and discouraging fearful contraction and cash hoarding. Section 1031 encourages growth by mandating reinvestment in like-kind assets, increasing job growth and ordinary income generated by additional capital investment, discouraging the hoarding of capital and penalizing profit taking by taxing value taken out of the economy. ***Section 1031 not only encourages reinvestment over profit taking, it provides a strong incentive to keep that investment at home, in the United States.***

If you have any questions, or wish to discuss any of these matters, please contact any of us.

Best regards,



Margo McDonnell
President