



American Equity Exchange, Inc.

April 15, 2013

Tax.reform@mail.house.gov

Comments to Small Business /Pass Throughs Tax Reform Working Group Section 1031 Exchanges

Dear Chairman Camp, Ranking Member Levin, Representative Buchanan and Representative Schwartz:

I am writing to express my concern regarding potential modifications to or repeal of IRC Section 1031. I am the President and CEO of American Equity Exchange Inc. , a national qualified intermediary company which has been in existence since 1991. I am also a practicing attorney since 1976 and have been assisting clients as a legal advisor in real estate matters including Section 1031 exchanges for the past 37 years. I am also a Past President and the Co-Chair of the Federation of Exchange Accommodators(FEA) Government Affairs Committee and have worked for a number of years on the Hill and elsewhere to educate people on the benefits of Section 1031 exchanges.

I have worked on the recent submissions made by the FEA in favor of maintaining the status quo on Section 1031 exchanges as part of your Committee's efforts to implement comprehensive tax reform. I am in support of the content of the submissions made by the FEA including the white papers which we prepared. I do not want to restate the content of those white papers and simply incorporate them in this letter. I understand the need for tax reform tax reform should not eliminate tax provisions that protecting our struggling economy. The following arguments in favor of retaining Section 1031 exchanges are based on facts:

- IRC §1031 is neither a loophole, nor a tax savings vehicle, but rather a powerful economic engine based on sound tax policy.
- §1031 is not an unfair tax break for the wealthy or large corporations. On the contrary, it is one of the few incentives available to and used by taxpayers of all sizes.
- §1031 permits efficient use of productive capital and cash flow while encouraging taxpayers to shift to more productive like-kind property, change geographic locations, diversify or consolidate holdings, or otherwise transition to meet changes in business needs or lifestyle.

- §1031 exchanges contribute significantly to the velocity of the economy and promote investment in the U.S.
- §1031 stimulates the economy, encouraging real estate transactions, and encouraging companies to replace and upgrade machinery and equipment, stimulating purchases and sales of machinery, equipment, railcars, aircraft, trucks and other vehicles sooner, because tax on the gain can be deferred.
- §1031 stimulates the agricultural economy.
- §1031 provides only a temporary deferral; taxes are not eliminated.
- Gain deferred in exchanges is directly offset by a reduction in future depreciation deductions available for assets acquired through an exchange.
- Elimination of §1031 would have a chilling effect on real estate and other business transactions.
- Elimination of §1031 would tax cash flow, not wealth, directly reducing the cash flow available for reinvestment into other productive assets.

All in all, Section 1031 provides significant benefits to taxpayers of all sizes with a “spillover” economic stimulus effect on a myriad of industries and small businesses across the country. Economic policy efforts today focus on encouraging investment in productive assets, encouraging additional borrowing by qualified investors, increasing the velocity of transactions, absorbing and redeploying difficult assets, and discouraging fearful contraction and cash hoarding.

Section 1031 encourages just this type of growth by mandating reinvestment in like-kind assets, increasing ordinary income from additional investment in higher value assets and job growth, 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.

I urge your working group and the Committee as a whole to focus on areas other than Section 1031 exchanges as part of your tax reform efforts. Do not tinker with a Tax Code section that has been an economic stimulant since 1921. Thank you for your consideration on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Max A. Hansen', with a long horizontal flourish extending to the right.

Max A. Hansen

MAH/mb