



The Voice of the 1031 Industry

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Summary of Updated EY Macroeconomic Impact Study

Economic Contribution of IRC Section 1031 Like-Kind Exchanges to the US Economy in 2021 Updated May 2022

Research conducted by Ernst & Young (EY) provides insight into the economic activity supported by the I.R.C. Section 1031 like-kind exchange rules within the US economy in 2021. The research demonstrates the value of like-kind exchanges to the greater US economy, including employment and wage contribution, adding to GDP, generating consumer spending and contributing to tax revenue at federal, state and local levels.

The study measures not only the direct impact on taxpayers engaged in like-kind exchanges, but also the ancillary stream of indirect economic activity spawned by exchanges that involves suppliers to exchanging taxpayers and related consumer spending from income generated by employees and other businesses within the supply chain.

EY produced a report in May 2021, using economic factors from 2019 (pre-pandemic) to estimate the economic impact of like-kind exchanges for 2021, based upon the expectation that 2019 economic activity would be a realistic proxy for 2021. EY revised some of its findings in a May 2022 updated report using economic trends based upon actual activity from full year 2021 economic data. The updated research found that the 2021 dollar volume of like-kind exchanged properties was 70% greater than 2019 exchange activity. Among other factors, this growth may be attributed, in part, to a rebound in the economy and to the need to transition or repurpose existing properties to meet post-pandemic business models and changing tenant needs, trends which may continue, to some degree, into future years. Thus, the adjusted findings may be reflective of future annual economic activity.

Key findings are that I.R.C. §1031 like-kind exchanges:

- ▶ **Promote job growth and labor income in the United States.** Overall, economic activity generated by §1031 exchanges in 2021 supported
 - ▶ 976,000 jobs
 - ▶ \$48.6 billion of labor income.
- ▶ **Contribute to US GDP.** Like-kind exchanges generated \$97.4 billion in value added in the United States in 2021. “Value added” measures a sector’s or industry’s contribution to the production of final goods and services produced in the United States, i.e. US gross domestic product. (Earlier research by EY found that repeal of §1031 would slow economic growth, shrink investment and ultimately reduce GDP.¹)

¹ EY, “Economic Impact of Repealing Like-Kind Exchange Rules,” November 2015.

- ▶ **Contribute to federal, state, and local tax revenue.** Taxpayers engaged in like-kind exchanges, along with suppliers and related consumer spending, were estimated to generate **\$13.1 billion in federal, state, and local taxes during 2021**. Of that, \$8.2 billion is federal, and \$4.9 billion is generated at the state and local level. Moreover, an average of \$6 billion per year of additional income taxes are paid due to foregone depreciation (reduced deductions) on the replacement property acquired in the exchange.
- ▶ **Reduce the cost of capital and increase investment in the US economy.** Like-kind exchanges supported \$7.5 billion of investment in 2021. This results in faster and more efficient redeployment of capital for economic rather than tax reasons. Greater investment results in more jobs, labor income and value added, not only at taxpayer businesses engaged in like-kind exchanges, but also at suppliers to those taxpayers, as well as businesses that rely upon consumer spending, such as retail stores, restaurants and entertainment.
- ▶ **Reduce impediments to transfers, i.e. the “lock-in” effect.** Section 1031 encourages businesses of all sizes to relocate into properties that better meet current and future needs, promoting the best use of property and more efficient business growth.

**Economic activity supported by the like-kind investment at
businesses that make use of the like-kind exchange rules in 2021²**

	Businesses that make use of the like-kind exchange rules	Suppliers and related consumer spending	Total
Employment	447,000	529,000	976,000
Labor Income	\$19.4 billion	\$29.1 billion	\$48.6 billion
Value Added	\$39.3 billion	\$58.1 billion	\$97.4 billion
Federal, State & Local Taxes	\$5.2 billion	\$7.9 billion	\$13.1 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 may not sum due to rounding.

Source: EY analysis.

These estimates indicate the economic activity supported by the like-kind exchange rules in 2021. The rules may support more or less activity in later years depending on differences in the level of like-kind exchange transactions.

² EY, “Economic Contribution of the Like-Kind Exchange Rules to the US economy in 2021,” Updated May 2022