AAHOA ADVOCACY

LIKE-KIND EXCHANGES

Capping LKEs Is Detrimental to Economic Recovery

The Biden administration's "American Families Plan" proposes a $500,000 cap on all like-kind exchanges (LKEs), which would effectively disqualify all commercial real estate transactions many hoteliers use to reinvest capital, create jobs, and improve their local communities.

Eliminating LKEs or restricting their use would have a contraction effect on our economy by increasing the cost of capital, slowing the rate of investment, increasing asset holding periods, and reducing transactional activity.

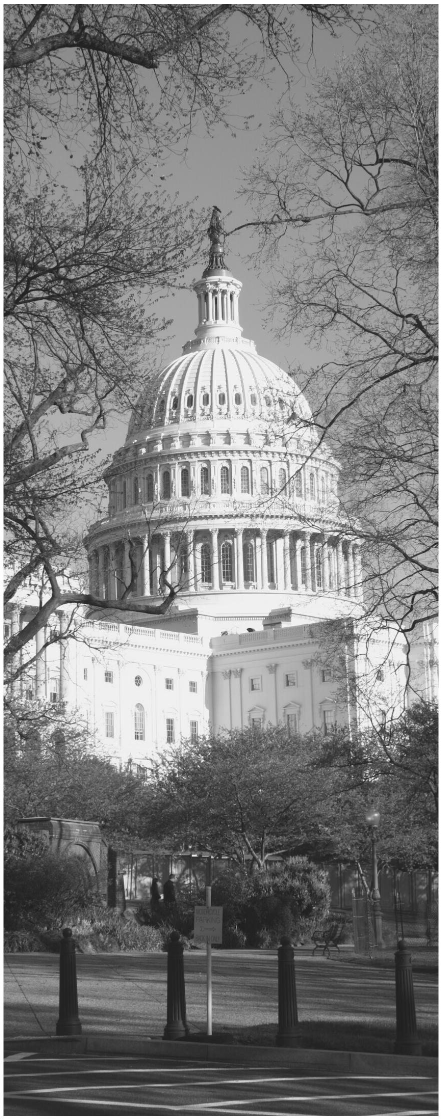
Many AAHOA Members are first and second generation hoteliers who cite LKEs as the pivotal tool they used to grow their businesses. With the ongoing labor shortage in the hospitality industry, the job creation spurred by LKEs will continue to help our members reinvest in their team members and local communities. As the hospitality industry rebuilds following the devastating impact of the COVID-19 pandemic on the domestic travel and tourism economy, capping all LKEs would greatly inhibit the ability of hoteliers to make dynamic investments to recover years worth of lost business.

"[The proposed cap] would be detrimental as most of our 1031 exchanges are above $500,000. This helps families build their business portfolio and it helps the community. For example, we took over a property that was run down with a 1031 exchange and now guests and employees enjoy coming to the property."

– AAHOA Member in Texas

I have done three 1031 exchanges that have netted over 70 jobs.

– AAHOA Member in Alabama



Background on Like-Kind Exchanges

Since 1921, like-kind exchanges (LKEs) have encouraged capital investment by allowing funds to be reinvested back into a small business or other enterprises. LKEs, governed by IRC Section 1031, allow taxpayers to exchange their property for more productive like-kind property, to diversify or consolidate holdings, and to transition to meet changing business needs.

In a 1031 exchange, the investor does not immediately realize a gain or loss when they exchange assets for "like-kind" property that will be used in their trade or business. For all successful 1031 transactions, the federal government receives the full amount of taxes once the property or other investment is liquidated.

LKEs are an important source of capital for entrepreneurs, especially hoteliers, as they encourage hoteliers and prospective property owners to purchase new parcels of land, build new hotels, or renovate existing properties. LKE transactions promote savings and investment, allowing capital to flow freely and efficiently, thereby encouraging commerce, and, ultimately, stimulating our nation's economic growth and job creation.

> *Again, like-kind exchanges have been a great growth vehicle for our family. We started off as a 25-room motel and grew into a 65-room branded property. We were then able to sell it and purchase a few more.*
>
> – AAHOA Member in New Jersey

Supporting Evidence for Preserving IRC Section 1031

In September of 2020, Professors David Ling[1] and Milena Petrova[2] submitted a study titled The Tax and Economic Impacts of Section 1031 Like-Kind Exchanges in Real Estate to the Real Estate Research Consortium. In their research, Ling and Petrova find that LKEs help create new jobs while supporting small businesses, notably in periods of economic downturns. They also suggest that the cost of LKEs to the U.S. Treasury is likely overestimated, while their benefits to small investors and to local CRE markets are often overlooked.

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About AAHOA

AAHOA is the foremost advocate and resource for America's hotel owners. As the largest hotel owners association in the world, the nearly 20,000 AAHOA Members represent over half the hotels in the United States. With billions of dollars in property assets and hundreds of thousands of employees, AAHOA Members are core economic contributors in virtually every community and represent one of the foremost examples of realizing the American dream.