

US Economic Activity Supported by the Like-Kind Exchange Rules in 2021

Like-Kind Exchange Rules

- ▶ Allow capital gains tax on exchanged real property to be deferred
- ▶ Reduce the cost of capital
- ▶ Increase the amount of investment in the US economy
- ▶ Support jobs, labor income, and value added to US GDP at businesses that engage in like-kind exchanges, at suppliers to those transactions, and related consumer spending

Rationales for Deferring Tax on Gains Realized in Like-Kind Exchanges:

- ▶ Permits a business to expand opportunities to relocate, consolidate or acquire better, more efficient assets that meet current and prospective needs
- ▶ Reduces impediments to property transfers improving the overall allocation of capital and encouraging the best use of real property
- ▶ Preserves cash flow and avoids liquidation of other assets or increased reliance on debt financing due to tax considerations
- ▶ An immediate tax on continuing investment would discourage and slow the velocity of investment, resulting in market illiquidity and increased cost of capital

Total Economic Activity of, and Related to, the Businesses that Make Use of the Like-Kind Exchange Rules

Businesses that make use of like-kind exchange rules, together with their US suppliers and related consumer spending, were estimated to have supported 976,000 workers earning \$48.6 billion in wages and benefits, and contributed to generating \$97.4 billion in value added to US GDP in 2021.

976k Total Jobs Supported by Like-Kind Exchange Rules



Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Figures may not sum due to rounding. Source: EY analysis.

\$7.5b Investment

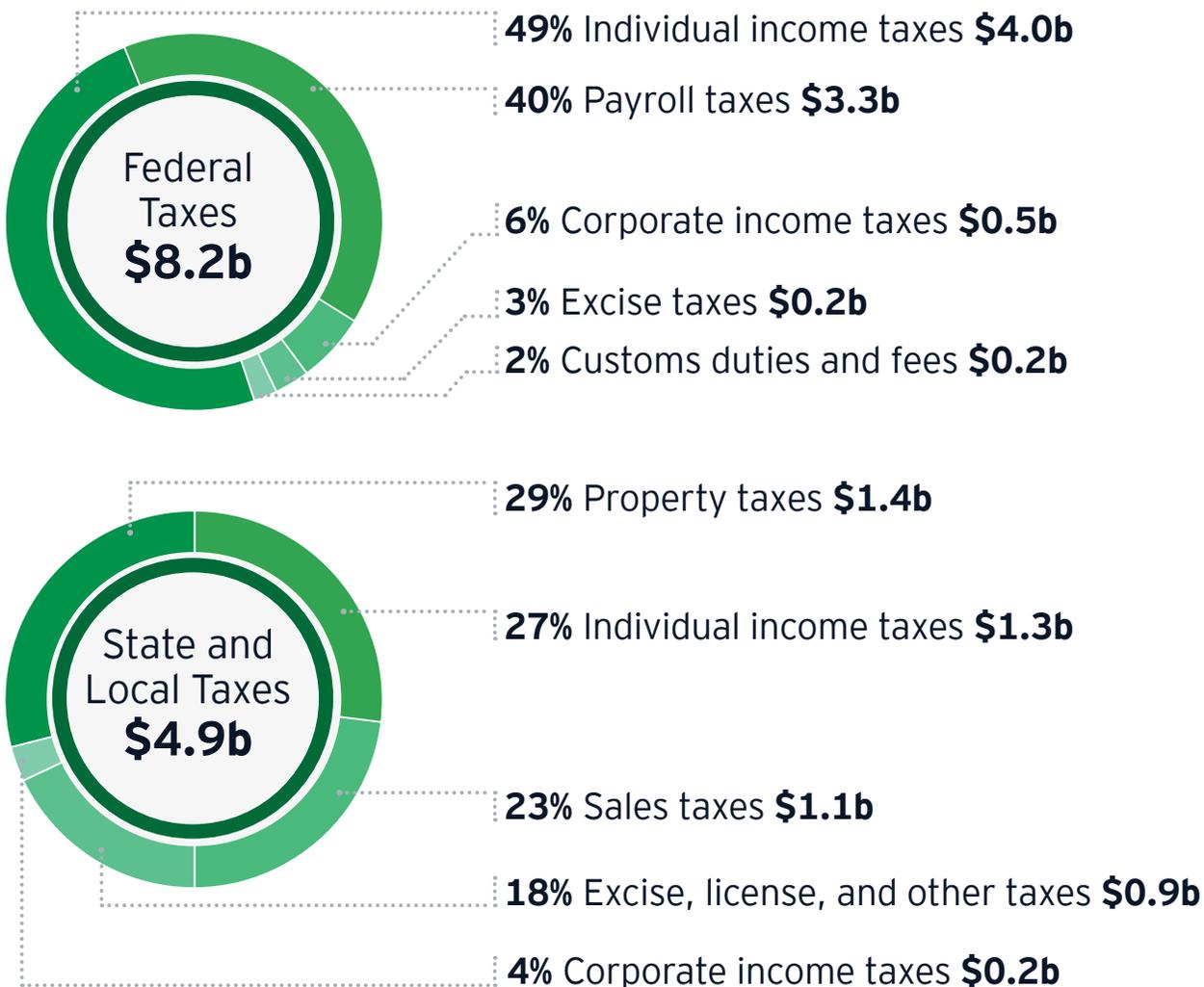
At Companies that Make Use of the Like-Kind Exchange Rules

Current Taxes Paid by, and Related to, the Use and Users of the Like-Kind Exchange Rules

Current tax revenue (not deferred) is supported through the US taxpayers (and their employees) that directly use the like-kind exchange rules. Additionally, tax payments are supported through the suppliers to these businesses and the exchange transactions, and by related consumer spending. The chart below summarizes the federal, state, and local taxes generated by, and related to, the taxpayers that make use of the like-kind exchange rules.

\$13.1b Federal, State, and Local Taxes

Paid by, and Related to, the Businesses that Make Use of the Like-Kind Exchange Rules



Note: All estimates are relative to the US economy in 2021. Figures may not sum due to rounding.

Source: EY analysis.

This infographic is based on the May 2022 update to the May 2021 EY report, "Economic contribution of the like-kind exchange rules to the US economy in 2021," with new information on the increase in like-kind exchange activity as the US economy recovered from the 2020 COVID-related recession. Figures may not sum due to rounding.