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April 4, 2017

The Honorable K. Michael Conaway
Chairman
U.S. House of Representatives
Committee on Agriculture
2430 Rayburn House Office Building
Washington, DC 20515

The Honorable Collin C. Peterson
Ranking Democrat
U.S. House of Representatives
Committee on Agriculture
2204 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Conaway and Ranking Democrat Peterson:

On behalf of the more than 1.2 million members of the National Association of REALTORS®, and of our affiliate REALTORS® Land Institute, I am writing to thank you for holding a hearing tomorrow entitled “Agriculture and Tax Reform: Opportunities for Rural America.” Tax reform is a major issue affecting all real estate professionals, and there are some very specific and serious concerns about how changes to our tax system could impact agriculture, and especially agricultural land.

As I am sure you and all the Members of the Committee are aware, Section 1031 of the Internal Revenue Code provides that property held for productive use or investment may be exchanged on a tax-deferred basis for property of like-kind. This provision provides for the deferral of tax – not its forgiveness – until such time as the economic investment is ultimately disposed of or “cashed in.” The like-kind exchange has been part of our tax system since 1921 and is one of many non-recognition provisions in the Code that provide for the deferral of gain.

Like-kind exchanges are integral to the efficient operation and ongoing vitality of many thousands of American farms and ranches, especially in the land real estate sector. These agri-businesses, in turn, strengthen the U.S. economy, provide jobs, and grow or raise products that feed our Nation and much of the world.

For land real estate, like-kind exchanges encourage land owners, such as farmers and ranchers, to combine acreage, acquire higher-grade land, or move into another property when they are ready to retire. Moreover, section 1031 very often is the key ingredient in agreements to set aside land for preserving open space, or for scenic or environmental conservation purposes.

As you know, the House Republican tax reform “Blueprint” would allow for the immediate expensing of business assets *except for land*. Unfortunately, some proponents of immediate expensing believe that this feature would supplant the need for like-kind exchanges. In reality, replacing section 1031 with immediate expensing would leave land investors, including family farmers and ranchers, out in the dust by taking away their ability to do an exchange and also possibly preventing the deduction of their interest expense.

The elimination or restriction of like-kind exchanges would contract our economy by increasing the cost of capital, slowing the rate of investment, increasing asset-holding periods, and reducing transactional activity. NAR’s members believe it would have a particularly catastrophic effect on land transactions since land would not be a permissible expense. Removing or inhibiting this tool would likely translate into lower




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land values across the country, negatively impacting rural counties' tax bases, and creating another real estate recession – this time specific to rural counties explicitly because of tax “reform.”

In summary, there is a strong economic rationale for preserving like-kind exchanges. Limiting or repealing section 1031 would deter and, in many cases, prohibit continued and new real estate and capital investment, particularly for land. Repealing or limiting like-kind exchanges would dampen the motivation to buy, sell, and reinvest in land and real property, and would cause significant capital to flee the United States. This runs counter to the stated goals of tax reform to increase economic growth, job creation, and global competitiveness.

This hearing is aptly and optimistically entitled “Agriculture and Tax Reform: Opportunities for Rural America.” NAR believes that with thoughtful leadership, tax reform will increase opportunities for all, including those who make their living from one of our greatest resources – the land. However, the opposite is also true, and REALTORS® urge you and the Committee to help retain the Section 1031 like-kind exchange as a vital tool for land investors, and particularly for America’s family farmers and ranchers.

Sincerely,

A handwritten signature in cursive script that reads "William E. Brown". The signature is written in dark ink on a light-colored background.

William E. Brown

2017 President, National Association of REALTORS®

cc: Members of the U.S. House of Representatives Committee on Agriculture