



Legislative Revenue Option: Disconnect from Like-Kind Exchanges

A costly and inequitable federal provision

Introduction

The like-kind exchange tax break, also known as a 1031 exchange, is a federal law to which Oregon is currently connected. It allows taxpayers to defer indefinitely paying capital gains taxes on the exchange of business or investment property when they exchange it for similar real estate. The tax break is a tool that disproportionately benefits wealthy individuals and large corporations. Termination of the like-kind exchange tax break would result in a fairer, more efficient tax system.

History/Issues

Most of the financial benefits from like-kind exchanges accrue to high-income individuals and large real estate investors. This provision allows them to avoid paying taxes for extended periods, exacerbating wealth inequality and reducing government revenue needed for essential services.

By allowing taxpayers to defer capital gains taxes indefinitely, the like-kind exchange provision results in significant revenue loss, undermining the ability to fund public goods and services.

The provision creates inequitable treatment of taxpayers. Ordinary taxpayers who sell stocks or other investments must pay capital gains taxes that year, while real estate investors who use like-kind exchanges can indefinitely postpone their tax obligations, creating an uneven playing field.

Recommendations/Justification

The legislature should enact legislation to disconnect from Section 1031 of the Internal Revenue Code, eliminating the like-kind exchange tax break for Oregon real estate and other property.

To minimize disruption, a short phase-out period would allow taxpayers to adjust to the new rules and complete pending transactions.

The government should launch a public education campaign to explain the rationale for the change and how it will benefit the broader economy.

The like-kind exchange tax break undermines tax fairness and government revenue. By ending this tax break, the legislature can promote a more equitable tax system and increase funding for critical public services. It is time to reform Oregon's tax code by disconnecting from Section 1031.

We read the bills and follow the money