



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

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The Honorable Ron Lewis
U.S. House of Representatives
Washington, DC 20515

Attention: Megan Spindel

Dear Mr. Lewis:

Thank you for your letter dated April 25, 2005, on the payments made to tobacco quota holders under the Fair and Equitable Tobacco Reform Act of 2004 (FETRA). You suggest that a taxpayer whose tobacco quota terminates under FETRA should be eligible for like-kind exchange treatment under section 1031 of the Internal Revenue Code (Code).

Under section 1031 of the Code a taxpayer defers recognition of gain or loss on the exchange of property held for productive use in a trade or business or for investment if the property is exchanged solely for property of a like kind that the taxpayer holds for productive use in a trade or business or for investment.

We expect to publish guidance on the federal tax treatment of FETRA payments in the near future. In developing that guidance, we are considering whether a taxpayer whose tobacco quota terminates under FETRA can qualify for like-kind exchange treatment.

I appreciate your comments and hope this information is helpful. If you have any further questions, please call me at (202) 622-4800 or _____, Identification Number _____, at (202) 622-4920.

Sincerely,

George J. Blaine
Deputy Associate Chief Counsel
(Income Tax and Accounting)