

FARM AND RANCH EXCHANGES (1 OF 2)

"AN INTRODUCTION TO 1031 EXCHANGES OF AGRICULTURAL PROPERTY"



Compliments of

Sellers of agricultural property, farms and ranches can benefit from tax deferral under Internal Revenue Code Section 1031.

In a 1031 exchange, a property owner who has held property for productive use in a trade or business or for investment can exchange their property for any other "like-kind" property. Apart from any residence that may be situated on the property (discussed below), most farmers and ranchers have owned and operated their properties in a way that qualifies for tax deferral under Section 1031. Exchanges have been a part of the Internal Revenue Code since 1921 and represent one of the most effective strategies available to farmers and ranchers and other rural property owners to defer capital gain taxes on a sale of real property.

In the last several years, residential homes and commercial properties have gone down in value by over 30% (and more in some cases). Farm and ranch properties, however, have experienced a more modest price reduction and demand appears to be growing. Although increasing investor demand and favorable crop prices are good for farmers and ranchers, some are concerned about the capital gain tax that would result from a sale of agricultural land held for a long time, as such property generally has a low adjusted basis. As mentioned, however, tax consequences can be mitigated or avoided entirely by using the 1031 tax deferred exchange to acquire like-kind property.

"LIKE-KIND" PROPERTY IS BROADLY DEFINED

A misconception held by some property owners concerns the types of property that qualify as "like-kind" and some mistakenly believe they must exchange their farm or ranch for another farm or ranch, but this is simply not true. The definition of like-kind property in real estate exchanges is very broad; qualifying replacement property can be virtually any real property that will be held by the taxpayer for investment purposes or used in a trade or business. Bare land can be exchanged for an apartment complex, a rental vacation home, office or other commercial property or any type of property that is held for investment. The range of real property that will qualify for tax deferral opens up many options for farmers and ranchers to diversify their investments and obtain cash flow without necessarily having to be involved in the management of the acquired replacement property. Since more than one property may be acquired in a 1031 exchange, property owners can expand their investments out of one large parcel of land into multiple smaller properties in the same or different geographic locations.

Another potential benefit to consider is the additional time provided in using the most popular exchange variation, the delayed exchange. From the date the farm or ranch is conveyed, the delayed exchange allows for up to 180 days to acquire replacement property or properties. To further understand the advantages of delayed exchanges, click on this link, [The Delayed Exchange](#). To learn about more additional planning opportunities when exchanging farms or ranches, please click on [Farm and Ranch Exchanges \(2 of 2\): Opportunities Abound when Selling Rural Real Estate](#).



ASSET PRESERVATION
INCORPORATED

A National IRC §1031 "Qualified Intermediary"

National Headquarters

800-282-1031

Eastern Region Office

866-394-1031

apiexchange.com

info@apiexchange.com

Template # 40

Asset Preservation, Inc. does not give tax or legal advice. The information contained herein should not be relied upon as a substitute for tax or legal advice obtained from a competent tax and/or legal advisor.