

FARM AND RANCH EXCHANGES

"USE TWO TAX CODE SECTIONS TO YOUR ADVANTAGE"



Compliments of

ONE SALE – TWICE THE TAX BREAKS!

Sellers of farms and ranches are able to take advantage of two different tax code sections to minimize capital gain tax liabilities. By utilizing all the opportunities available in the tax code, many ranch and farm owners can meet their investment objectives and defer capital gain taxes! Often some of the property can qualify for *tax exclusion* under IRC §121 and the remainder can qualify for *tax deferral* under IRC §1031.

BENEFITS OF IRC SECTION 121

The 1997 Taxpayer Relief Act provided property owners significant tax advantages on the sale of a principal residence. IRC §121 allows a homeowner to exclude capital gain taxes if they meet the following requirements:

- Couples filing a joint tax return can exclude up to \$500,000 of the capital gain on the sale of their principal residence, and single filers can exclude up to \$250,000.
- The home must have been the primary residence of both spouses two of the last five years.
- The exclusion is available once every two years.

In addition, a property owner can obtain tax exclusion on the sale of vacant land, under T.D. 9030, if:

- The vacant land is adjacent to the land containing the taxpayer's principal residence;
- The property owner owned and used the vacant land as part of their principal residence;
- The property owner sells or exchanges the principal residence that meets the requirements of §121 within 2 years before or 2 years after the date of the sale or exchange of the vacant land;
- The requirements of §121 have otherwise been met.

WHAT IS AN IRC SECTION 1031 EXCHANGE?

Section 1031 of the Internal Revenue Code allows an owner of property "held for productive use in a trade or business" or "held for investment" to exchange for another "like-kind" property and defer paying capital gain taxes. Although there are some misconceptions, this does not require exchanging a ranch for another ranch since the definition of "like-kind" property is very broad. For example, a property owner can exchange out of a farm or ranch and acquire:

- Single family rental, duplex or triplex
- Apartment or commercial property
- Another farm or ranch property
- Vacation home primarily "held for investment"

WHAT IS NEEDED TO ACCOMPLISH THIS?

A good accountant or real estate attorney is often needed to determine the value of the residence portion of the transaction and the land used in the farm or ranch operation. An experienced "Qualified Intermediary" is essential to a successful exchange. Call the 1031 exchange experts at **Asset Preservation** to learn more!



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