

# Farm and Ranch Exchanges

Use Two Tax Code Sections to Your Advantage

1031

Knowledge



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

In a 1031 exchange, a taxpayer who has held real property for productive use in a trade or business or for investment can exchange their real property for any other like-kind real 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 §1031. Exchanges have been a part of the tax 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.

The tax consequences of a farm or ranch sale can be mitigated or avoided entirely by using the 1031 exchange to acquire other like-kind real property.

## LIKE-KIND PROPERTY IS BROADLY DEFINED

A misconception held by some taxpayers concerns the types of property that qualify as like-kind. Some mistakenly believe they must exchange their farm or ranch for another farm or ranch. This is simply not true. The definition of like-kind property in real estate exchanges is very broad; qualifying replacement real 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 other type of real property held for investment. The range of real property which will qualify for tax deferral opens 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 an exchange, taxpayers can expand their investments from 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 up to a maximum of 180 days to acquire a replacement property or properties.

## Compliments of:



HQ 800.282.1031 | NY 866.394.1031  
[apiexchange.com](http://apiexchange.com) | [info@apiexchange.com](mailto:info@apiexchange.com)

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