

Marketing the Finest Ranch & Recreational Properties

## Land Rich; Cash Poor

*Farmers and ranchers are discovering tax advantaged methods of rolling out of land and into cash flow*

BY CHAD GREENBERG, CPA/PFS, CES IS A VICE PRESIDENT FOR INVESTMENT EXCHANGE GROUP, LLC (IXG)

America was built by hard-working farmers who rose up against the British. The West was won by the entrepreneurship and innovation of ranchers. But now, small farms and ranches are becoming more difficult to maintain. Many retiring farmers and ranchers are finding that there is no way to keep their small business running, and unfortunately, the next generation has no interest in keeping those businesses alive. Those looking to get out of the business are now caught between the proverbial "rock and a hard place", due to the typical built-in capital gains that are inherent in the highly-appreciated land they own. Those in this advantageous predicament should know that there is a solution; 1031 exchanges provide a perfect tool for farmers and ranchers to redirect their investment into other, more diversified, holdings while deferring the capital gains taxes otherwise due upon the straight sale of that property.

Continued on page 7



Long Hollow Creek Ranch  
See page 9

## SAN LUIS VALLEY CATTLE RANCH Saguache County, Colorado

This beautiful cattle ranch is located in Saguache County, right in the heart of the rich San Luis Valley of Southern Colorado. The property consists of 2,911± acres perfect for running cattle. The 1,980± foot deep artesian well (with its decreed water rights producing up to 1,800± gallons per minute) supplies this lush ranch with plenty of water — additionally, there are many stock wells. Property is fenced and cross fenced. Though primarily grazing land, the possibilities are endless. County road access makes it very accessible. Could be subdivided. *Seller has interest in leasing back the property for grazing.* **\$1,880,000.**



COLORADO

## Land Rich; Cash Poor continued from page 1

IRC Section 1031, commonly known as a '1031 exchange' is not new to the IRS's tax regime. In fact, the idea of deferring tax on the exchange of appreciated investment property spans nearly a century! While once used nearly exclusively by the savviest of real estate investors, 1031 exchanges have come around as a much more mainstream tool for the casual real estate investor.

In general, the code section allows for the exchange of property held for use in a trade or business or for investment purposes to be exchanged for "like-kind" property. So long as that "like-kind" property has a purchase price equal to or greater than the sale price of the property being sold, and will also be held for investment purposes, the entire tax derived from capital gains may be deferred. This means that a farmer or rancher could sell his farm or ranch and use the funds to diversify into other types of real estate. Meeting the

apartment buildings or even Tenant in Common (TIC) properties. And a farmer or rancher isn't limited to just one of these types of properties; they can mix and match multiple properties. This would provide the farmer or rancher with an income-producing diversified real estate portfolio meeting his investment objectives.

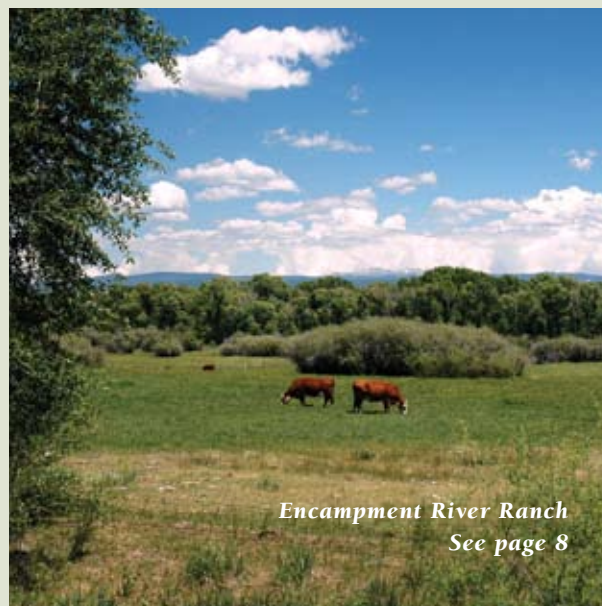
What about the family home or ranch land? Personal residences are excluded from 1031 exchange treatment, but they do not make the entire farm or ranch invalid for 1031 exchanges. The pro-rata share of the home's value should be separated out from the overall contract price. The farmer or rancher may then take the Section 121 principal residence exclusion on their farm house, which is up to \$500,000 for married couples, and exchange the rest of the farm or ranch land through Section 1031.

Let's look at a case in point: meet Mr. and Mrs. Joe and Jane Rancher. The Ranchers have lived on and worked their ranch land for nearly 40 years. They pur-

*Continued on page 10*

*The idea of deferring tax on the exchange of appreciated investment property spans nearly a century! While once used nearly exclusively by the savviest of real estate investors, 1031 exchanges have come around as a much more mainstream tool for the casual real estate investor.*

IRS's definition of "like-kind" is quite simple. So long as one sells real property held for investment use and in turn buys replacement real property for investment use, you've met the definition of 'like-kind'; the form of the property is irrelevant. For example, land can be exchanged for commercial property, rental homes,



*Encampment River Ranch  
See page 8*

chased the ranch while in their 20's, but now in their 60's, the Ranchers are ready to "hang it up". Times lately have been tough, and the Ranchers are struggling to make ends meet each month. Mr. Rancher finds it

*The Ranchers can go out and create a diversified real estate portfolio that will provide them with long-term, stable cash flows, as well as potential appreciation that they can now enjoy for the remainder of their retirement years.*

tougher and tougher to continue to work those long, hard days, and good help is hard to come by. The Ranchers know there has got to be a better way, but they also know that selling the ranch now would result in a very cumbersome tax liability due to the fact that the value of the land has gone from \$100 per acre to now more than \$10,000 per acre! What are the Ranchers to do?

Well, their answer lies in a little bit of tax planning and the marriage of code sections 1031 and 121. First, the Ranchers can allocate a portion of their sale price to their ranch house. Since they have lived in that house as their primary residence for at least two of the past five years, the Ranchers can peel off the first \$500,000 of the sale price completely tax-free and roll that money right into a replacement residence. The balance of the selling price of the land can now be diversified into other investment opportunities. The Ranchers can now go out and create a diversified real estate portfolio that will provide them with long-term, stable cash flows, as

well as potential appreciation that they can now enjoy for the remainder of their retirement years. And the beauty of it is, if done properly, the Ranchers will pay not a penny of tax on the entire transaction!

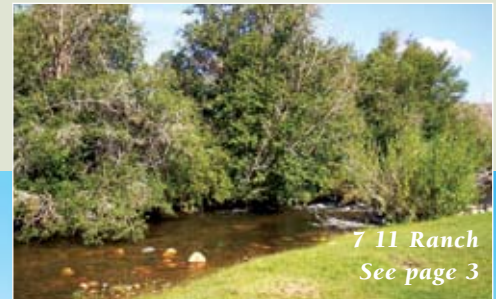
It is getting harder and harder for small farmers and ranchers to make a living. But that doesn't mean that you are limited to two choices: keep working or sell the farm. By using 1031 exchanges, you can exchange the family farm or ranch, which has become too difficult to run at a profit, for income-producing investments without the burden of losing 20% of the profit to Uncle Sam.



*Chad Greenberg, CPA/PFS, CES is a vice president for Investment Exchange Group, LLC (IXG), which provides a full range of services for Section 1031 tax deferred exchanges, including consulting on complex exchange techniques. IXG is a nationwide qualified intermediary. Call 800-908-1031 or e-mail [chad.greenberg@ixg1031.com](mailto:chad.greenberg@ixg1031.com) for a free consultation, or visit us at [www.ixg1031.com](http://www.ixg1031.com).*



**Vagabond Ranch**  
*See page 8*



**7 11 Ranch**  
*See page 3*



**Grimwood Farm**  
*See page 3*



**Walking M Ranch**  
*See page 11*

**MARKETING  
THE FINEST  
RANCH &  
RECREATIONAL  
PROPERTIES**