

# Financial Strategies for Selling a Farm or Ranch

An Educational Resource From  
Solid Rock Wealth Management

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Selling a farm or ranch typically creates significant tax consequences. Without proper planning prior to a sale, the wealth a family has worked a lifetime to create may be eroded by 25% or more.

This Wealth Guide will illustrate the sale of a highly appreciated \$10 million ranch in 2015. It will examine how the use of proven wealth preservation strategies will allow a family to:

- Decrease taxes paid on the sale
- Increase annual income for retirement
- Increase wealth passed to heirs
- Increase money left to charitable organizations

The advanced planning strategies include:

- IRC Section 1031 Tax-Deferred Exchange
- IRC Section 664 Charitable Remainder Trust (CRT)
- IRC Section 121 Personal Residence Exclusion
- Irrevocable Life Insurance Trust (ILIT)

## Four sale scenarios are illustrated:

- Option 1:** Cash sale of the entire \$10 million ranch
- Option 2:** Cash sale for \$6.5 million and 1031 Exchange for \$3.5 million
- Option 3:** Cash sale for \$3 million, 1031 Exchange for \$3.5 million and Charitable Remainder Trust for \$3.5 million
- Option 4:** Cash sale for \$3 million, 1031 Exchange for \$3.5 million, Charitable Remainder Trust for \$3.5 million and purchase of a \$3.5 million Second-To-Die Life Insurance Policy in an Irrevocable Life Insurance Trust

Below is a summary of each of the four options. The pages that follow provide greater detail.

## 2015 Case Study Summary

	Cash Sale	1031 Exchange & Cash Sale	1031, CRT & Cash Sale	1031, CRT, ILIT & Cash Sale
<b>Federal and State Income Tax Liability</b>	\$2,284,600	\$1,535,110	\$488,571	\$488,571
<b>Annual Income from Reinvestment</b>	\$540,078	\$592,542	\$665,800	\$570,800
<b>To Charity Upon Second Death</b>	\$-	\$-	\$3,000,000	\$3,000,000
<b>Net Estate Passed to Heirs</b>	\$12,208,987	\$14,976,623	\$14,794,671	\$16,971,887

## 2015 Summary Schedule

		Cash Sale	1031 Exchange & Cash Sale	1031, CRT & Cash Sale	1031, CRT, ILIT & Cash Sale
<b>Total Tax Paid on Sale</b>		\$2,284,600	\$1,535,110	\$488,571	\$488,571
<b>Effective Tax Rate</b>		22.85%	15.35%	7.69%	7.69%
<b>Projected annual cash flow (before tax):</b>					
Cash Investment	7%	\$540,078	\$347,542	\$175,800	\$175,800
1031 Investment	7%	-	245,000	245,000	245,000
CRT Investment	7%	-	-	245,000	245,000
Life Insurance					(95,000)
		<u>\$540,078</u>	<u>\$592,542</u>	<u>\$665,800</u>	<u>\$570,800</u>
<b>Projected Net Estate to living heirs:</b>					
Cash on Hand		\$7,715,400	\$4,964,890	\$2,511,429	\$2,511,429
Add'l Cash from reinvesting cash flow in excess of \$200,000 per Year (23 yrs, less 35% tax/yr)		\$5,392,912	6,610,437	8,310,509	6,105,870
Tax Savings From CRT - Charitable Contribution Carryover				450,135	450,135
1031 Exchange Property Future Value (2.5% annual appreciation)			6,145,712	6,145,712	6,145,712
ILIT Payout		-	-	-	3,500,000
		<u>\$13,108,312</u>	<u>\$17,721,038</u>	<u>\$17,417,785</u>	<u>\$18,713,146</u>
<b>Amount to charity upon second death:</b>					
CRT		\$-	\$-	\$3,000,000	\$3,000,000
Other donations		-	-	-	-
		<u>\$-</u>	<u>\$-</u>	<u>\$3,000,000</u>	<u>\$3,000,000</u>
<b>Estate Tax Analysis</b>					
Value of Estate		\$13,108,312	\$17,721,038	\$17,417,785	\$18,713,146
Exclusion - Portability Married Couple		(10,860,000)	(10,860,000)	(10,860,000)	(10,860,000)
Exclusion - ILIT Proceeds					(3,500,000)
<b>Taxable Estate</b>		<u>\$2,248,312</u>	<u>\$6,861,038</u>	<u>\$6,557,785</u>	<u>\$4,353,146</u>
<b>Estimated Estate Tax 40%</b>		899,325	2,744,415	2,623,114	1,741,258
<b>Net Estate left to heirs</b>		<u>\$12,208,987</u>	<u>\$14,976,623</u>	<u>\$14,794,671</u>	<u>\$16,971,887</u>

## Option 1: \$10 Million Cash Sale

	Sale Price					10,000,000
<b>Tax Analysis</b>						
	Land	Building	Equipment & Livestock	Raised Livestock	Total	
Sales Price Allocation	9,200,000	100,000	400,000	300,000	10,000,000	
	92.00%	1.00%	4.00%	3.00%		
Original Cost	1,200,000	100,000	600,000	-	1,900,000	
Accumulated Depreciation		100,000	600,000		700,000	
Basis	1,200,000	-	-	-	1,200,000	
Realized Gain/Loss	8,000,000	100,000	400,000	300,000	8,800,000	
Recapture Gain/Loss		100,000	400,000	-	500,000	
Capital Gain/Loss	8,000,000	-	-	300,000	8,300,000	
	8,000,000	100,000	400,000	300,000	8,800,000	
<b>Projected Tax</b>						
Federal:						
1245 Recapture Gain (39.6%)	-		158,400	-	158,400	
1250 Recapture Gain (25%)		25,000	-		25,000	
Long Term Capital Gain (20%)	1,600,000	-	-	60,000	1,660,000	
Total Federal Tax	1,600,000	25,000	158,400	60,000	1,843,400	
State:						
Recapture Rate (6.9%)	-	6,900	27,600		34,500	
Capital Gain (4.9%)	392,000	-	-	14,700	406,700	
Total State Tax	392,000	6,900	27,600	14,700	441,200	
Total Tax Liability	1,992,000	31,900	186,000	74,700	2,284,600	
<b>Cash Flow</b>						
Net Cash after Tax	7,208,000	68,100	214,000	225,300	7,715,400	
Effective Tax Rate	22.85%					
Projected Annual Income (Cash Inv.)	540,078					
Total Annual Income	540,078					

## Option 2: \$6.5 Million Cash Sale, \$3.5 Million 1031 Exchange

	Sales Price 10,000,000				
<b>Tax Analysis</b>	Land	Building	Equipment & Livestock	Raised Livestock	Total
<b>Sales Price Allocation</b>	9,200,000 92.00%	100,000 1.00%	400,000 4.00%	300,000 3.00%	10,000,000
<b>Original Cost</b>	1,200,000	100,000	600,000	-	1,900,000
<b>Accumulated Depreciation</b>	-	100,000	600,000	-	700,000
<b>Basis</b>	1,200,000	-	-	-	1,200,000
<b>1031 Exchange</b>	(3,500,000)				(3,500,000)
<b>Realized Gain/Loss</b>	4,990,000	100,000.00	400,000	300,000	5,790,000
<b>Recapture Gain/Loss</b>		100,000	400,000	-	500,000
<b>Capital Gain/Loss</b>	4,990,000	-	-	300,000	5,290,000
	4,990,000	100,000	400,000	300,000	5,790,000
<b>Projected Tax</b>					
<b>Federal:</b>					
1245 Recapture Gain (39.6%)	-	-	158,400	-	158,400
1250 Recapture Gain (25%)		25,000	-		25,000
Long Term Capital Gain (20%)	998,000	-	-	60,000	1,058,000
<b>Total Federal Tax</b>	998,000	25,000	158,400	60,000	1,241,400
<b>State:</b>					
Recapture Rate (6.9%)	-	6,900	27,600		34,500
Capital Gain (4.9%)	244,510	-	-	14,700	259,210
<b>Total State Tax</b>	244,510	6,900	27,600	14,700	293,710
<b>Total Tax Liability</b>	1,242,510	31,900	186,000	74,700	1,535,110
<b>Cash Flow</b>					
<b>Net Cash after Tax</b>	4,457,490	68,100	214,000	225,300	4,964,890
<b>Effective Tax Rate</b>	15.35%				
<b>Projected Annual Income (Cash Inv.)</b>	347,542				
<b>Projected Annual Income (1031)</b>	245,000				
<b>Total Annual Income</b>	592,542				

## Option 3: \$3 Million Cash Sale, \$3.5 Million 1031, \$3.5 Million CRT

Tax Analysis	Sales Price 10,000,000				
	Land	Building	Equipment & Livestock	Raised Live-stock	Total
Sales Price Allocation	9,200,000	100,000	400,000	300,000	10,000,000
	92.00%	1.00%	4.00%	3.00%	
Original Cost	1,200,000	100,000	600,000	-	1,900,000
Accumulated Depreciation	-	100,000	600,000	-	700,000
Basis	1,200,000	-	-	-	1,200,000
1031 Exchange	(3,500,000)	-	-	-	(3,500,000)
CRT	(3,500,000)				(3,500,000)
Realized Gain/Loss	1,913,000	100,000	400,000	300,000	2,713,000
Recapture Gain/Loss		100,000	400,000	-	500,000
Capital Gain/Loss	1,913,000	-	-	300,000	2,213,000
	1,913,000	100,000	400,000	300,000	2,713,000
Projected Tax					
Federal:					
1245 Recapture Gain (39.6%)			158,400	-	158,400
1250 Recapture Gain (25%)		25,000	-		25,000
Long Term Capital Gain (20%)	382,600	-	-	60,000	442,600
Total Federal Tax	382,600	25,000	158,400	60,000	626,000
State:					
Recapture Rate (6.9%)		6,900	27,600	-	34,500
Capital Gain (4.9%)	93,737	-	-	14,700	108,437
Total State Tax	93,737	6,900	27,600	14,700	142,937
Total Tax Liability	476,337	31,900	186,000	74,700	768,937
Charitable Deduction (limited 30% of AGI)	313,900	100,000	400,000		813,900
Total \$2,100,000 deduction *					
Charitable Contribution (Tax Savings)					
Federal	47,085	25,000	158,400		230,485
State	15,381	6,900	27,600		49,881
Net Tax Liability	413,871	-	-	74,700	488,571
Cash Flow					
Net Cash after Tax	1,786,129	100,000	400,000	225,300	2,511,429
Effective Tax Rate	7.69%				
Projected Annual Income (Cash Inv)	175,800				
Projected Annual Income (1031)	245,000				
Projected Annual Income (CRT)	245,000				
Total Annual Income	665,800				

\*\$1,286,100 Charitable Contribution Carryover

## Option 4: \$3 Million Cash Sale, \$3.5 Million 1031, \$3.5 Million CRT

Tax Analysis	Sales Price					10,000,000
	Land	Building	Equipment & Livestock	Raised Livestock	Total	
<b>Sales Price Allocation</b>	9,200,000	100,000	400,000	300,000		10,000,000
	92.00%	1.00%	4.00%	3.00%		
<b>Original Cost</b>	1,200,000	100,000	600,000	-		1,900,000
<b>Accumulated Depreciation</b>	-	100,000	600,000	-		700,000
<b>Basis</b>	1,200,000	-	-	-		1,200,000
<b>1031 Exchange</b>	(3,500,000)	-	-	-		(3,500,000)
<b>CRT</b>	(3,500,000)					(3,500,000)
<b>Realized Gain/Loss</b>	1,913,000	100,000	400,000	300,000		2,713,000
<b>Recapture Gain/Loss</b>		100,000	400,000	-		500,000
<b>Capital Gain/Loss</b>	1,913,000	-	-	300,000		2,213,000
	1,913,000	100,000	400,000	300,000		2,713,000
<b>Projected Tax</b>						
<b>Federal:</b>						
1245 Recapture Gain (39.6%)			158,400	-		158,400
1250 Recapture Gain (25%)		25,000	-			25,000
Long Term Capital Gain (20%)	382,600	-	-	60,000		442,600
<b>Total Federal Tax</b>	382,600	25,000	158,400	60,000		626,000
<b>State:</b>						
Recapture Rate (6.9%)		6,900	27,600	-		34,500
Capital Gain (4.9%)	93,737	-	-	14,700		108,437
<b>Total State Tax</b>	93,737	6,900	27,600	14,700		142,937
<b>Total Tax Liability</b>	476,337	31,900	186,000	74,700		768,937
<b>Charitable Deduction (limited 30% of AGI)</b>	313,900	100,000	400,000			813,900
<b>Total \$2,100,000 deduction *</b>						
<b>Charitable Contribution (Tax Savings)</b>						
<b>Federal</b>	47,085	25,000	158,400			230,485
<b>State</b>	15,381	6,900	27,600			49,881
<b>Net Tax Liability</b>	413,871	-	-	74,700		488,571
<b>Cash Flow</b>						
<b>Net Cash after Tax</b>	1,786,129	100,000	400,000	225,300		2,511,429
<b>Effective Tax Rate</b>	7.69%					
<b>Projected Annual Income (Cash Inv)</b>	175,800					
<b>Projected Annual Income (1031)</b>	245,000					*\$1,286,100 Charitable Contribution Carryover
<b>Projected Annual Income (CRT)</b>	245,000					
<b>Less: ILIT Life Insurance Premium</b>	(95,000)					
<b>Total Annual Income</b>	570,800					

## **Wealth Advisory Team**

Effective planning for the sale of a farm or ranch requires a team approach. No one advisor can provide the level of expertise you need in each area.

Your wealth advisory team may consist of:

1. Farm/Ranch Broker
2. Certified Public Accountant
3. Estate Planning Attorney
4. Charitable Giving Specialist
5. Investment Advisor
6. 1031 Exchange Intermediary
7. Commercial Real Estate Agent
8. Life Insurance Agent
9. Real Estate Appraiser

Coordinating a team of professionals with expertise in each area can be a time-consuming task. A wealth management consultant who specializes in working with families selling farm and ranch property can assist you with this difficult job. They will collaborate with you and your team to ensure every area is properly addressed so you achieve your goals in the most effective manner possible.

**Chris Nolt** is the owner of Solid Rock Wealth Management, Inc. and Solid Rock Realty Advisors, LLC, sister companies dedicated to working with families throughout the country who are selling a farm or ranch and either downsizing or transitioning into retirement. Solid Rock helps their clients to save tax on the sale and to create passive income from sale proceeds. Their wealth preservation and investment strategies are designed to reduce taxes, increase retirement income and maximize wealth passed to heirs and favorite charitable organizations.

### **Solid Rock Wealth Management, Inc.**

Solid Rock Wealth Management, Inc. is an independent, fee-only registered investment adviser offering globally diversified portfolios of no-load, low-cost asset class mutual funds. Their portfolios are diversified among 15 asset classes and market sectors and are comprised of holdings in roughly 12,000 companies in 44 countries. Their model portfolios range from conservative (100% fixed income) to aggressive (100% equities) and are designed to achieve optimal returns for your level of risk tolerance.

### **Solid Rock Realty Advisors, LLC**

Solid Rock Realty Advisors, LLC assists investors who are seeking secure income producing real estate investments as replacement properties in a farm/ranch 1031 exchange. They specialize in office buildings leased to the U.S. federal government. These fee-simple real estate properties offer long-term leases guaranteed by the full faith and credit of the U.S. government with competitive cap rates and professional property management. Tenants include federal agencies such as the Social Security Administration, FBI, USFS, USDA, DEA, VA, and Homeland Security.

**For more information or to request other Wealth Guides related to planning for the sale of a farm or ranch, call 1-800-517-1031**



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