



SECTION 1031 LIKE-KIND EXCHANGES

Issue:

The capital gains tax and, in some cases, ordinary income tax on the sale of business property can be deferred if a farmer or rancher purchases replacement property. These transactions are called 1031 exchanges, named after the Internal Revenue Code section that defines them. When a farmer sells an asset and does not acquire a replacement, he recognizes a gain and pays the deferred tax.

By using Section 1031, farmers and ranchers are able to exchange real property such as land or buildings. Without Section 1031 like-kind exchanges, some farmers and ranchers would have to incur debt to continue their farm or ranch businesses or, worse yet, delay essential improvements needed to maintain the financial viability of their farm or ranch.

Background:

Like-kind exchanges have existed since 1921. The rationale for allowing property owners to defer taxes on asset transfers when they continue their investment in like-kind assets is as valid today as it was in 1921.

There are many reasons that farmers and ranchers use Section 1031 like-kind exchanges for land and buildings. They may want to consolidate distant land parcels into a contiguous unit to reduce the time and money they spend moving equipment, specialized structures, supplies and commodities from one place to the other. They may want to consolidate cropland closer to livestock barns, crop storage facilities, equipment sheds or the homestead where they live. They may use like-kind exchanges to obtain more productive cropland or to mitigate environmental impacts. Or they may want to move their farm businesses out of the path of urban development.

Farmers and ranchers may use like-kind exchanges to reconfigure their businesses so that young or beginning farmers can join the business.

Like-kind exchanges involving single purpose agricultural or horticultural structures are important to farmers and ranchers wanting to replace or upgrade structures like greenhouses and buildings used to house animals.

AFBF Policy:

Farm Bureau supports allowing farmers to defer taxes when exchanging farm property for farm property (Section 1031 like-kind exchanges). Farm Bureau supports increasing the time allowed to identify exchange property from 45 days to six months and the time allowed to close and receive property from six months to one year.

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