

# Financial Strategies for Selling a Farm or Ranch

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An Educational Resource From  
Solid Rock Wealth Management

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 up to 50% or more.

This Wealth Guide will illustrate the sale of a highly appreciated \$15 million ranch. The ranch is owned by a married couple ages 65 and residents of Montana. It will examine how the use of proven wealth preservation strategies can 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
- IRC Section 121 Personal Residence Exclusion
- Strategic sale price allocation
- Irrevocable Life Insurance Trust

Four sale scenarios are illustrated:

**Option 1:** Straight sale for cash of the entire \$15 million ranch

**Option 2:** Straight sale for \$10 million and 1031 Exchange for \$5 million

**Option 3:** Straight sale for \$5 million, 1031 Exchange for \$5 million and Charitable Remainder (CRT) Trust for \$5 million

**Option 4:** Straight sale for \$5 million, 1031 Exchange for \$5 million, Charitable Remainder Trust for \$5 million and purchase of a \$5 million Second-To-Die Life Insurance Policy in an Irrevocable Life Insurance Trust (ILIT)

Below is a summary of each of the four options. The pages that follow provide greater detail. Scenarios are for illustrative purposes only and are not intended to represent any one particular situation.

## Summary

	Option 1	Option 2	Option 3	Option 4
	<b>Straight Sale</b>	<b>1031 Exchange &amp; Straight Sale</b>	<b>1031 Exchange, CRT &amp; Straight Sale</b>	<b>1031 Exchange, CRT, ILIT &amp; Straight Sale</b>
Federal and State Income Tax Liability	\$2,890,200	\$1,980,486	\$638,074	\$638,074
Annual Income from Reinvestment	\$847,686	\$911,366	\$1,005,335	\$870,335
To Charity Upon Second Death	\$0	\$0	\$5,000,000	\$5,000,000
Net Estate Passed to Heirs	\$19,516,837	\$23,525,457	\$22,565,485	\$25,529,095

# Summary Schedule

## TAX & ESTATE PLANNING ANALYSIS

	Straight Sale	1031 Exchange & Straight Sale	1031 Exchange, CRT & Straight Sale	1031 Exchange, CRT, ILIT & Straight Sale
Total Tax Paid on Sale	\$2,890,200	\$1,980,486	\$638,074	\$638,074
Effective Tax Rate	19.27%	13.20%	7.14%	7.14%
<b>Projected annual cash flow (before tax):</b>				
Cash Investment (7%)	\$847,686	\$561,366	\$305,335	\$305,335
1031 Investment (7%)	0	\$350,000	\$350,000	\$350,000
CRT Investment (7%)	0	0	\$350,000	\$350,000
Life Insurance Premium				(\$135,000)
Total Annual Cash Flow	\$847,686	\$911,366	\$1,005,335	\$870,335
<b>Projected net estate to living heirs:</b>				
Cash on hand	\$12,109,800	\$8,019,514	\$4,361,926	\$4,361,926
Additional cash from reinvesting cash flow in excess of \$200,000 per year (22.8 years life expectancy, after 35% tax)	\$12,531,488	\$14,009,293	\$16,190,002	\$13,057,093
1031 Exchange Property Future Value with 2.5% annual appreciation		\$8,779,588	\$8,779,588	\$8,779,588
ILIT Payout	0	0	0	\$5,000,000
	\$24,641,288	\$30,808,395	\$29,331,516	\$31,198,607
<b>Amount to charity upon second death:</b>				
CRT	0	0	\$5,000,000	\$5,000,000
Other donations	0	0	0	0
	0	0	\$5,000,000	\$5,000,000
<b>Estate Tax Analysis</b>				
Value of Estate	\$24,641,288	\$30,808,395	\$29,331,516	\$31,198,607
Exclusion - with Credit Shelter Trust	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
Exclusion - ILIT Proceeds				(\$5,000,000)
Taxable Estate	\$14,641,288	\$20,808,395	\$19,331,516	\$16,198,607
Estimated Estate Tax 35%	\$5,124,451	\$7,282,938	\$6,766,030	\$5,669,512
Net Estate left to heirs	\$19,516,837	\$23,525,457	\$22,565,485	\$25,529,095

# Straight Sale

## TAX & ESTATE PLANNING ANALYSIS

Sale Price: \$15,000,000

	Land	Building	Equipment & Livestock	Raised Livestock	Total
Sales Price Allocation	\$14,000,000	\$100,000	\$600,000	\$300,000	\$15,000,000
	93.33%	0.67%	4.00%	2.00%	
Original Cost	\$1,200,000	\$100,000	\$700,000	0	\$2,000,000
Accumulated Depreciation	0	\$100,000	\$700,000	0	\$800,000
Basis	\$1,200,000	0	0	0	\$1,200,000
Realized Gain	\$12,800,000	\$100,000	\$600,000	\$300,000	\$13,800,000
Recapture Gain		\$100,000	\$600,000	0	\$700,000
Capital Gain	\$12,800,000	0	0	\$300,000	\$13,100,000
	\$12,800,000	\$100,000	\$600,000	\$300,000	\$13,800,000
<b>Projected Tax</b>					
<b>Federal</b>					
1245 Recapture Gain (35%)	0	0	\$210,000	0	\$210,000
1250 Recapture Gain (25%)	0	\$25,000	0	0	\$25,000
Long Term Capital Gain (15%)	\$1,920,000	0	0	\$45,000	\$1,965,000
Total Federal Tax	\$1,920,000	\$25,000	\$210,000	\$45,000	\$2,200,000
<b>State</b>					
Recapture Rate (6.9%)	0	\$6,900	\$41,400	0	\$48,300
Capital Gain (4.9%)	\$627,200	0	0	\$14,700	\$641,900
Total State Tax	\$627,200	\$6,900	\$41,400	\$14,700	\$690,200
Total Tax Liability	\$2,547,200	\$31,900	\$251,400	\$59,700	\$2,890,200

## CASH FLOW

Net Cash After Tax	\$11,452,800	\$68,100	\$348,600	\$240,300	\$12,109,800
Effective Tax Rate	19.27%				
Projected Annual Income (Cash Investment)	\$847,686				
Total Annual Income	\$847,686				

# 1031 Exchange

## TAX & ESTATE PLANNING ANALYSIS

Sale Price: \$15,000,000

	Land	Building	Equipment & Livestock	Raised Livestock	Total
Sales Price Allocation	\$14,000,000	\$100,000	\$600,000	\$300,000	\$15,000,000
	93.33%	0.67%	4.00%	2.00%	
Original Cost	\$1,200,000	\$100,000	\$700,000	0	\$2,000,000
Accumulated Depreciation	0	\$100,000	\$700,000	0	\$800,000
Basis	\$1,200,000	0	0	0	\$1,200,000
1031 Exchange	(\$5,000,000)	0	0	0	(\$5,000,000)
Realized Gain	\$8,228,571	\$100,000	\$600,000	\$300,000	\$9,228,571
Recapture Gain	0	\$100,000	\$600,000	0	\$700,000
Capital Gain	\$8,228,571	0	0	\$300,000	\$8,228,571
	\$8,228,571	\$100,000	\$600,000	\$300,000	\$9,228,571
<b>Projected Tax</b>					
<b>Federal</b>					
1245 Recapture Gain (35%)	0	0	\$210,000	0	\$210,000
1250 Recapture Gain (25%)	0	\$25,000	0	0	\$25,000
Long Term Capital Gain (15%)	\$1,234,286	0	0	\$45,000	\$1,279,286
Total Federal Tax	\$1,234,286	\$25,000	\$210,000	\$45,000	\$1,514,286
<b>State</b>					
Recapture Rate (6.9%)	0	\$6,900	\$41,400	0	\$48,300
Capital Gain (4.9%)	\$403,200	0	0	\$14,700	\$417,900
Total State Tax	\$403,200	\$6,900	\$41,400	\$14,700	\$466,200
Total Tax Liability	\$1,637,486	\$31,900	\$251,400	\$59,700	\$1,980,486

## CASH FLOW

Net Cash After Tax	\$7,362,514	\$68,100	\$348,600	\$240,300	\$8,019,514
Effective Tax Rate	13.20%				
Projected Annual Income (Cash Investment)	\$561,366				
Projected Annual Income (1031)	\$350,000				
Total Annual Income	\$911,366				

# 1031 Exchange and CRT

Sale Price: \$15,000,000

	Land	Building	Equipment & Livestock	Raised Livestock	Total
Sales Price Allocation	\$14,000,000	\$100,000	\$600,000	\$300,000	\$15,000,000
	93.33%	0.67%	4.00%	2.00%	
Original Cost	\$1,200,000	\$100,000	\$700,000	0	\$2,000,000
Accumulated Depreciation	0	\$100,000	\$700,000	0	\$800,000
Basis	\$1,200,000	0	0	0	\$1,200,000
1031 Exchange	(\$5,000,000)	0	0	0	(\$5,000,000)
CRT	(\$5,000,000)	0	0	0	(\$5,000,000)

Realized Gain	\$3,657,143	\$100,000	\$600,000	\$300,000	\$4,657,143
Recapture Gain	0	\$100,000	\$600,000	0	\$700,000
Capital Gain	\$3,657,143	0	0	\$300,000	\$3,957,143
	\$3,657,143	\$100,000	\$600,000	\$300,000	\$4,657,143

## Projected Tax

### Federal

1245 Recapture Gain (35%)	0	0	\$210,000	0	\$210,000
1250 Recapture Gain (25%)	0	\$25,000	0	0	\$25,000
Long Term Capital Gain (15%)	\$548,571	0	0	\$45,000	\$593,571
Total Federal Tax	\$548,571	\$25,000	\$210,000	\$45,000	\$828,571

### State

Recapture Rate (6.9%)	0	\$6,900	\$41,400	0	\$48,300
Capital Gain (4.9%)	\$179,200	0	0	\$14,700	\$193,900
Total State Tax	\$179,200	\$6,900	\$41,400	\$14,700	\$242,200

Total Tax Liability	\$727,771	\$31,900	\$251,400	\$59,700	\$1,070,771
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Charitable Deduction	\$662,550	\$100,000	\$600,000	0	\$1,362,550
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### Charitable Contribution (Tax Savings)

Federal	\$99,383	\$25,000	\$210,000	0	\$334,383
State	\$50,015	\$6,900	\$41,400	0	\$98,315
Net Tax Liability	\$578,373	0	0	\$59,700	\$638,074

## CASH FLOW

Net Cash After Tax	\$3,421,626	\$100,000	\$600,000	\$240,300	\$4,361,926
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Effective Tax Rate	7.14%
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Projected Annual Income (Cash Investment)	\$305,335
Projected Annual Income (1031 Investment)	\$350,000
Projected Annual Income (CRT Investment)	\$350,000
Total Annual Income	\$1,005,335

# 1031 Exchange, CRT, AND ILIT

## TAX & ESTATE PLANNING ANALYSIS

Sale Price: \$15,000,000

	Land	Building	Equipment & Livestock	Raised Livestock	Total
Sales Price Allocation	\$14,000,000	\$100,000	\$600,000	\$300,000	\$15,000,000
	93.33%	0.67%	4.00%	2.00%	
Original Cost	\$1,200,000	\$100,000	\$700,000	0	\$2,000,000
Accumulated Depreciation	0	\$100,000	\$700,000	0	\$800,000
Basis	\$1,200,000	0	0	0	\$1,200,000
1031 Exchange	(\$5,000,000)	0	0	0	(\$5,000,000)
CRT	(\$5,000,000)	0	0	0	(\$5,000,000)
Realized Gain	\$3,657,143	\$100,000	\$600,000	\$300,000	\$4,657,143
Recapture Gain	0	\$100,000	\$600,000	0	\$700,000
Capital Gain	\$3,657,143	0	0	\$300,000	\$3,957,143
	\$3,657,143	\$100,000	\$600,000	\$300,000	\$4,657,143
<b>Projected Tax</b>					
<b>Federal</b>					
1245 Recapture Gain (35%)	0	0	\$210,000	0	\$210,000
1250 Recapture Gain (25%)	0	\$25,000	0	0	\$25,000
Long Term Capital Gain (15%)	\$548,571	0	0	\$45,000	\$593,571
Total Federal Tax	\$548,571	\$25,000	\$210,000	\$45,000	\$828,571
<b>State</b>					
Recapture Rate (6.9%)	0	\$6,900	\$41,400	0	\$48,300
Capital Gain (4.9%)	\$179,200	0	0	\$14,700	\$193,900
Total State Tax	\$179,200	\$6,900	\$41,400	\$14,700	\$242,200
Total Tax Liability	\$727,771	\$31,900	\$251,400	\$59,700	\$1,070,771
Charitable Deduction	\$662,550	\$100,000	\$600,000	0	\$1,362,550
Charitable Contribution (Tax Savings)					
Federal	\$99,383	\$25,000	\$210,000	0	\$334,383
State	\$50,015	\$6,900	\$41,400	0	\$98,315
Net Tax Liability	\$578,373	0	0	\$59,700	\$638,074

## CASH FLOW

Net Cash After Tax	\$3,421,626	\$100,000	\$600,000	\$240,300	\$4,361,926
Effective Tax Rate	7.14%				
Projected Annual Income (Cash Investment)	\$305,335				
Projected Annual Income (1031 Investment)	\$350,000				
Projected Annual Income (CRT Investment)	\$350,000				
Less: ILIT Premiums	(135,000)				
Total Annual Income	\$870,335				

## 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. 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 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, with offices in Bozeman, Montana and Fountain Hills, Arizona. Solid Rock Wealth Management and Solid Rock Realty Advisors specialize in working with families who are selling a farm/ranch or other business and transitioning into retirement. We help our clients to save tax on the sale and to create passive income from sale proceeds. We employ a comprehensive planning approach with a team of financial professionals, which addresses retirement planning, investment planning, estate planning, tax planning, charitable giving and risk management. Our wealth preservation strategies are designed to help our clients reduce taxes increase retirement income and maximize the amount of wealth they pass on to their heirs and favorite charitable organizations.

### **Solid Rock Wealth Management**

Solid Rock Wealth Management is an independent, fee-only registered investment adviser. We offer globally diversified portfolios of no-load, low-cost institutional asset class mutual funds and exchange traded funds. Are portfolios are diversified among as many as 15 asset classes and market sectors and are comprised of holdings in roughly 12,000 companies in 45 different countries. Our 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**

Solid Rock Realty Advisors assists investors who are seeking secure income producing real estate investments. We specialize in office buildings leased to the U.S. Federal Government and primarily work with investors who are purchasing properties through a 1031 tax-deferred exchange. 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.

### **Chris Nolt, LUTCF**

Chris grew up in Lewistown, Montana. He received a Bachelors degree in business from Montana State University in 1987 and entered the financial services industry in 1989. Working on ranches throughout his high school and college days, Chris gained a deep respect for the work ethic and character of the agricultural family. Having seen the effects from a lack of good financial planning among the agricultural community, Chris determined to help these families make smart decisions with their money so they could preserve the wealth they worked so hard to create. For over 25 years, Chris has been helping farm and ranch families to reduce taxes, invest wisely and preserve their wealth. Chris has earned the designations of Certified Retirement Financial Advisor and Life Underwriter Training Council Fellow.

**For more information or to request other Wealth Guides, call  
406-582-1264 or send an email to: [chris@solidrockwealth.com](mailto:chris@solidrockwealth.com)**



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