The Future Of 1031 Trades And Capital Gains

A new tax law was proposed that could impact one's future plans to sell or transfer farmland from one generation to the next. The Administration has recently proposed changes that would put a limit on capital gains eligible to be deferred to $500,000 per taxpayer (or $1,000,000 for married couples if filing jointly). These limitations would be annually for real property exchanges that are like kind. Currently, there is no existing limitations on eligible capital gains.

Additionally, The Administration has also proposed to raise the capital gains tax rate from the existing rate of 20% up to 39.6%. This change also suggests increasing long-term capital gains tax and eliminating the "step up basis" when inheriting property. If passed, this proposal would be effective for exchanges completed in taxable years beginning after December 31, 2021.

This proposal is part of the American Families Plan. If passed through Congress, this could have some negative effects on the industry and might make you rethink your future farm plans. In order to avoid added taxes and be eligible for gain deferral treatment under the current tax law, exchanges will have to be made prior to December 31, 2021.

On a positive note, this proposal would allow family-owned farms to be exempt from capital gains tax "if the heirs continue to run the business", which will encourage family farms to stay in the family.

Interested in learning more about how 1031 Exchanges work?
We have a comprehensive breakdown provided on our website: https://www.roosterag.com/what-is-a-1031-exchange/