



OUR BUSINESS PRINCIPALS

SECURITY

Industry-leading security measures that ensure exchange fund liquidity and principal protection

KNOWLEDGE

Expert team of CPAs, MBAs, and attorneys that provide exchange guidance for forward, reverse, build-to-suit construction, leasehold, international, personal property, multi-asset, and other complex exchanges

SERVICE

A significant value-adding resource with exceptional client service and innovative strategies that complement core business objectives

An Insight into:

Livestock 1031 Exchanges

Exchanges under Section 1031 of the Internal Revenue Code are often referred to as a “Like-Kind” exchanges due to the requirement that exchanged properties must be like-kind to one another. The like-kind requirement for real estate is broadly defined, thus allowing taxpayers to exchange, for example, residential rental property for raw land, or a retail shopping center for an office building. However, the like-kind application for personal property, including livestock such as cattle and horses, is much more narrowly defined.

Livestock Exchange Issues

In order to qualify for exchange treatment livestock must be of the same sex. The IRS position behind this requirement is that male animals are not held for breeding, and therefore, are not like-kind to female animals. In *Rutherford v. Comm.* the Tax Court confirmed the like-kind element for livestock in a case where three-quarter blood heifers were traded for one-half blood heifers. Additional approved exchanges include mixed cattle for steer calves and an exchange of cows for mixed yearlings. It should also be noted that exchange treatment extends not only to livestock, but also to breeding stock and livestock participation, such as horse syndications.

In order to qualify for exchange treatment, livestock must be “held in a trade or business or for investment” and not primarily for sale. While Section 1031 does not provide specific guidance on this definition as applied to livestock, further guidance for livestock “used in a trade or

business” can be found in Section 1231 and includes:

- cattle and horses, regardless of age, held by the taxpayer for draft, breeding, dairy, or sporting purposes, and held for for 24 months or more from the date of acquisition, and
- other livestock, regardless of age, held by the taxpayer for draft, breeding, dairy, or sporting purposes, and held by the taxpayer for 12 months or more from the date of acquisition

While both Sections 1031 and 1231 use the term “property used in a trade or business,” unlike Section 1231, there is no specific holding period imposed on property exchanged under Section 1031. In fact, Section 1031 does not apply a specific holding requirement for either the livestock being sold (the “Relinquished Property”) or the livestock being purchased (the “Replacement Property”). Taxpayers and their advisors often incorrectly apply the Section 1231 holding period when considering 1031 exchanges.

Domestic and International Livestock Exchanges

With increasing international trade of horses and other livestock, investors should note that exchanges can be performed both domestically and internationally. A property investor who is a US taxpayer, regardless of country of residency, can benefit from using a 1031 exchange strategy.

Please contact Strategic 1031 Exchange Advisors with any livestock exchange questions or issues.

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