



the breeding herd but the offspring is owned jointly with the younger party. When the original breeding animals are sold, the older party receives the income from the cull sale. Subsequently raised replacements are owned jointly.

### ***Feed and market livestock***

An ownership interest in the feed and market livestock can be sold or given to the young person. One approach is to transfer ownership at the low point of the feed inventory (just before harvest), or between the sale and subsequent replacement of market livestock. Another alternative is to transfer ownership over two tax years by making transfers at the end of one tax year and the beginning of the next tax year.

Instead of selling the young person an interest in the market livestock on hand, the livestock can be *inventoried*. When the livestock is subsequently sold, the original owner (older party) will receive the *inventory* value of the livestock with the remaining proceeds divided between both parties. Be careful that the use of the inventory concept does not change your "method of accounting" for income tax reporting purposes.

### **Land**

Land can be transferred during life by sale or gift, or at death. Often land is held by the older party until death, although a building site may be transferred earlier.

### ***Transfer by sale***

Land can be sold to the young person. The two major options are the cash sale and the installment sale, although other options such as the private annuity exist. A cash sale may not automatically reduce estate and inheritance tax liability because the sale proceeds may be taxed in the estate at the eventual death of the parents.

An installment sale can be used to spread the sale proceeds over several years with the original owner (older party) using the annual payments for living expenses. However, periods of inflation will reduce the real value of the fixed annual payments and, over a period of years, may substantially shrink the purchasing power of their income. Conversely, dur-

ing a period of deflation the real value of the annual payments will increase, which may place a financial hardship on the buyer (younger party). Also, because the term of the contract is a fixed number of years, the seller (older party) may outlive the income stream.

### ***Transfer by gift***

Land can be given to the children. Each person (donor) can give up to \$12,000 (2006-adjusted annually for inflation) of property each year to as many people as he/she would like, with no gift tax due. Together, a husband and wife can give \$24,000 each year, even though the property is owned by only one of them. A substantial amount of land can be transferred if there are several recipients. Remember, with a gift the parents give up ownership of the property. So if income from the property is needed to cover living expenses, or if the property is needed as security during retirement, a gift program should not be used. Gift Tax provides more information on this tax.

### ***Transfer by will***

Land is often transferred at death according to the decedent's will. Transferring land at death allows the parents to use the property and receive income from it all through retirement. The major taxes assessed on property passing at death are the Federal Estate Tax and the Iowa Inheritance Tax. Federal Estate Tax provides information on this tax.

The Iowa Inheritance Tax is assessed on property passing to each heir. Iowa Inheritance Tax provides information on this tax.

Transfers at death may be eligible for Special Use Valuation and the 15-year Installment Payment of Federal Estate Tax.

### ***Income tax considerations***

The method used to transfer land will greatly affect income tax liability. This is especially true of land with a low income tax basis. If the land is transferred by sale, the seller (older party) pays income tax on the amount of gain between the tax basis and the sale value of the property. The buyer (younger party) receives the property with a new basis equal to the purchase price. If the land is transferred by gift, the parents pay

no income tax and the child takes over the parents' tax basis. If the property is passed at death, the parents pay no income tax on the gain and the child receives the property with a new tax basis equal to the federal estate tax value (usually the fair market value) in the estate. The gain on the difference between the original tax basis and the market value at death is not taxed. Obviously, there is often a substantial income tax advantage of transferring land and other property at death compared to transfers during life. *Income Tax Aspects of Property Transfers* provides more information.

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