



**NLC25**

TUCSON, ARIZONA

#nlc25

## Legacy Planning and Tax Strategies for Landowners

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# TODAY'S LEARNING OBJECTIVES:

## 1. **Minimizing Estate Taxes**

Learn how to efficiently transfer wealth while also minimizing or eliminating estate taxes.

## 2. **Tax-Saving Strategies**

Discover methods to help clients minimize or eliminate taxes on the sale of equipment, grain, and livestock.

## 3. **1031 Exchanges & Delaware Statutory Trusts (DSTs)**

Understand how 1031 exchanges and DSTs can provide tax deferral, debt relief, and tax-advantaged income for landowners.



Joe Michaletz  
CEO/Founder/Advisor



Mike O'Toole  
EVP/Principal/Advisor



# Strength Comes From Discipline

- 40 year old investment advisory firm
- Founded on the principals of Discipline in Investment Due Diligence
- Real estate, tax mitigation, wealth and estate planning focus
- We focus on rural farmers, ranchers and entrepreneurs
- Own our own Broker-Dealer and Registered Investment Advisor firms

# 50%

of U.S. farmers and ranchers do not have an estate plan\*\*

# 71%

of U.S. farmers and ranchers have not chosen a successor\*\*

# 40%

of U.S. agricultural land will change ownership by 2035.\*

\*According to the AFT (American Farmland Trust)

\*\*According to the USDA Census of Agriculture

# THE TAX CLIFF



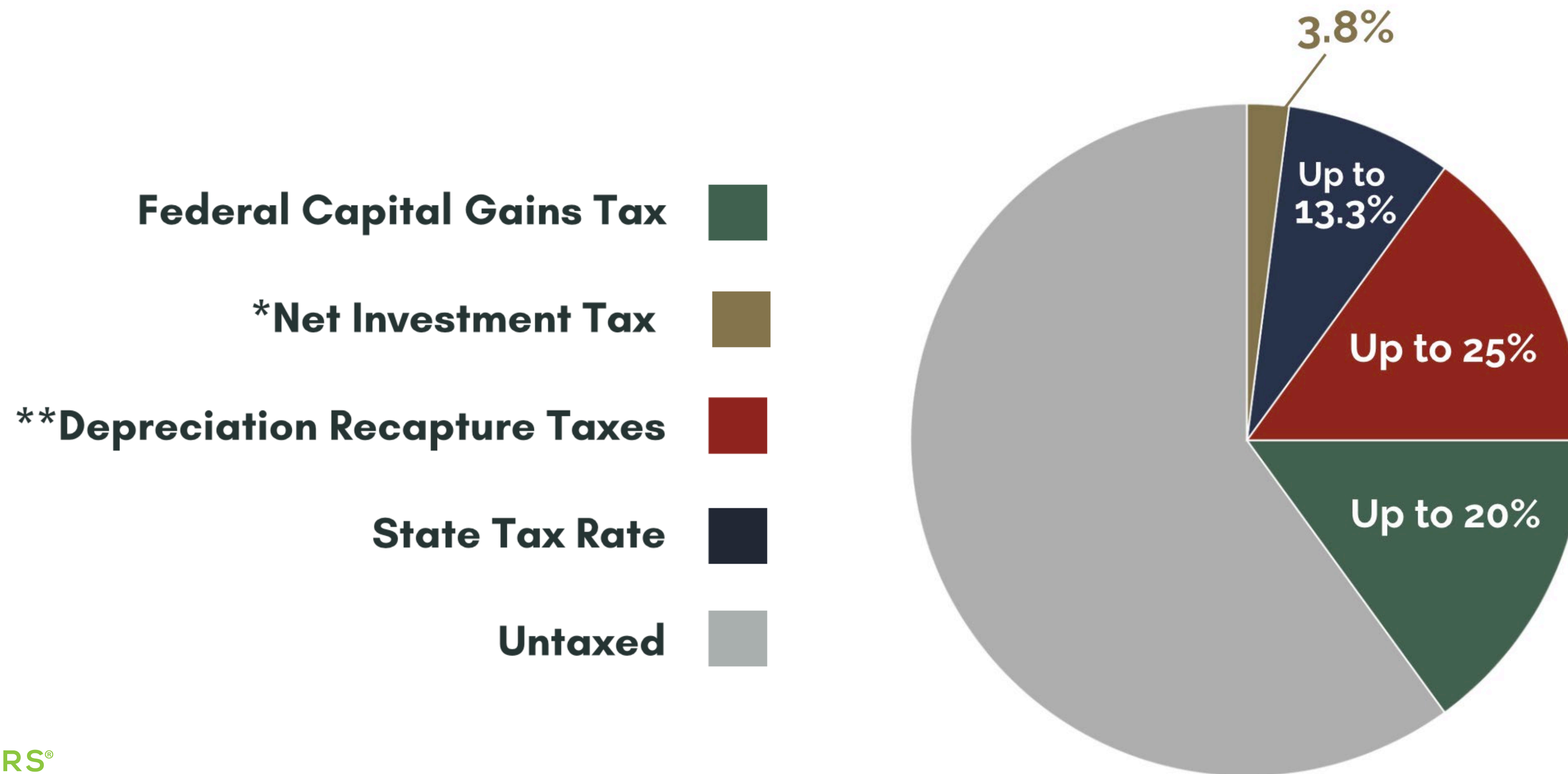
# TAX ISSUES WHEN YOU SELL

*What's your basis?...*

- **Land**
- **Machinery**
- **Grain**
- **Livestock**



# POTENTIAL TAX LIABILITY ON LAND SALES:





# POTENTIAL TAX LIABILITY ON THE SALE OF GRAIN, MACHINERY and LIVESTOCK:

**RECAPTURE/ORDINARY  
INCOME  
TAXED UP TO 37%  
FEDERAL  
+  
YOUR RESIDENT STATE  
INCOME TAX  
0%-13.3%**





# HOW DO YOU TRANSITION FROM ACTIVE TO PASSIVE MANAGEMENT TAX EFFICIENTLY?

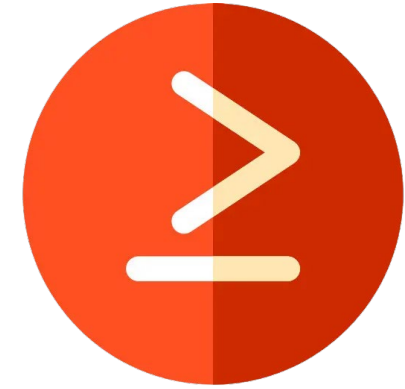
# 1031 EXCHANGE

**What is it and how does it work?**

- Must Be Business or Investment Property
- Like Kind Property (Very Broad Definition)
- 45 Days to Identify
- 180 Days to Close

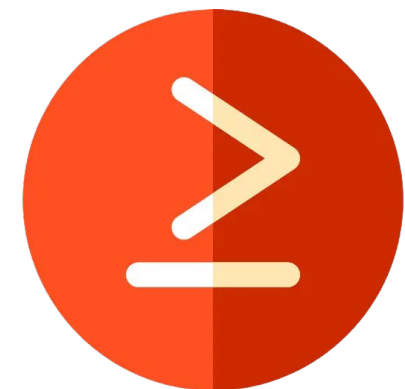


# 1031 EXCHANGE TESTS TO PASS



**VALUE**

EQUAL OR GREATER AMOUNT OF REAL ESTATE  
VALUE



**DEBT**

EQUAL OR GREATER AMOUNT OF DEBT

# 1031 OPTIONS

## ACTIVE

- Land
- Residential Rental Properties
- Commercial Rental Properties

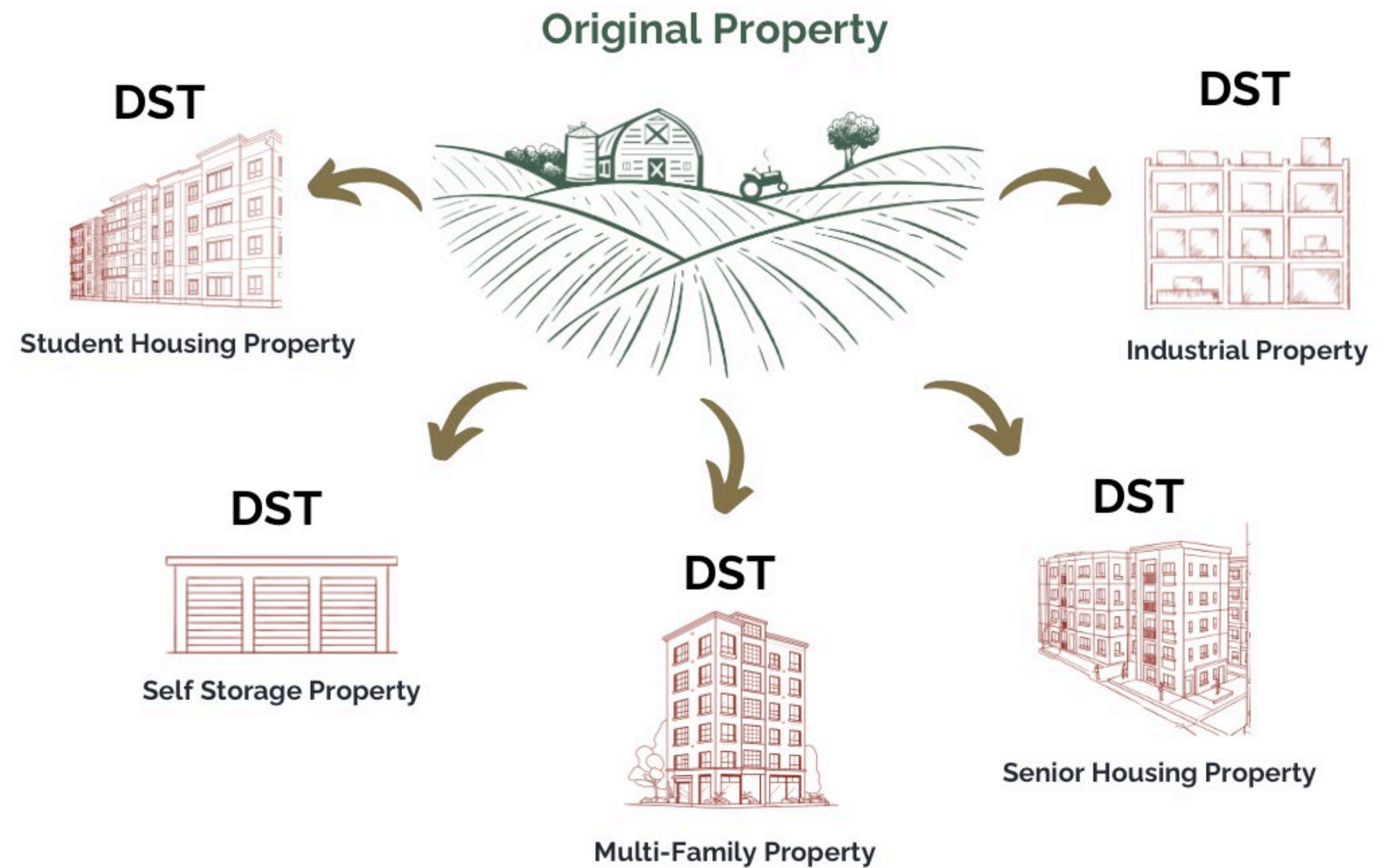
## PASSIVE

- Delaware Statutory Trusts (**DSTs**)
- 721 UREITs
- Mineral Royalties
- Net Lease



# WHAT IS A DELAWARE STATUTORY TRUST?

A DST is a type of trust that holds title to institutional quality real estate that qualifies for a 1031 exchange. Investors are able acquire fractional interests in one or more investment properties.



# Delaware Statutory Trust Structure

Delaware  
Trustee

Trust owns  
stabilized  
assets

Non-  
recourse  
debt



## The Major Benefits of a DST

Through a 1031 Exchange into a DST,  
investors receive the following:

Monthly Cash-  
Flow

Passive  
Management

Potential  
Depreciation  
Benefits

Non-Recourse  
Debt

Legacy Transition  
Benefits

Asset and  
Geographical  
Diversification

# DST Considerations

- **Real Estate Risk:** A DST investment is an investment in real estate and has the same risks of owning real estate
- **No Management Control:** A DST investor does not manage the property or have the ability to make property related decisions
- **Relatively Inflexible:** A DST is an inflexible investment vehicle – What is put in trust must stay in trust until the asset(s) are sold
- **Suitability:** 1031 exchanges and DST investments are not suitable for all investors
- **Minimum Investment:** Typically, the minimum investment into a DST is \$100k
- **Hold Period:** DSTs are structured to be held for 5-10 years
- **Accredited Investor Requirement:** Must be an accredited investor (\$1M net worth excluding personal residence or \$200k income individual or \$300k joint)



# ESTATE PLANNING STRATEGIES



## SUNSET OF TAX CUTS: WHAT HAPPENS?

# Estate Taxes

## Unified Credits:

- **Federal - \$13,990,000 (per individual)**
  - **State Unified Credit?**

## Estate Tax Rates:

- **Federal – 40%**
- **Resident State – 0-15%**

# ESTATE PLANNING *BASICS:*

- **Revocable Trusts vs Wills (probate)**
- **Pour Over Will**
- **Health Care Directive (HCD)**
- **Power of Attorney-durable (POA)**



# ESTATE PLANNING

## *ADVANCED:*

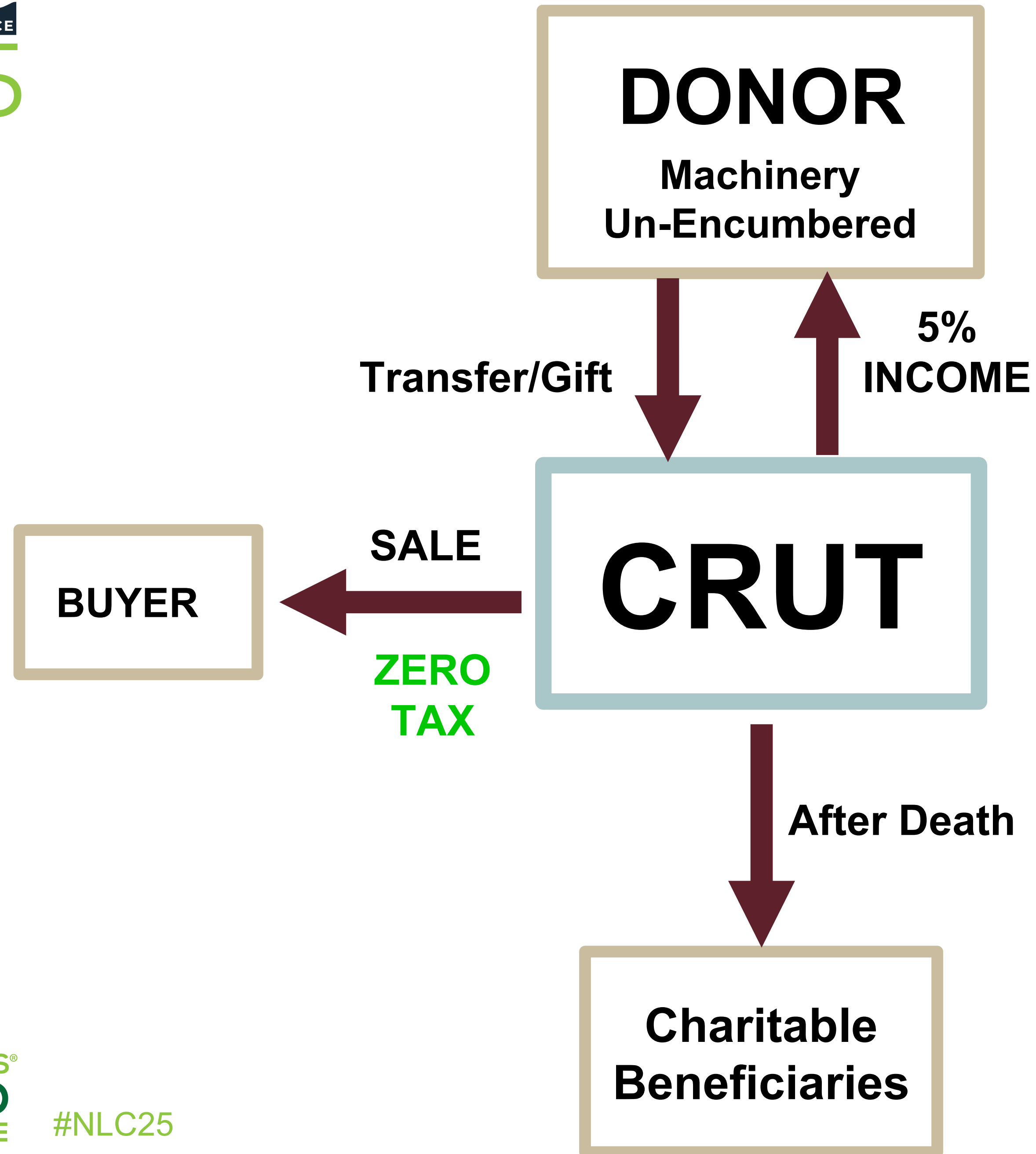
- **LLC** Recapitalization — Voting vs Non-Voting
- **FLP** (Family Limited Partnership) – GP vs LP
- **CRT** (Charitable Remainder Trust)
- **CLT** (Charitable Lead Trust)
- **QPRT** (Qualified Personal Residence Trust)
- **2032A** (Special Use Valuation)
- **IDGIT** (Intentionally Defective Grantor Trust)
- **ILIT** (Irrevocable Life Insurance Trust)

# TAX STRATEGY FOR EQUIPMENT, GRAIN AND LIVESTOCK

## Charitable Remainder Trust (CRT)

- Charitable Remainder Uni-Trust (CRUT)
- Charitable Remainder Annuity Trust (CRAT)





# HOW TO SAVE YOUR LEGACY FROM A





# SUCCESSION PLANNING

**“Should I sell now or wait and pass to my heirs?”**

**“Should I pay off my debt?”**

**“Rent vs sell and 1031?”**

# HOW DSTS SOLVE FAMILY DYNAMIC AND ESTATE ISSUES



## RISKY TRANSITION OF WEALTH

Unanimous approval  
required for all  
inheritance decisions.



## EFFICIENT TRANSITION OF WEALTH



Heirs inherit separately controlled  
portions of the trust

# Thank You!

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# Risk Factors

- No public market currently exists, and one may never exist, for the interests of any DST program. The purchase of interests in any DST program is suitable only for persons who have no need for liquidity in their investment and who can afford to lose their entire investment.
- DST programs offer and sell interests pursuant to exemptions from the registration provisions of federal and state law and, accordingly, those interests are subject to restrictions on transfer.
- There is no guarantee that the investment objectives of any DST program will be achieved.
- The actual amount and timing of distributions paid by DST programs is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital.
- Investments in real estate are subject to varying degrees of risk, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in operating costs, adverse changes in laws and regulations applicable to owners of real estate and changing market demographics.
- DST programs depend on tenants for their revenue and may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.
- Continued disruptions in the financial markets and challenging economic conditions could adversely affect the ability of a DST program to secure debt financing on attractive terms and its ability to service that indebtedness.
- The prior performance of other programs DST programs should not be used to predict the results of future programs.
- The acquisition of interests in any DST program may not qualify under Section 1031 of the Internal Revenue Code of 1986, as amended (the “Code”) for tax-deferred exchange treatment.
- Changes in tax laws may occur and may adversely affect an investor’s ability to defer capital gains tax and may result in immediate penalties.
- The DST structure is inflexible and, in certain events, may be converted to an LLC structure, which would have a tax impact on investors.