



Case Study: Flying 9 Farms

Flying 9 Farms is a mid-sized farm based on the West Coast. Their profile is typical of the average American thoroughbred farm in size and scope of operations.*

The Problem

In early 2006, Flying 9 Farms successfully bid on a horse named Slammin' Sammy. After winning several Grade 1 races with the horse, Flying 9 decided to sell him. Owners believed Slammin' Sammy would likely bring \$600,000 at auction, but were concerned with the potential tax bill since the horse had a very low tax basis. Flying 9's controller concluded that the farm would owe approximately \$200,000 in federal and state taxes upon sale of Slammin' Sammy.



The Accruit Solution

A farm that sells a horse and replaces it with a like-kind horse within 180 days can potentially defer the tax gain under 1031 of the IRC. Flying 9's controller was aware of this tax law provision and called Accruit. Accruit acted as the QI in the transaction, allowing it to be treated for tax purposes as a tax-deferred exchange.

The Results

By calling Accruit prior to selling Slammin' Sammy at auction and structuring the sale and a subsequent purchase as a 1031 Like-Kind Exchange, ***Flying 9 Farms was able to generate approximately \$200,000 in tax savings.*** This cash was then reinvested in their business.

** Flying 9 Farms is a composite farm whose LKE transactions are closely modeled on actual Accruit clients.*

Case Study: Moneymaker Farms

Moneymaker Farms is a leading East coast thoroughbred operation that has produced a long line of stakes winners stretching back over the past several decades.*

The Problem

After a successful racing career, a horse named Ronnie's Revenger was retired for stud duty. As his offspring began winning races, the horse quickly became one of the most talked about young sires in the industry. Within several years, the stallion began commanding stud fees in excess of \$100,000.



Moneymaker Farms decided to divide ownership of the stallion into 20 fractional, undivided interests or shares. The owners retained 11 of the shares and began marketing the remaining nine, each of which was offered for \$2 million. The owners of the farm were concerned with the amount of tax gain that they would recognize upon the sale of each share. After consulting with their controller, they realized that every share sale would generate over \$700,000 in tax.

The Accruit Solution

1031 exchanges can also be applied to the sale of a fractional, undivided interest in a horse. (However, an LKE does not apply to a sale of a security or a partnership interest.) Moneymaker Farms confirmed with their tax advisors that the sale of the fractional interests could potentially qualify for tax-deferred exchange treatment. The controller contacted Accruit prior to selling the fractional interests in order for each sale to be structured as part of a 1031 exchange.

The Results

By structuring each of the nine fractional interest sales as tax-deferred exchanges, ***Moneymaker Farms was able to save over \$6 million in tax*** – cash that was then reinvested in their thriving operation.

** Moneymaker Farms is closely modeled on an actual Accruit client.*