

Tax Advantages in Raising Alpacas

This information is for education only, we are not licensed attorneys or certified accountants and we can not offer legal, financial or tax advice.

One of the first things you may consider is finding an accountant who is familiar with ranching and farming tax laws. We are just supplying information for your accountant, due to laws constantly changing.

For many alpaca owners this can create a substantial tax break. You may still qualify for some tax breaks even if you're considering buying alpacas for investment purposes only and don't want to live on a farm or ranch or commit to the daily care of alpacas (you plan on boarding your alpacas).

The most important thing to keep in mind is the Internal Revenue Service's view of your farm or ranch.

Trying to make a profit is difficult at first, and the IRS does take this into account by determining if your farm or ranch is set up to make a profit. They do this by considering:

- If your farm or ranch does not seem to be a "hobby farm or hobby ranch".
- If you depend on your farm or ranch for income.
- How much time you actually spend working on your farm or ranch.
- Do you, your employees and/or your investors have the knowledge to run a farm or ranch to make a profit.
- Were losses due to conditions beyond your control or from start-up costs?

You can create a tax deferred account in raising alpacas, until you start selling your alpacas. This is done by your herd increasing in value over time; you can avoid paying taxes on them due to the fact that the alpaca herds increase slowly. An example of this would be if bought a pregnant female at \$15,000, within a year she will have a cria that could be worth as much as \$500 to \$5,000, if male or \$10,000 to \$15,000, if female. Increasing you herd value, anywhere from \$15,500 to \$30,000. And as each year continues the value of your herd will grow also, depending largely on whether you have a female or male crias.

As with any business capital expense you have items that depreciate, every year. There are various ways to depreciate and you need to find which way will benefit you the most. Items to consider can range from your alpacas, barns, shelters, fencing, tractors used for pastures and other farm or ranch jobs, vehicles and/or trailers used to transport your alpacas.

If you qualify as a farm, you may be able write off more of your farming or ranching expenses, like accountant fees, insurance, building or repairing a barn, fencing, even hired labor to run your farm or ranch. Also, expenses directly related to caring for your alpacas, like veterinary care, vaccinations, sheering costs and feed. Other things to consider are membership and show fees, seminars, mileage to shows, business trips to other farms and ranches.

To find out more on federal income tax deductions for livestock, examine the IRS's publication "The Farmer's Tax Guide" and review Section 179. This is a great starting point in getting information to discuss with your accountant on what will work best for you.

There are other tax breaks depending on the state you live in. Depending on where you live you could save money on property taxes with an agriculture exemption or by dedicating acres to farming or ranching. You may also be exempt on sales tax by purchasing items for your alpaca business. Items like a minivan, SUV or trailer used to transport your animals, fencing materials, tractors or improvements to your farm that is related to caring for your alpacas.