Tax-Efficient Farm Ownership

A brief for buyers and their advisors — prepared for the Gnarly Vines Farm offering, Tiverton, RI

Smart money doesn't buy a farm to lose money for a deduction. It buys a farm because the asset does four jobs at once.

01 Property tax: the land is taxed as a farm, not an estate

Rhode Island's Farm, Forest & Open Space program assesses enrolled farmland at agricultural use value rather than market/development value. On significant acreage, the difference is material every single year. This property is already enrolled (Tiverton LUC 33 — Farmland), and the classification can continue for a buyer who keeps the land in qualifying agricultural use.

Advisor note: withdrawal from the program or a change of use can trigger Rhode Island's land-use change tax (a declining-percentage recapture). Continuation filings are routine; confirm requirements with the Tiverton assessor.

02 Operating deductions and depreciation — through a real business

A bona fide farm operation reports on federal Schedule F (or through its entity), deducting legitimate operating costs — feed, labor, fuel, repairs, insurance, utilities. Equipment and qualifying agricultural structures carry accelerated depreciation schedules, including Section 179 expensing and bonus depreciation where applicable. Single-purpose agricultural structures and certain greenhouse property are classed on short recovery periods.

Where the owner materially participates in the operation, farm losses in build-out years can generally offset income from other sources. Where ownership is passive, Section 469 passive-activity rules limit current use of losses.

Advisor note: the hobby-loss rules (Section 183) deny deductions where the activity is not engaged in for profit; a profit in 3 of 5 years creates a presumption. The operating history, books, and staffing of this property are directly relevant to that analysis — see item 05.

03 The conservation lever: development rights have a market

Owners of meaningful acreage hold a second asset inside the first: the land's development rights. Two established paths monetize or deduct them while the owner keeps and works the land. State and federal farmland-preservation programs (including Rhode Island's PDR efforts and federal ACEP funding) purchase development rights for cash. Alternatively, a qualified conservation easement donated to an eligible holder can support a charitable deduction under Section 170(h), subject to qualified-appraisal and holder requirements.

Advisor note: easement valuations and deductions are appraisal-driven and scrutinized; use experienced counsel and a qualified appraiser. This parcel's R-120 zoning and acreage make the development-rights conversation a real one, not theoretical.

04 Estate and wealth strategy: a hard asset with special treatment

Farmland is a tangible, income-producing, inflation-resistant holding. Federal law adds an estate dimension: under IRC Section 2032A, qualifying family farm real estate may be valued in an estate at its farm-use value rather than its highest-and-best-use value, subject to participation and holding requirements by qualified heirs. Combined with lifetime gifting strategies, farmland is a long-standing instrument for moving value across generations.

Advisor note: 2032A carries material-participation and recapture conditions; model them early if legacy is part of the goal.

05 Why this property holds up where 'tax farms' fail

Every benefit above depends on one fact pattern: a genuine operation, run for profit. The purchased-for-deductions estate with mowed fields fails that test. This offering is the opposite case:

- Documented multi-channel revenue (retail, food truck, market, wholesale, CSA, pastured meat) with books organized for underwriting.
- A recognized regional brand with seven years of press coverage — third-party evidence the business is real.
- A resident caretaker and existing team — the staffing that makes active, profit-seeking operation achievable for an owner with another career, and the fact pattern that distinguishes participation from passivity.
- Existing enrollment in farm-use assessment, transferable with continued agricultural use.

06 The advisor's diligence list

- Entity and ownership structure (and how it interacts with material-participation goals)
- Purchase-price allocation across real estate, business assets, and equipment (drives depreciation)
- Participation plan documented from day one (hours, decisions, records)
- FFOS continuation filing with the Town of Tiverton; land-use change tax exposure if plans differ
- Conservation/PDR pathway analysis if development rights are part of the strategy
- State residency and multi-state income considerations for the owner

The principle in one line: the tax code rewards real farms.

This one is real — and the full evidence (financials, lease, schedules, brand file) is available to qualified buyers under NDA.