

The IRS affirms tax break for value of AVA for vineyards

In a recent IRS Chief Counsel Memo, the IRS affirmed that vineyard owners will be allowed a tax deduction based on the value of their American Viticultural Area (AVA) designation.

When you purchase a vineyard within an AVA, you are paying a premium for that land because there is an advantage in the market when you sell the fruit that is produced. This advantage is similar to purchasing a brand name.

When a vineyard is purchased, a portion of the purchase price is allocated to buildings, vines, trellises, irrigation and other assets for which a depreciation deduction is allowed. The remainder of the value of the purchase price is allocated to land, for which no deduction is allowed. With the issuance of this new memo from the IRS, you can now allocate a portion of the cost of the vineyard to an intangible asset and then amortize it over fifteen years.

For example, if you have \$3 million allocated to your land and determine that 25% of this is a premium paid due to the AVA designation, you could allocate \$750,000 to your AVA designation, which would then be a distinct asset separate from your land. This would then allow you to deduct \$50,000 of amortization per year for fifteen years. Assuming a 35% tax bracket, this would result in an annual tax savings of \$17,500 per year, for fifteen years.

Implementation of this will require valuations and/or the use of established methodologies for valuation of trade names and other intangible assets.

This benefit is not only available for new purchases. This can be applied to vineyards purchased after August 10, 1993, which is the date the IRS code 197 was established, which allows for the amortization of intangibles. The IRS allows for an automatic change in accounting method, which would allow you to start applying this provision.

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