



Alpacas as an Investment

The information provided herein has been extracted from the Alpacas Owners And Breeders Association (AOBA). For more detailed information, visit the AOBA web-site at www.AlpacaInfo.com and discuss all financial implications of alpaca ownership with an accountant.

Capital Requirements:

Beyond the acquisition of breeding stock, the cost of barns, fencing and labor vary greatly but need to be factored into your capital requirements. Additionally, fencing, equipment, inventory of halters, shears, toe nail clippers, lead ropes, and other miscellaneous gear vie for start-up dollars. Feed, veterinarian and miscellaneous reserve must also be calculated. Insurance is a considerable expense and generally costs approximately 3.5% of the purchase price of each animal being insured, paid each year in advance. Insuring alpacas against loss provides a peace of mind not offered by other investments.

Tax Deferred Wealth Building:

Alpaca breeding allows for tax-deferred wealth building. An owner can have a herd that grows and increases in value over time without paying income tax on its increased size and value until offspring are sold. This creates a considerable advantage over traditional investments.

Capital Gains:

It is important to note the benefits from the capital gains treatment of certain sale proceeds. The sale of breeding stock qualifies for capital gains treatment, whereas, any alpaca held for resale, such as newborn crias that you do not intend to use in your breeding program, would be classified as inventory and produce ordinary income on sale.

Active Investor versus Passive Investor:

Raising alpacas on your ranch (active investor) can offer very attractive tax advantages. If alpacas are actively raised for profit, all expenses attributable to the endeavor can be written off against your income. Expenses would not include feed, fertilizer and veterinary care but also the depreciation of tangible property such as breeding stock, barns and fences. These expenses can also help shelter current cash flow from taxes.



The less active owner (passive investor) using the agisted ownership approach, may not enjoy all of the tax benefits of the active investor but many of the advantages apply such as: depreciating breeding stock and expensing the direct cost of maintaining the alpacas.

The main difference between the active and the passive investor involves the active investor's ability to deduct losses against other income. The passive investor may only be able to deduct losses from investment against gain from the sale of animals and fleece. The active investor can take the losses against other income.

Tax Advantages of Alpaca Ownership:

The following expenses may be deducted from this income. Please note that if you are a passive investor, not all of these deductions may apply:

- Vehicle mileage for all ranch business (IRS publishes current rate)
- Fees for the preparation of your income tax return ranch schedule
- Livestock feed
- Labor hired to run and maintain your ranch
- Ranch repairs and maintenance
- Interest
- Breeding Fees
- Fertilizer
- Taxes and insurance
- Rent and lease costs
- Depreciation on animals used for breeding
- Depreciation of real property improvements such as barns and equipment
- Ranch or investment-related travel expenses
- Educational expenses, which improve your ranching or investment expertise
- Advertising
- Attorney fees
- Ranch fuel and oil
- Ranch publications
- AOBA (breed association) dues
- Miscellaneous chemicals, i.e., weed killer
- Veterinary care
- Small tools
- Agistment fees

Please note: For active investors, the expenses of maintaining a personal residence may not be deducted. Only the farm use portion of expenses such as telephone, utilities, property taxes, accounting, etc may be deducted.



There is also a direct write off (expense) method known as Section 179 that allows substantial deductions each tax year for newly acquired items that are normally long-term depreciable assets. If appropriate for your tax situation, this is widely used by small ranches to accelerate expense. Owners currently in high tax brackets that are changing their lifestyle in the next several years to a lower income level often use it.

It is always wise to consider both the upside and the downside of any potential investment. Seeking the advice of a tax professional is important to realistically evaluate the impact of alpaca ownership on your personal financial situation.