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ESTATE TAX REPEAL

Issue:

Individuals, family partnerships and family corporations own over 99 percent of our nation's more than 2 million farms and ranches. America values these family-owned farms and ranches because of the food, fiber, and fuel they produce; the contribution that agriculture makes to job creation and the economy; and the open space that farming and ranching protect. Yet, our nation's estate tax policy can be in direct conflict with the desire to preserve and protect family-owned farms and ranches.

Farm Bureau believes that tax laws must protect, not harm, the family farms that grow America's food and fiber, often for rates of return that are already miniscule compared to almost any other investment they could make. What is needed are tax policies that do not punish capital-intensive businesses like farms and ranches, and that do not hinder sons and daughters from following the agricultural legacy of their parents. This is why the American Farm Bureau Federation continues to support estate tax repeal.

Background:

Many farmers and ranchers have benefited greatly from congressional action that increased the estate tax exemption to $5 million indexed for inflation, provided portability between spouses, and continued the stepped-up basis. Instead of spending money on life insurance and estate planning, farmers are able to upgrade buildings and purchase equipment and livestock. And more importantly, they have been able to continue farming when a family member dies without having to sell land, livestock or equipment to pay the tax.

In spite of this much-appreciated relief, estate taxes are still a pressing problem for some agricultural producers. One reason is that the indexed estate tax exemption, now $5.49 million, is still working to catch up with recent increases in farmland values. While increases in cropland values have moderated over the last three years, cropland values remain high. On average cropland values are 62% higher than they were a decade ago. As a result, more farms and ranches now top the estate tax exemption.

The value of family-owned farms and ranches is usually tied to illiquid assets such as land, buildings and equipment. With 91 percent of farm and ranch assets illiquid, producers have few options when it comes to generating cash to pay the estate tax. When estate taxes on an agricultural business exceed cash and other liquid assets, surviving family partners may be forced to sell land, buildings or equipment needed to keep their businesses running. This not only can cripple a farm or ranch operation, but also hurts the rural communities and businesses that agriculture supports.

Another reason that farmers and ranchers support estate tax repeal is that their ability to transfer the family business to their sons and daughters is constantly challenged. Proposed changes to I.R.C. § 2704 regulations that would limit the use of discount valuations for estate tax purposes are the latest example. The IRS proposed rule would limit the use of discounts for lack of marketability and minority ownership. Farm and ranch businesses use discounts to reduce the value of their family business below the estate tax exemption level and to reduce taxes if they exceed that threshold.

Legislative Status:

Reps. Kristi Noem (R-S.D) and Sanford Bishop (D-Ga.) have introduced legislation, H.R.631, the Death Tax Repeal Act of 2017, to repeal estate taxes while continuing the stepped-up basis. Farm Bureau supports.

Sen. John Thune (R-S.D.) has introduced companion legislation in the Senate as S. 205. Farm Bureau supports.

AFBF Policy:

Farm Bureau believes that estate taxes should be permanently eliminated.

Farm Bureau opposes the collection of capital gains taxes at death and supports the continuation of unlimited stepped-up basis.

Farm Bureau supports removing the limitation on the amount that property values can be reduced under Special Use Valuation Section 2032A. Timber harvesting or the sale of a conservation easement should not trigger a recapture of estate taxes.

Farm Bureau urges the withdrawal of proposed changes to I.R.C. § 2704 regulations that could hinder the ability to generate minority interest discounts for the transfer of family-owned entities.

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