
CAPITAL GAINS TAXES

Issue:

Long-term capital gains are taxed at a lower rate to encourage investment in farms and businesses that grow our economy, create jobs and in recognition that these investments involve risk.

Background:

The impact of capital gains taxes on farming and ranching is significant because production agriculture requires large investments in land and buildings that are held for long periods of time, during which land values can more than triple. In addition to paying capital gains taxes on land sales, capital gains taxes are imposed when buildings, breeding livestock and some timber are sold.

Capital gains taxes are owed on the amount that the property increased in value since it was purchased. The current top capital gains tax is 20 percent. Farmers and ranchers often pay the top rate (which is assessed on high income taxpayers) because their capital gains can be realized in a single year, for example when a farm is sold. USDA reports that 40 percent of family farms reported some capital gains or losses compared to 13.6 percent for an average individual taxpayer. For farmers with capital gains income, the amount represented 8.6 percent, on average, of total farm household income.

Starting or expanding a farm or ranch requires a large investment because of the capital-intensive nature of agri-business, with land and buildings typically accounting for 79 percent of farm or ranch assets. The higher the capital gains tax rate, the greater the disincentive for farmland owners to sell property or alternatively to raise the asking price. If landowners are discouraged from selling, it can be harder for new farmers to acquire land to start farming and for existing farms to buy land to expand their business to include a son or daughter.

To remain efficient and profitable, farmers and ranchers must have the flexibility to change their businesses to be responsive to market signals from American and overseas consumers. Because capital gains taxes are imposed when buildings, breeding livestock and farmland are sold, the higher the tax the more difficult it is for producers to shed unneeded assets to generate revenue to adapt and upgrade their operations.

AFBF Policy:

Farm Bureau supports eliminating the capital gains tax and the 3.8 percent Medicare surtax. Until this is possible, the tax rate should be reduced and assets should be indexed for inflation. In addition, there should be an exclusion for agricultural land that remains in production, for

transfers of farm business assets between family members, for farmland preservation easements and development rights, and for land taken by eminent domain. Capital gains taxes should not be collected at death, and the unlimited stepped-up in basis of inherited assets should continue.

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