Statement of the American Farm Bureau Federation
To The
U.S. Department of the Treasury
Roundtable on Jobs, Growth & The Abolition
of The Death Tax

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My name is Patricia A. Wolff. I am a Senior Director of Congressional Relations for the American Farm Bureau Federation where I specialize in tax issues. Thank you for the opportunity to speak at this roundtable about the need to permanently repeal death taxes.

AFBF is a general farm organization. Our producer members grow every commodity commercially marketed in this country. They do this on farm and ranch operations in 2,800 counties in all 50 states plus Puerto Rico.

Representatives of state and county Farm Bureaus gather annually to discuss our organization's issue positions and to set priorities. Year after year, support for permanent death tax repeal is reaffirmed, and year after year, it is the organization's top tax priority.

Federal death taxes have long been of concern to American farmers and ranchers because of the potential for the tax due on the death of an owner to force liquidation and hamper or prevent the intergenerational transfer of farm operations. While other sectors of the economy have similar concerns, farmers and ranchers are particularly sensitive to the death tax issue for several reasons. Most notably, farm and ranch estates face heavier, potentially more disruptive death tax burdens than other estates. Roughly twice the number of farm estates paid federal death taxes in the late 1990's compared to estates in general. Moreover, the average farm death tax is also larger than the tax paid by most other estates.

This heavier death tax burden reflects the fact that farmers generally use more assets in their operations than other comparably sized businesses. Moreover, appreciation in land values, increasing farm size, and more mechanization have worked to increase the size of the average farm operation steadily over time. Hence, farmers and ranchers typically bequeath larger estates subject to sharply graduated tax rates that translate into big enough tax bills to disrupt larger sized operations. In many cases, state death taxes and the cost of complex estate management add to this federal tax burden.

Over time, Congress has included a number of provisions in the federal tax code to ease the burden of death taxes. These include provisions applicable to all estates as well as provisions applicable only to farm estates. For example, a general unified credit is built into the law allowing for a sizeable exemption before any tax is collected. In 2003, the exemption from the tax is set at $1 million. Special provisions applicable only to farms and other small businesses include items such as: pricing land at its use value rather than its generally higher market value; paying death taxes over 14 years rather than over the nine months applicable to other estates; and including an added family-owned business deduction. These special provisions have historically cut the number of farm estates paying taxes and the taxes paid by roughly half, but often at the cost of investing considerable time and money in farm estate planning and administration.

Congress moved in l997 and 2001 to further ease and ultimately to eliminate the death tax. Death taxes are being phased down through 2009 and eliminated completely in 2010. Given their death tax exposure, farmers and ranchers are a major beneficiary of the l997 and 2001 initiatives. However, the 2001 legislation included sunset language that provides for the reinstatement of death taxes (a reversion to the 2001 tax structure) in 2011.

Reinstating death taxes in 2011 would, in a single year, reverse a decade of declining farm death taxes. The contrast between 2010 and 2011 is particularly marked. While the 2010 provisions set all death taxes at zero, the 2011 provisions levy a 41 percent to 55 percent tax on the value of all farm estates in excess of $1.3 million. This $1.3 million threshold is the maximum deduction allowable based on the combination ofthe $1 million exemption and the family-owned business deduction. The other special provisions in effect for farm estates in 2001 (i.e., special land valuation, extended payment, etc.) would also be in effect in 2011 and would help in keeping farm and ranch death tax liability from increasing even more sharply.

Projecting USDA's farm financial indicators for the 1990s through 2011 provides insight into the impact of reversion on farms and ranches faced with death taxes and the magnitude of the taxes owed. Assuming trend growth in farm numbers, assets, debts, and equity, eight percent of farm estates will have equity valued at more than $1.3 million by 2011. (This percentage would be even higher absent the applied assumption that all estates would qualify and use the family-owned business exemption.) This eight percent share liable for death taxes in 2011 is double the four percent share liable in the late l990s when the current round of tax reforms began and the zero percent liable in 2010. This increased liability reflects rising farm values due to both higher prices for land and machinery and growth in average farm size. Since the sunset language makes no provision for adjusting the 2001 structure for intervening growth in farm values, larger farms and ranches face an even higher marginal tax rate on a larger taxable base. And more moderate-sized farms and ranches that would have fallen below the $1.3 million threshold in 2001 move above it in 2011. Tax liability in 2011 for the eight percent of estates in question would be approximately $2.8 billion compared to $700-800 million in the late l990s. This translates into an average 2011 tax of $1.2 million on an estate valued at $3.4 million or an effective tax rate of 35 percent. Again, this is higher than the

late l990s average rate of 20-22 percent because of the impact of rising estate values, the graduation of the tax rate, and no offset for inflation.

Tables 1-2 provide summary statistics for the U.S. and selected states. The same pattern referred to above nationally is at work at the state level. Variations from state to state largely reflect differences in the capital intensity of a particular region's agriculture. In all cases, however, a reversion to the 2001 inheritance tax structure in 2011 would increase the death tax burden sharply relative to the burden currently and, even more so, relative to the sharply declining burden through 2010.

Looking at the likely impact of the 2011 reinstatement of death taxes on sample farms provides added insight into the widening tax burden in question. By 2011, a $1.3 million tax threshold would affect significantly more large - and moderate-sized farm operations than in the late 1990s when the impact was concentrated in the largest commercial farms. In the late l990s, only three to four percent of small - to medium-sized farm estates owed death tax compared to 10-17 percent of the largest estates. This burden expands considerably by 2011.

For example as Table 2 indicates, the $1.3 million threshold would make a 440-acre corn/soybean farm and a 180-sow hog operation in Iowa liable to death taxes compared to a death tax threshold of 650 acres and 270 sows in 2001. A 460-acre Arkansas rice farm, a 465-acre Louisiana cotton farm, and a 1,080-acre South Dakota wheat farm would be liable for death taxes. These 2011 thresholds compare to 680-acre, 685-acre, and 1,545-acre thresholds respectively in 2001. A South Dakota cow/calf operation with 620 head would be liable for death taxes in 2011 compared to a 920-head threshold in 2001. A 220-head dairy operation and a 300-acre vegetable operation in California would be liable in 2011 compared to 330 head and 440 acres in 2001. While all of these 2011 threshold operations would still be above average in size, they are moderate-sized operations when compared to the operations that produce the majority of food and fiber production in this country.

Looking at the tax due in 2011 relative to a farm's income also indicates how burdensome the tax could be and the potential for partial or full liquidation to disrupt intergenerational transfers. Death taxes due on a moderately sized $2 million estate would be approximately $300,000. This would be the equivalent of over 2.5 years of farm returns from both income and asset appreciation. For a larger operation with $4 million in equity, the tax liability would be roughly $1.5 million or the equivalent of six to seven years of income and appreciation.

The reinstatement of death taxes in 2011 would translate into a wider range of medium and large farm estates owing more taxes in 2011 than in 2001 before the latest round of reforms began. With reversion in 2011, a projected 2,370 estates would owe $2.8 billion in federal estate taxes compared to the 1,200-1,300 estates owing $700-800 million in the late l990s. While the average estate tax rate in the late 1990s was 20-22 percent for the operations owing the tax, the rate in 2010 would drop to zero before rising to 35 percent in 2011. A tax burden of this magnitude would be large enough to disrupt operations

and exacerbate the problem of intergenerational transfers for an expanding circle of medium- to large-size farms. These are the farms and ranches that produce more than 80 percent of all agricultural production in the United States. When the death tax disrupts these farms it disrupts a very critical part of the U.S. economy and our future ability to maintain production of food and fiber.

For these reasons the American Farm Bureau Federation remains committed to the permanent repeal of death taxes.

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Table 1. U.S. Farm Death Tax Indicators, Actual and Projected
(assuming all estates qualify and use the family-owned business exemption)

Item	Actual for the late 1990s	Projected for 2011
Number of Farm Operations	2,190,000	2,062,000
Number of Farm Estates	31,500	30,000
Number of Farm Estates Owing Death Taxes	1,250	2,370
Share of Farm Estates Owing Death Taxes	4%	8%
Death Taxes Owed	$750 million	$2.8 billion
Death Tax Owed as Share of Estate Value	21%	35%

Table 2. Death Tax Thresholds for Sample Farms

State/Farm Type	2001 Tax Threshold	2011 Tax Threshold
Arkansas Rice Operation	680 acres	460 acres
California Dairy Operation	330 head	220 head
California Specialty Operation	440 acres	300 acres
Iowa Corn/Soybean Operation	650 acres	440 acres
Iowa Hog Operation	270 sows	180 sows
Louisiana Cotton Operation	685 acres	465 acres
S. Dakota Cow/Calf Operation	920 head	620 head
S. Dakota Wheat Operation	1,545 acres	1,080 acres