



Florida Farm Bureau Issue Brief

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Estate Tax Reform

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Background

Individuals, family partnerships and family corporations own 98 percent of our nation's two million farms and ranches and generate 93 percent of the food and fiber produced in our country. 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 operating. This not only can cripple a farm or ranch operation but also hurts the rural communities and businesses that agriculture supports.

The *Unemployment Insurance Reauthorization and Job Creation Act of 2010* set the estate tax exemption at \$5 million per person and the top rate at 35 percent for 2011 and 2012. The bill put in place a new provision for 2011-12 that allows the unused portion of a spouse's exemption to be used by a surviving spouse. In addition, the legislation permanently reinstates stepped-up basis.

Without congressional action, in 2013, the estate tax exemption will shrink to \$1 million per person with no spousal transfer and the top rate will increase to 55 percent. This will strike a blow to farm and ranch operations trying to transition from one generation to the next. A \$1 million exemption is not high enough to protect a typical farm or ranch in supporting a family. This can be especially difficult for farm ranch businesses when coupled with a top rate of 55 percent. In the late 1990s, twice the number of farm estates paid estate taxes compared to other estates, and it took two and half years of farm returns for a moderate-sized farm operation to pay estates tax owed. Estate taxes hit family-owned farm and ranch operations especially hard because of the illiquid nature of farm and ranch business property. With 84 percent of farm and ranch assets land based, agriculture producers have fewer options when it comes to generating cash to pay the estate tax. Not only can selling land destroy the economic viability of a farm or ranch, a forced land sale can depress asset values when a "buyers' market" is created. The situation is made worse when tight credit markets reduce the number of potential buyers for farm and ranch land.

The “off again, on again” nature of estate tax law makes it difficult, if not impossible, for farmers and ranchers to engage in planning for the transfer of a family business from one generation to the next. While estate tax planning may be able to protect some family farms and ranches from the devastation of estate taxes, planning tools are costly and take money needed to operate and expand businesses. Even with planning, changing asset values and family situations make it impossible to guarantee that a well thought out estate plan will protect a family business from estate taxes.

Legislative Status

Legislation is expected in the 112th Congress to both repeal estate taxes and to make the \$5 million per person exemption with spousal transfer and 35 percent top estate tax rate permanent.

Farm Bureau Policy

AFBF Policy:

Farm Bureau believes that estate taxes should be eliminated permanently. Until this can be accomplished, Farm Bureau supports indexing the current \$5 million exemption for inflation with spousal transfer and making the top 35 percent tax rate permanent. In addition, there should be no limit on the amount of farmland that can be valued for farm use rather than development value (IRC section 2032A). Farm Bureau supports the continuation of “stepped up” basis—which adjusts the value of property for inflation at death.

FFBF Policy:

We support elimination of the Federal Estate Tax or raising the exemption limit.