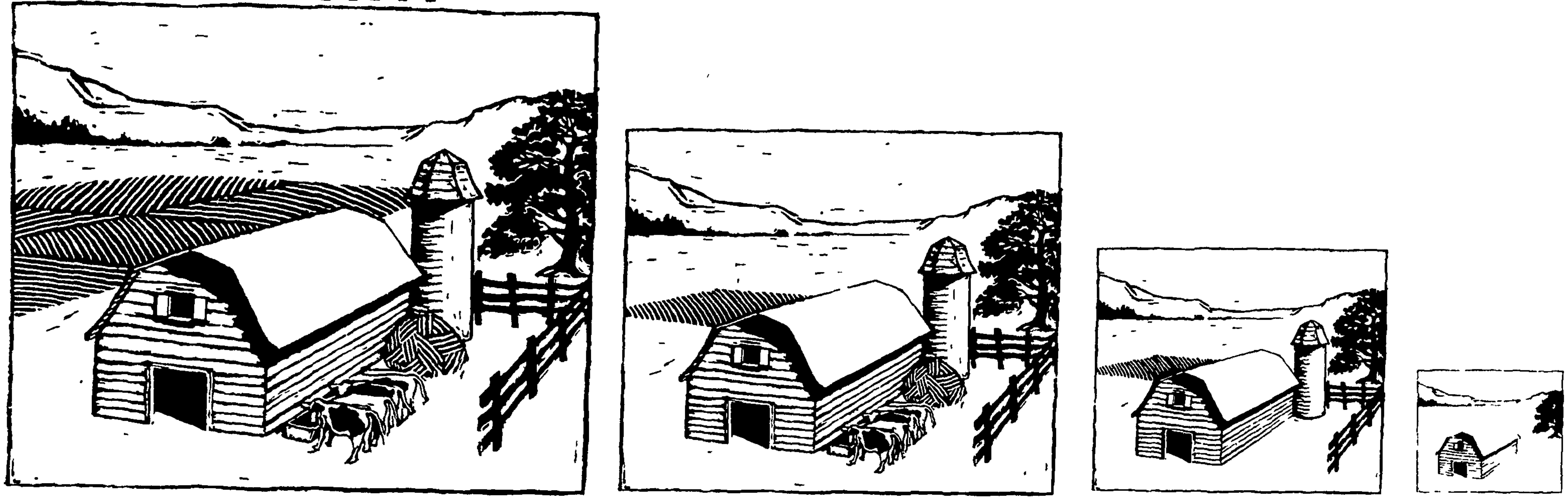
Death Taxes... and the Farm



Ten years ago, a farmer needn't have gotten very concerned about the Federal taxes due on his estate.

Most farms weren't so large but what they were under the $60,000 tax exemption.

But in the past decade, production assets per farm have more than doubled, exceeding $100,000 last year. Federal estate and gift tax exemptions, however, have remained virtually unchanged since the early 1940's

A new ERS study points out that for the first time, these taxes may begin to pose a serious threat to keeping the family farm intact

Big bite. In a study of 21 typical owner-operator farm situations, the USDA's Economic Research Service (ERS) found that death taxes including those imposed by the State–could, in the absence of planned estate transfers, take nearly 20 percent of total farm capital of some types of farms.

Even more serious than the actual amount of death taxes is the fact that most farms can't quickly convert assets to cash to pay taxes Most of a farmer's assets are fixed–in land and buildings–and a heavy death tax load could require selling part of the farm.

The subject is made even more topical for farmers by the fact that Congress is considering major revisions of Federal estate and gift tax laws.

Potential is there. So far, death taxes don't absorb a large portion of capital on most farms. But because farms have rapidly grown in size and value in recent years ... and because death taxes are figured on a graduated scale (from 3 percent to 77 percent for the Federal estate tax), they are taking an ever-increasing share of farm capital.

To illustrate, take a typical Corn Belt hog-beef farm. If its production assets increased at the same rate from 1968 to 1972 as did farms generally around the country, its production assets would have been $240,000 last year. Federal and State death taxes in this case would have climbed from less than 2 percent of farm capital in 1968 to 10 percent in 1972, due to the graduated nature of the tax. (This illustration assumes, for convenience, that farm production assets approximate the gross estate, which may not be the case in actual practice.)

In the lead. The Texas High Plains' irrigated cotton farms had the biggest increase in total potential death taxes during 1961-68. Death taxes went from a tenth of 1 percent to almost 20 percent as capital per farm quadrupled.

Cash grain farms in Illinois took a steep climb in these years, too. Death taxes went from 1 percent to 9 percent of the estate after allowed deductions. And capital assets for the average farm more than doubled.

To illustrate the liquidity problem, let's look at an Iowa study that, though published in 1959, remains the latest available data.

Sudden death. Researchers surveyed 76 farmers and found that if these farmers were to die on the day they were interviewed, fewer than 10 percent would have enough liquid assets to pay estate settlement costs and death taxes. In about 12 percent of the cases, heirs would have to convert farmland into cash---through borrowing or selling to pay costs and taxes.

Of the 21 typical owner-operator farm situations ERS examined, all but four had 70 to 90 percent of their farm capital in land and buildings.

The liquidity problem is especially serious for large farms. For instance, death taxes can take from 15 to 19 percent of total farm capital for cattle ranches in the Northern Rockies and Northern Plains and for

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