

**DEATH TAXES**

(Continued From Page 8)  
 cotton farms in the Mississippi Delta.  
 Research topic. For all these reasons, ERS reports estate planning is more important than ever for the farmer—and some of ERS's future research is going to be in this direction.

There are a number of ways that some of the heavy tax burden can be lightened—but these methods aren't widely used by farmers.

For instance, if property is given away during one's lifetime, you pay a gift tax instead of an estate tax and the rate of taxation is lower. Moreover, the gift tax rate, nominally 75 percent of the estate tax, decreases to an effective rate of 56 percent of the estate tax rate for a transfer of \$10,500 (after taxes) to 40 percent for \$1.5 million, and to 17 percent for a \$10 million transfer.

Unused. With the tax advantage favoring gift transfers, it's surprising to find they are used only in a minor way,

**FARM CAPITAL MOSTLY IN LAND AND BUILDINGS**

Type of Farm	Value of land and buildings as percent of farm capital
	Percent
Dairy (Southeast Wis.)	64
Poultry, eggs (N.J.)	80
Broilers (Ga)	78
Hog-beef fattening (Corn Belt)	72
Cash grain (Corn Belt)	90
Cotton (Miss. Delta)	84
Tobacco (Coastal Plain, N.C.)	87
Tobacco-beef (Ky.-Tenn.)	79
Winter wheat (Southern Plains)	84
Cattle ranches (Southwest)	80
Average, all U S farms	78

especially by owners of large estates.

A special study in the late fifties by the Treasury Depart-

ment showed this: of some 2,200 decedents with gross estates of \$1 million or more, about half had made any taxable gifts at all

**ESTIMATES OF DEATH TAXES FOR FARMS, 1961 AND 1968<sup>1</sup>**

Type of farm	Total farm capital per farm <sup>2</sup>		Federal and State death taxes as percent of capital	
	1961	1968	1961	1968
	--- Dollars ---		-- Percent --	
Dairy (Southwest Wis)	62,400	102,800	2.5	2.9
Cash grain, Corn Belt (Ill)	105,900	227,700	1.1	9.0
Hog-beef fattening, Corn Belt (Mo)	86,800	175,600	0.8	1.8
Cotton, irrigated High Plains (Tex)	117,300	464,900	0.1	19.8
Cotton, Miss Delta (Miss)	214,400	440,000	6.1	17.7
Tobacco (N C)	3	50,400	3	1.3
Wheat-fallow, Wash-Ore (Wash)	3	205,100	3	7.1
Winter wheat, S Plains (Kan)	96,300	147,100	0.2	1.8
Cattle ranches, Southwest (Ariz)	160,700	220,100	2.1	6.4
Cattle ranches, N. Plains	3	406,500	3	19.0
Cattle ranches, N Rockies (Idaho)	3	298,700	3	15.2

<sup>1</sup> Property assumed to pass one half to widow, one fourth to each of two adult children on death of husband. Widow's share passes equally to each of two adult children on her death. <sup>2</sup> Land, buildings, improvements, machinery, equipment, and crops. <sup>3</sup> Farm is assumed to be the only asset in the estate and to be debt-free. <sup>4</sup> Not applicable

during their lifetime.

Under present law an individual can, during his lifetime, give \$30,000 tax exempt. In addition, he can give \$3,000 each to individuals each year. For married couples, these amounts are doubled.

Start early. A couple with two children and four grandchildren could easily transfer an estate of over \$700,000 without paying taxes. To do this, the couple would only have to start a program of systematic giving some 10 to 15 years prior to the end of their actuarial life expectancy.

By the same token, if they made no gifts during their lifetime, the Federal estate tax could be over \$200,000 on a \$700,000 taxable estate.

The Federal estate and gift taxes are unique in that they have been substantially unexamined and unrevised since the early 1940's. They still have the same exemption and the same rate scale—a fact not duplicated by any significant Federal, State, or local tax over this time period.

Reasons for reform. During this time a number of inequities have developed, economic conditions have changed, and added revenues are needed to finance government activities—all reasons for tax reform measures.

Of the general proposals affecting farmers, taxing capital appreciation at death would have the greatest impact on farm

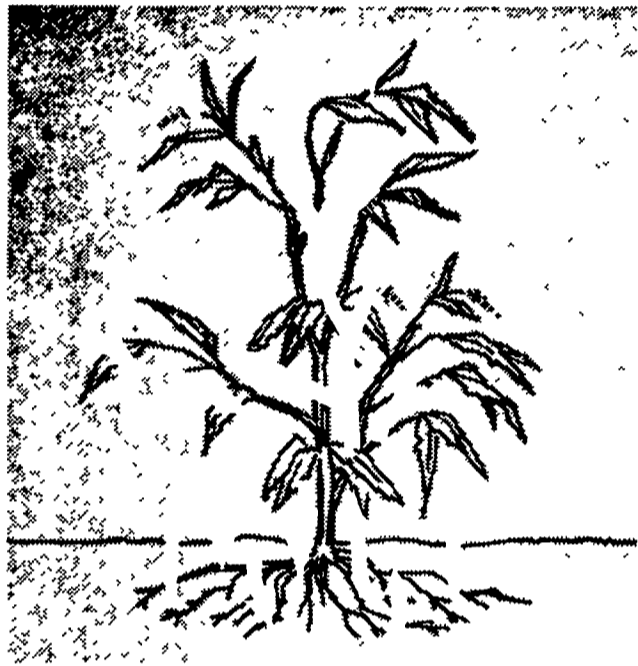
estates. This proposal also departs most radically from current tax rules.

Under present law, assets which have appreciated but which have never been sold are not taxed as capital gains. As part of an estate the assets are subject to an estate tax but the appreciated value is never taken into account and taxed as income.

Some tax experts feel the present law is inequitable in that it gives an advantage to persons who accumulate their wealth through untaxed appreciation compared with those who accumulate their wealth through savings from taxable income or who have to sell their appreciated assets prior to death.

Lengthening payments. Among the other tax reform proposals that would affect farmers is one to liberalize rules concerning payments.

While careful business and estate planning can alleviate or eliminate many liquidity problems, the very nature of farming does not always permit the needed planning and flexibility to achieve liquidity for prompt payment of estate taxes. Proposed changes will likely be specifically designed for the farmer and other closely held businesses to facilitate payment for up to 10 years.



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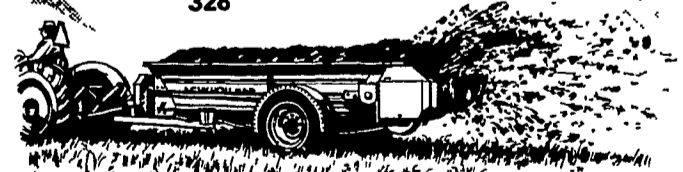
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