

Estate planning a must for future

By JOYCE BUPP
York Co. Reporter
YORK, Pa. - Executor; probate; testate; marital deduction. Know what they mean? If you don't, you should!
Estate planning is becoming increasingly important as a long-term part of farm management. New tax laws passed in 1976 have pushed estate planning to the critical point.

"Some farmers think the new tax law did them a favor. We're here to tell you it did not!" emphasized Phillip H. Tarpley, an estate planning specialist with Farm Family Insurance, an affiliate of the Pennsylvania Farmers' Association.
Tarpley and Joseph Larkin, an attorney specializing in farm estate planning, met with members of the York County Farmers'

Association on February 24 at the Community Room in the York Mall. About 100 farm men and women turned out to hear the recommendations of the specialists.
Tarpley emphasized that farmers tend to feel that land is and forever shall remain theirs. However, when a landowner dies, attorneys and the Internal Revenue Service disregard the farmer's

attachment to his land as part of his life - they simply look at land in terms of taxable dollars.
Through properly written estate plans and wills, a farm family can avoid paying literally thousands of dollars in the various taxes levied by the state and federal governments.

By writing a will, a landowner can choose the executor of his property, thus avoiding having it thrust into the hands of an impartial bank or attorney who may not care what eventually happens to the family farm. Guardians can be named for children, avoiding possible legal proceedings for their care and disposition.

Federal estate taxes begin at 18 per cent of a net estate and can run up as high as 70 per cent of the net estate worth. Pennsylvania charges a six per cent inheritance tax, although none is levied on estate transfer to a spouse; neither are probate taxes charged on inheritances from a husband or a wife.

A wife is allowed to inherit, tax free, one-half of the estate, or \$250,000, whichever amount is larger. She will be taxed on the remaining inheritance valuation. When she dies, children inheriting the entire

estate left by the mother will pay taxes on the total amount, even though the mother originally paid taxes on half of the estate after the father's death.

"How do we get around that?" questioned the tax specialists.
They recommend making the most use of the marital deduction, and then willing the remaining estate to the children after the father's death. The wife will not be taxed on her marital deduction inheritance, and the children will pay the tax, only once, on the remaining amount going to them.

"This could save the children up to \$60,000 on a \$500,000 net estate settlement in the long run," advised the farm tax experts. "By a few simple words properly set down in a will, thousands of dollars can ultimately be saved."

"What's the best way to pass my farm on to my son?" is another key question frequently raised by farmers in estate planning.

Estates are generally taxed on their value at the time of the father's death. However, a son will have to pay taxes on the capital gains made on the property value increases after the father's original purchase.

New tax legislation has written into it a section known as the "Special Valuation Provision." Both Tarpley and Larkin question the provision as being a possible trap for land inheritors.

"It's the worst compromise Congress could have possibly come up with," flatly stated Atty. Larkin.

Under the provision, inherited land can be valued for its usage, not necessarily at its market price. However, if the land is later sold for top-dollar price, within 15 years, the IRS will recompute the tax, based on the market price, and add the tax levy on to the selling taxes. The clincher to the provision, in the experts point of view, is that legally a mortgage cannot be taken on the land by a lending agency, because of this "floating tax lien"

possibility, which prevents issuance of a clear title to the property.

"Unless this is revised - and soon - the young farmer on the East Coast is done for," warned Larkin. "The nice big bone they threw to the farmers in the Tax Reforms bill is useless."

Because partnerships, land agreements, and loosely structured family farming arrangements can change rapidly under unexpected human circumstances, the specialists advised "putting everything down on paper." Such agreements should be tightly drawn, businesslike and properly written, or the Internal Revenue Service may not recognize it, if tax questions arise.

"If you're getting ready to set up estate arrangements," suggests Larkin, "Go to your attorney and tell him you've just died and that you want to know how much in taxes you're going to have to pay."

The two experts recommended seeking knowledgeable specialists to set up farm estate plans, because many legal consultants just aren't fully advised on the unique farm inheritance problems. They both agreed that it is critical to the future well-being of a farmer's family that he set up an individualized plan now - while he is still able.

"They'll get you, sooner or later. In estate planning, we try to make it as late as possible," concluded Larkin.



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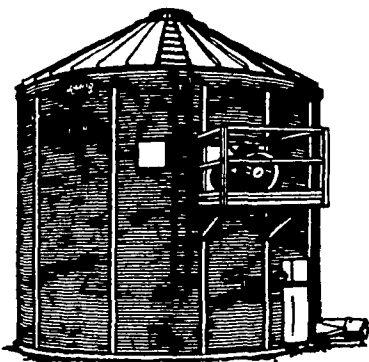
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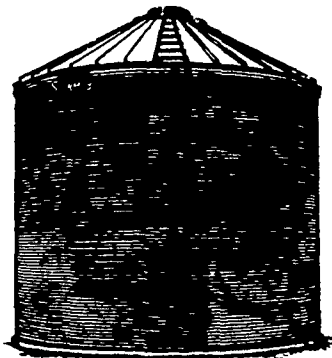
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