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# Federal estate taxation of farm and ranch estates

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Business development producer alliances, continued from page 1

providing investment opportunities to its members in businesses that add value to agricultural commodities. It serves as a clearinghouse for value added ideas, conducts feasibility studies and prepares business plans.

### Advantage of alliances

These new alliances provide advantages for producers involved in value-added business development that are not available when working in isolation on a single project. Alliances provide a unique form of business “incubator.” Not an incubator in terms of physical space and equipment, but an incubator in terms of skills development, leadership, idea sharing and access to resources.

- **Developing business skills**—Instead of developing entrepreneurial and business skills to build just one value-added business, these skills can be used over and over to build several businesses. In the process, these skills are further developed and honed.
- **Building leadership skills**—Critical to the success of developing value-added business are leaders. These individuals are often called “champions” because they provide the drive and momentum needed to take a business idea and create a viable business from it. Alliances provide a forum for leaders to get together to learn and draw strength from each other.

- **Sharing idea**—Alliances bring together individuals from different backgrounds with different market and business ideas. This allows for interaction and sharing of ideas that would not occur in isolation.
- **Building relationships**—Alliances provide a framework for building relationships with other organizations and individuals such as researchers, financial providers, technology providers, public sector providers and others who are critical to building viable value-added businesses.
- **Accessing funds**—Alliances may provide “seed” capital for investigating potential business ideas. Alliance members may be a source of equity for the capitalization of business ventures.
- **Timing business**—As critical as “which” market or industry to enter is the question of “when” to enter. Alliances provide the longevity and patience needed to wait until the proper time to enter an industry or market with a new business.

Producers are attempting to enhance the value-added business development process by creating these entrepreneurial organizations. In the eyes of this observer, these alliances are critical to the success of the value-added movement.



## Federal estate taxation of farm and ranch estates \*

by Neil E. Harl, Charles F Curtiss Distinguished Professor in Agriculture and professor of economics, 515-294-6354, harl@iastate.edu

**R**epeal of the federal estate tax (as well as the generation-skipping transfer tax) effective for deaths after 2009 and the “sunset” provisions specifying that “all provisions of, and amendments made by the Act shall not apply to “estates of decedents dying, gifts made or generation-skipping transfers after December 31, 2010” have focused attention on

the wisdom and the consequences of that part of the Economic Growth and Tax Relief Reconciliation Act of 2001.

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**Justification for repeal**

One of the most frequently cited reasons for repeal of the federal estate tax is the “hardships that the tax inflicts on closely held family businesses and farms.” The data, however, do not support that frequently-made assertion.

**Impact on farms.** Data from federal estate tax returns (Form 706) filed in 2001 provide fairly clear evidence of the impact of the tax on farms and ranches. The data show that the largest amount of farm property subject to federal estate tax is held by decedents with taxable estates of \$20,000,000 or more.

The number of estates subject to the federal estate tax has been quite modest in recent years. Of the roughly 2.3 million deaths in 2001, 51,841 incurred estate tax liability (approximately 2.2 percent of all deaths). In that year, \$23,532,542 was paid in federal estate tax which averaged about \$453,936 per estate.

**Estates reporting farm property.** Of the total number of taxable estates (51,841), 2601 decedents with taxable estates reported some farm property in 2001. That is 0.11 percent of all deaths. The number of estates in each tax bracket and the average amount of farm property are shown in Table 1.

IRS does not separately report farm real estate. Farm real estate is reported under the category of “Other Real Estate.” A report released by the Congressional Research Service on June 9, 2003 included an estimate of the amount of farm real estate included in the “Other Real Estate” category. Approximately \$1.6 billion of the assets reported in the “Other Real Estate” category is believed to be farmland. The estimate by CRS was that farm

real estate included in taxable estates in 2001 was estimated to total \$1,582,774,000

which is approximately 1.28 percent of all taxable estate value. Farm assets in total account for 1.6 percent of total taxable estate value.

The CRS conclusion was that “farm assets and business assets represent a relatively small share of total taxable estate value. And, most of the farm and business assets in the estate tax base are concentrated in estates valued at or above \$10 million.”

As show in Table 1, the 44 estates with taxable estates over \$20,000,000 reporting some farm property reported an average of \$3,389,841 in farm assets for federal estate tax purposes. The \$10,374,200 average benefit of repeal to that group would likely result in a portion of that amount going into farm assets. *Over time, this would be expected to lead to a gradual increase in farm asset ownership by the very wealthy.* The proportion of land rented would be expected to rise as farmers would have an increasingly difficult time in competing for land ownership.

**Tax paid by state.** In confirming the fact that the big run-up in wealth in recent years has largely bypassed the agricultural sector, the data show that the average tax paid in 2001 in states that are heavily agricultural is dramatically lower than the more urban states.

The bottom five states in terms of average federal estate tax paid in 2001 were Hawaii (\$209,267), Idaho (\$207,464), Iowa (\$196,403), West Virginia (\$179,379) and North Dakota (\$61,898).

**Table 1. Average value of farm property by estate tax bracket**

Tax bracket	Number	Average value of farm property
625,000—1,000,000	916	36,772
1,000,000—2,500,000	1,192	38,057
2,500,000—5,000,000	319	263,467
5,000,000—10,000,000	72	612,775
10,000,000—20,000,000	60	735,067
20,000,000 or more	44	3,389,841

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On the other hand, the federal estate tax paid in the top five states in 2001 averaged \$887,437 in Georgia, \$842,200 in the District of Columbia, \$829,823 in Connecticut, \$772,066 in New Hampshire and \$708,458 in Nevada.

Who would benefit from repeal

The top 469 estates (those with taxable estates exceeding \$20,000,000) paid an average of \$10,374,200 each in federal estate tax in 2001. The top 1337 (those with taxable estates exceeding \$10,000,000 of taxable estate) paid an average of \$5,982,049 each. The top 3502 (those with estates exceeding \$5,000,000 in taxable estate) paid an average of \$3,515,461 each in federal estate tax. That is a measure of tax benefit had the federal estate tax been repealed

in 2001. It is obvious what is really driving federal estate tax repeal.

In conclusion

Possible repeal of the federal estate tax and generation-skipping transfer tax is being played out against a backdrop of striking increases in concentration of wealth in recent years. Much of that increase in wealth has bypassed the farming sector.

The revenue loss from federal estate tax repeal would result in a shift of burden to other taxes, most notably the federal income tax. The income tax is a concern to a far greater segment of agriculture than the federal estate tax.

New soybean oil eliminates need for hydrogenation and cuts trans fats

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New soybean varieties developed at Iowa State University hold promise for food manufacturers scrambling to remove unhealthy trans fats from their products. The new soybeans produce oil that doesn't need to be hydrogenated.

The oil passed critical laboratory tests for frying and flavor stability last year, and is being made available this month to many major food companies for evaluation in various products.

The Food and Drug Administration has given food manufacturers until 2006 to include trans fat information on package labels. Trans fats may raise blood cholesterol levels and contribute to heart disease. Most trans fats in the nation's food supply are created in the hydrogenation process, which is used to extend shelf life and stabilize flavor in countless baked, fried and processed foods, including chips, snack crackers, cookies, candies and salad dressings.

Manufacturers hydrogenate soybean oil to reduce its content of unsaturated fatty acids, particularly linolenic acid, the primary culprit responsible for causing food to become stale or

rancid. Soybeans typically produce oil with seven percent linolenic acid. Iowa State's new soybean oil has only one percent linolenic acid.

The new soybean was developed through conventional breeding practices. We started working on the project in the late 1960s. By the early 1990s, we had isolated the three soybean genes that control the one percent linolenic acid trait.

The Iowa State University Research Foundation holds the patent for the one percent linolenic acid soybean.

This year, the one percent linolenic soybeans were planted and harvested in Michigan by Zeeland Farm Services Inc., Zeeland, Mich. In early November, 210,000 pounds of crude oil were extracted from the harvested soybeans. Loders Croklaan, a producer of specialty and nutritional oils and fats in Joliet, Ill., will refine about 70,000 pounds of the oil for distribution to oil suppliers and food companies that have purchased it for testing. The remaining crude oil will be kept in Michigan until more refined oil is needed.

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