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Federal Estate Taxation of Farm and Ranch Estates
— by Neil E. Harl*

Repeal 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 [2001] 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 2001.¹

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.”⁴ 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.⁵ 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.⁶

The number of estates subject to the federal estate tax has been quite modest in recent years.⁷ 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.

<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Number</th>
<th>Average Value of Farm Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>625,000—1,000,000</td>
<td>916</td>
<td>36,772</td>
</tr>
<tr>
<td>1,000,000—2,500,000</td>
<td>1,192</td>
<td>38,057</td>
</tr>
<tr>
<td>2,500,000—5,000,000</td>
<td>319</td>
<td>263,467</td>
</tr>
<tr>
<td>5,000,000—10,000,000</td>
<td>72</td>
<td>612,775</td>
</tr>
<tr>
<td>10,000,000—20,000,000</td>
<td>60</td>
<td>735,067</td>
</tr>
<tr>
<td>20,000,000 or more</td>
<td>44</td>
<td>3,389,841</td>
</tr>
</tbody>
</table>

IRS does not separately report farm real estate. Farm real estate is reported under the category of “Other Real Estate.”⁹ A report released by the Congressional Research Service.

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¹ Charles F. Curtiss Distinguished Professor in Agriculture and Professor of Economics, Iowa State University; member of the Iowa Bar.
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.

**FOOTNOTES**

6. Id.
7. Id.
8. Id.
10. Id.
11. Id.
12. See note 5 supra.
13. Id.
14. Id.
15. Id.
16. Id.
17. Id.
18. Id.