ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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CHANGES IN FEDERAL ESTATE AND GIFT TAXES UNCERTAIN

INFLATION AND RISING PROPERTY VALUES have created pressures on the Congress for some type of reform of our federal estate and gift tax laws. At the end of 1975, Illinois farm land values were about 12 times higher than in 1940 and more than 3 times higher than in 1960. The average farm size has more than doubled since 1940. Consequently, medium-sized farm properties that would have escaped estate taxes a few years ago are now of such value as to incur major estate tax payments.

Pressures from owners of family farms and small businesses have led to proposals by the President and the introduction of several bills in Congress to change the federal estate- and gift-tax laws. On the other hand, budget deficits discourage sizable tax reductions.

The major changes under consideration involve increases in the current $60,000 estate tax exemption, increases in the marital deduction, extending the time-payment period on estate tax payments, taxing generation-skipping transfers, taxing capital gains on property at the death of the owner, and unifying estate and gift tax schedules into a single exemption and set of rates.

With the variety of proposals that have been introduced, there is considerable uncertainty as to whether any agreement in Congress can be reached that the President will sign in this election year.

Proposals to increase the exemption, increase the marital deduction, and extend the time-payment period would either reduce taxes or provide other benefits to Illinois farm families. Generation-skipping transfers involve transfers to a property owner's children for their lifetime and a remainder interest to the grandchildren, and are seldom used by farm property owners. Taxing capital gains on property at the death of the owner and unifying gift- and estate-tax rates and exemptions would probably increase the tax obligations of farm property owners after a few years. The exact effects would depend on the effective date of the law, the exemptions allowed, the size of the estate, and the new rates that might be put into effect.

Another proposed change has been to value farm property at its market price for agricultural purposes rather than at its market value for nonfarm uses. Although any such proposals that give special treatment to farm property appeal to many farm families, such provisions could encourage more investment in farm land by nonfarmers, bidding up the price to those who want to own and operate the land. Provisions that require the "operation" of the farm by the family, rather than as an "investment," to receive special tax treatment could be very difficult to administer.

With the many proposals being made, any final changes to a new law will require compromise. Such compromises whether they come in 1976, 1977, or later will: (1) probably result in a new estate tax exemption of $100,000 to $150,000; (2) still mean sizable tax obligations on estates with farm properties valued at over $300,000; (3) probably result in only moderate changes designed to give most assistance to smaller estates of less than $200,000; (4) not reduce the need for all farm property owners to carry out careful estate planning if they want to minimize taxes and pass on the largest possible net estate to their heirs.

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