

---

# Federal Tax Policy and Farmers: A Current Perspective and Outlook

Ron L. Durst

February 19, 2004



# Federal Tax Legislation

- Jobs and Growth Tax Relief Reconciliation Act of 2003 marked the third consecutive year for major tax relief legislation
- Legislation primarily focused on the individual income tax and estate and gift tax
- Federal income tax as share of GDP is lowest since 1942 and less than 2 percent of all estates owe Federal estate tax

# General Income Tax Relief

- Reduced marginal tax rates
- Marriage penalty relief
- Increased child tax credit
- Reduced tax rates on dividends and capital gains

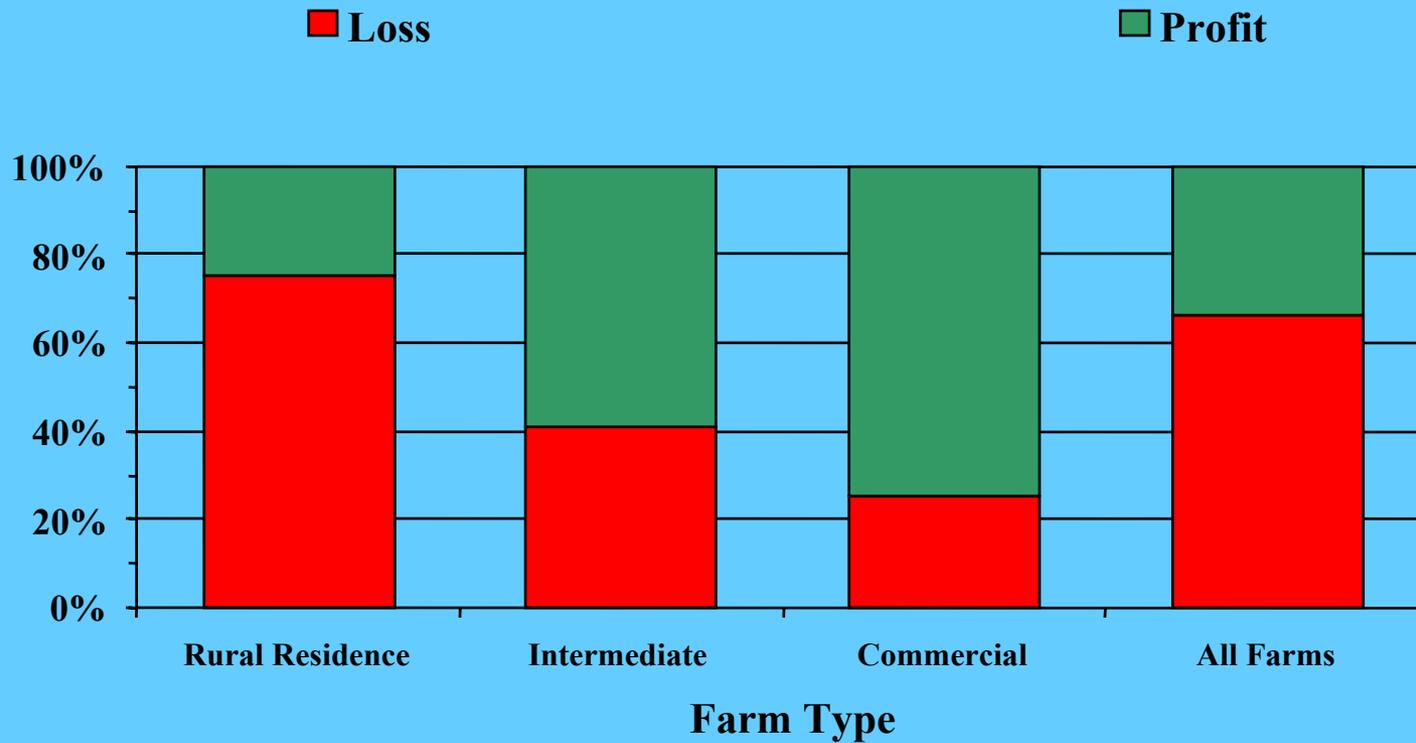
# Small Business Relief

- Increase in amount that can be currently expensed from \$25,000 to \$100,000
- 50 percent additional first-year depreciation
- 100 percent of health insurance premiums are deductible and the new Medicare law provides for the establishment of healthcare savings accounts

# Impact on Farm Household Tax Burdens

- Farm households are expected to save over \$4 billion in Federal income taxes in 2004
- Average tax rate is expected to drop to about 14 percent

# Farm Sole Proprietors with Profit and Loss by Farm Type, 2000



Source: Internal Revenue Service, 2000.

# Federal Income Tax Outlook

- Various provisions are scheduled to expire over the next few years and all others are scheduled to sunset in 2010
- Alternative minimum tax is expected to affect an increasing number of taxpayers, including farmers, unless temporary relief is extended and the tax is indexed for inflation

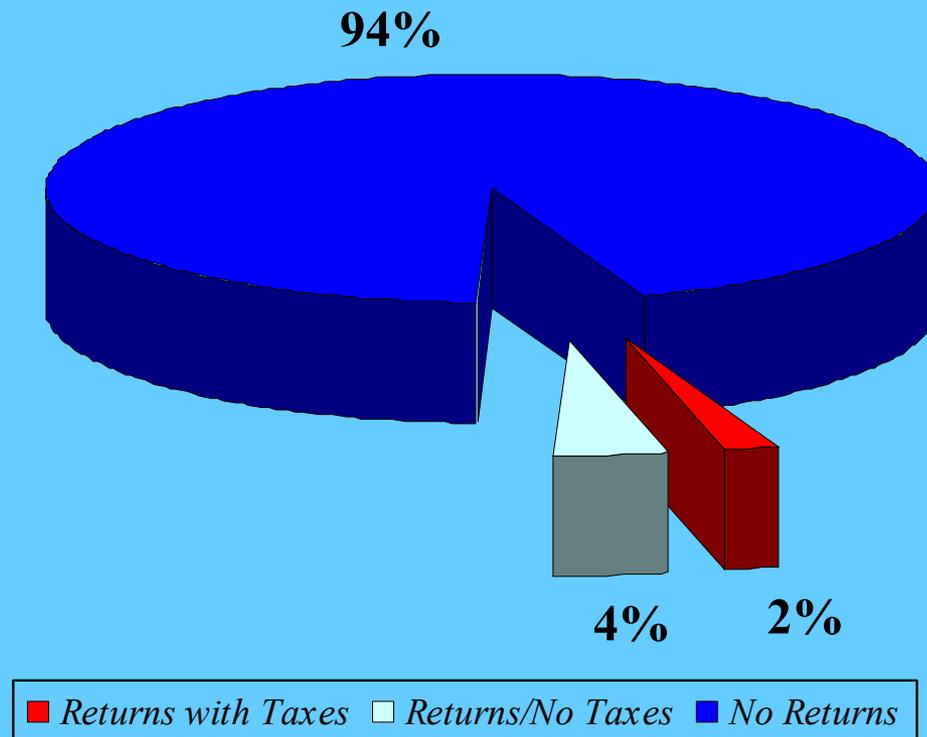
# Federal Estate Tax Developments

- Rising estate and gift tax burdens, especially for farmers and small businesses, led to the gradual expansion of the amount exempted by the unified credit in the 1997 Taxpayer Relief Act
- 2001 Act accelerated the phase-in, increased the exempt amount, reduced tax rates, provided a special deduction for family-owned businesses and scheduled the repeal of the tax in 2010

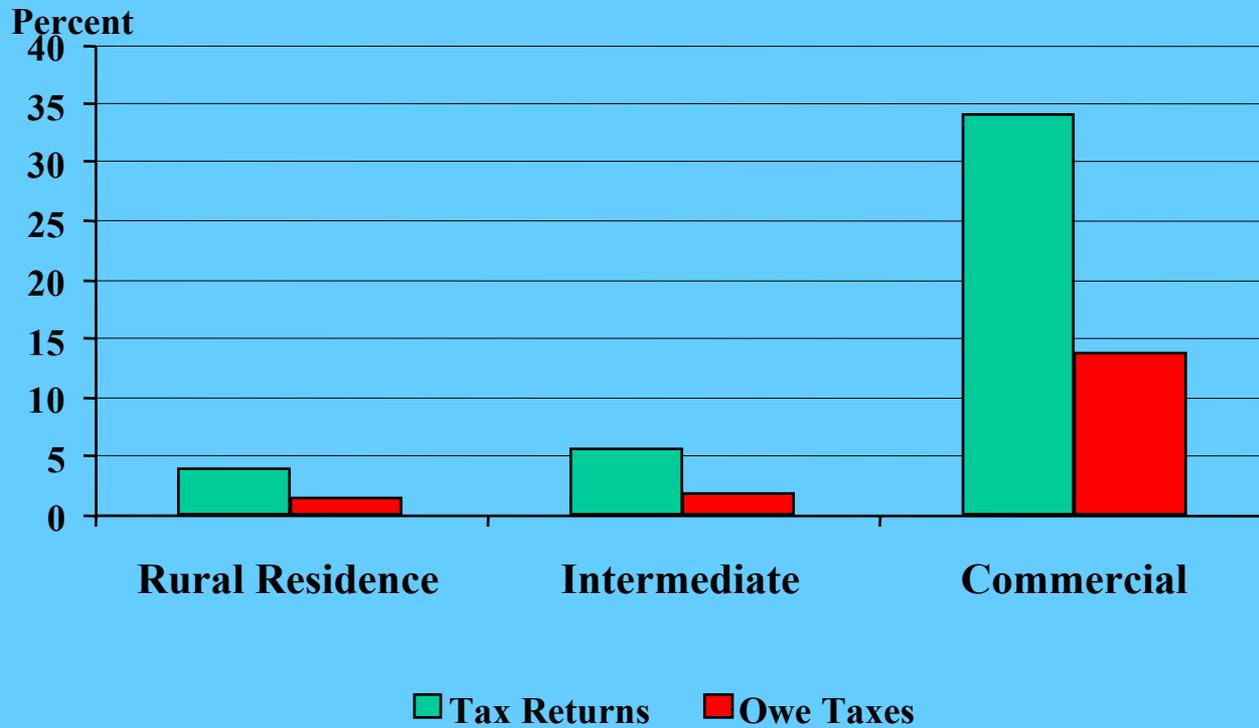
# Federal Estate Taxes in 2004

- Amount exempted by unified credit increased to \$1.5 million
- Family business deduction repealed
- Special use value can provide additional reduction of \$850,000

## Share of Farm Estates with Returns and Taxes, 2004



## *Farm Estates with Tax Returns and Taxes by Farm Type, 2004*



Source: USDA-ERS, estimates based on ARMS data.

# Federal Estate Tax Outlook

- Under current law, the amount that can be transferred tax free is scheduled to more than double by 2009

**Estate tax exemption amount and tax rates, 2001-2011  
phase-in schedule and sunset**

Year	Estate tax exemption amount (\$)	Highest marginal estate and gift tax rate (%)
2001	675,000	55
2002	1,000,000	50
2003	1,000,000	49
2004	1,500,000	48
2005	1,500,000	47
2006	2,000,000	46
2007	2,000,000	45
2008	2,000,000	45
2009	3,500,000	45
2010	Estate tax repealed	35 (gift tax rate)
2011 (sunset of Act)	1,000,000	55

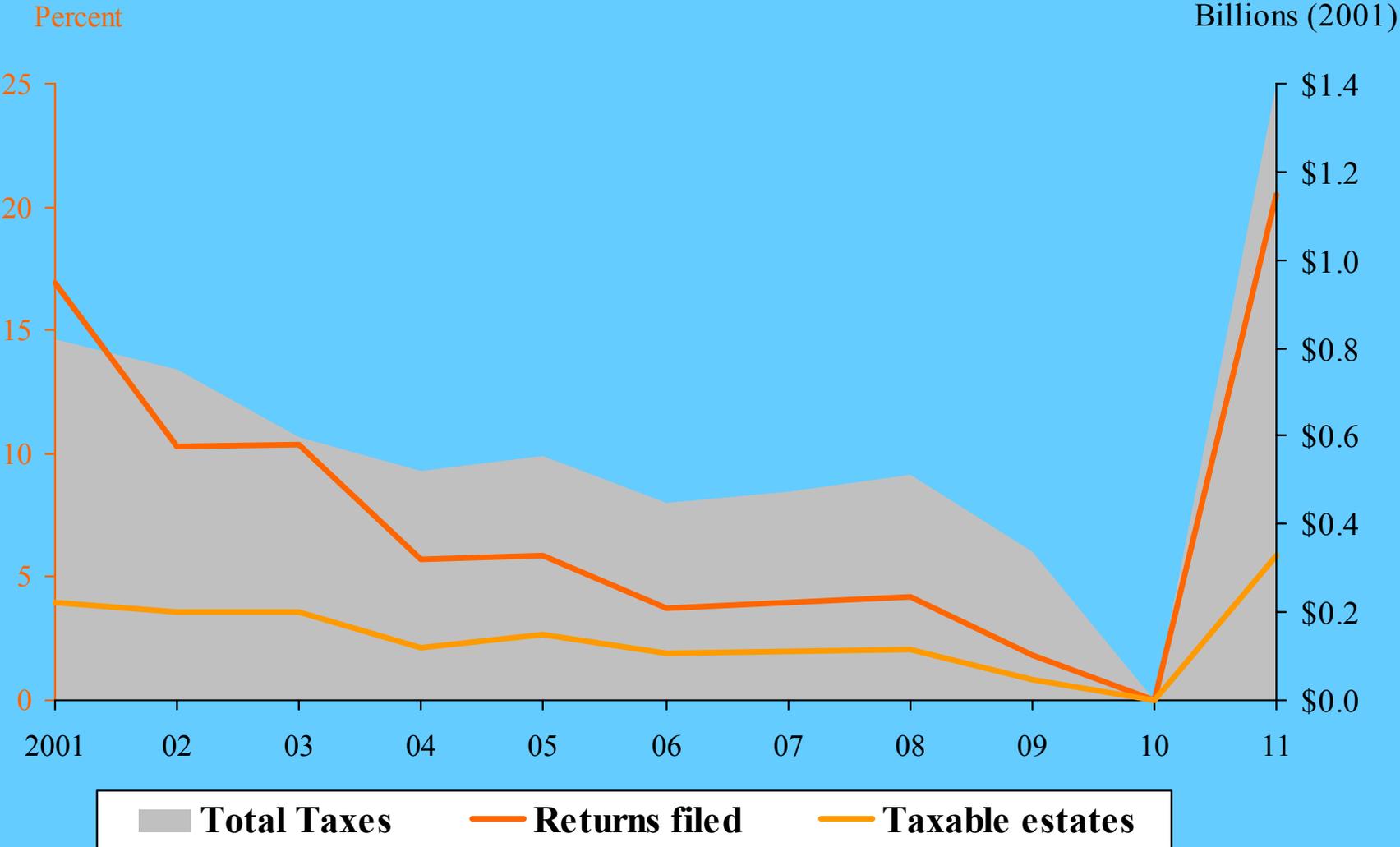
# Significant Reduction in Farm Estate Taxes

- By 2009, when the amount exempted by unified credit reaches \$3.5 million, the share of farm estates that owe Federal estate tax is expected to be less than 1 percent
- The tax is repealed in 2010

# Future Issues Create Uncertainty

- One year repeal with reversion to pre-2001 law unless extended or made permanent

# Farm Estate Taxes, 2001-2011



# Future Issues Create Uncertainty

- One year repeal with reversion to pre-2001 law unless extended or made permanent
- Current repeal requires a carryover basis

# Summary

- Current Federal income and estate and gift tax environment is very favorable for farmers and small businesses
- Number of factors create uncertainty concerning the tax situation beyond 2004