

## The Estate Tax and its Impact on Family Farms and Small Businesses

The estate tax is the most progressive tax in place in the United States tax code. It is the federal government's only tax on accumulated wealth. It helps reduce concentrations of wealth and power. Permanently repealing this tax will greatly widen economic inequality.

**Myth:** Many average Americans people are hurt when forced to pay the estate tax.

**Reality:** 98 of every 100 people who die face **no estate tax whatsoever**. Only the super-wealthy – the richest 2 percent of Americans – are subject to the estate tax. By 2009 when the exemption level rises to \$3.5 million, it is estimated that less than one-half of one percent of Americans will have to pay the estate tax.

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**Myth:** Repeal of the estate tax will not hurt the government's ability to support vital services and programs.

**Reality:** In 2010 the estate tax is scheduled to be repealed for one year. This tax break is fiscally irresponsible. The Congressional Joint Committee on Taxation found that repeal will cost the federal government \$56 billion in 2010. From 2001 – 2021 it will cost the government \$980 billion in lost revenue. Everybody will pay for this tax cut through either increased tax burdens in the future, or cuts in beneficial services affecting federal programs, including farms, ranches, and rural communities.

### ESTATE TAX IMPACTS ON FAMILY FARMS

**Myth:** Many family farmers and small business owners are forced to pay the estate tax.

**Reality:** Most family farms and small business owners do not meet estate tax eligibility thresholds.

- The USDA's Economic Research Service reported that the average farm household net worth ranged from \$576,400 for small farms to \$1.5 million for very large family farms. The estate tax already exempts \$2 million of all estates, and the exemption level rises to \$3.5 million by 2009 (double for couples). The *New York Times* has reported that the American Farm Bureau could not cite a single case of a family farm lost due to the estate tax.
- A recent Federal Reserve Survey of Small Business Finances indicates that the average net worth of small businesses is \$702,566. Only 4 percent of small businesses have a net worth of more than \$3.5 million, the amount exempted from taxation by 2009, thereby exempting 96 percent of all small businesses.

**Myth:** Repeal of the estate tax will alleviate the tax burden on farms.

**Reality:** Taxes may actually increase with repeal.

- As the Agriculture Department's Economic Research Service has found, "a small number of farm estates may actually experience a tax increase or owe capital gains taxes even though they would not have been subject to Federal estate or capital gains taxes under prior law." (*Ron Durst, James Monke, and Douglas Maxwell, "How Will the Phase out of Federal Estate Taxes Affect Farmers," USDA Economic Research Service, Agriculture Information Bulletin No.751-02, Feb., 2002*).
- For example, a valuable farm property that is heavily mortgaged may not be subject to any estate tax under current law, but still subject to capital gains tax under the "carry-over basis" rule if it were sold by an heir. That rule was added as part of the repeal legislation.
- Similarly, some farm widows might be subject to capital gains tax under this "carry-over basis" rule if they sold some or all of the farm even though under prior law widows had to pay no estate or capital gains taxes.

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**Myth:** Reforming estate tax laws will still subject small businesses and farms to the estate tax.

**Reality:** Reform can help to further protect farmers and small businesses, while still taxing the super-wealthy.

- Family farms and small businesses can be protected against unfair estate taxation through common sense reform and simplification, such as raising exemption levels high enough that virtually all will be exempt. The National Farmer's Union recognizes this and supports reform of the estate tax as opposed to repeal. Raising the exemption for these family-owned enterprises to \$4 million (\$8 million for couples), as then- Senator Daniel Patrick Moynihan proposed in 2000, would have exempted *almost all* family-owned farms and reduced the already small number of family businesses subject to the tax by nearly three-quarters. (<http://www.cbpp.org/6-17-03tax.htm>)

Americans for a Fair Estate Tax believes family farms and small businesses should not have to pay estate taxes. However, there are many solutions to alleviating the burden to those businesses through reform options without fully repealing the tax. Pushing full repeal in order to protect family farms and businesses rather than considering the number of reform options that would adequately protect those businesses is fiscally irresponsible. The estate tax should be reformed, not repealed.