



## **POWER Communication**

*Policy Outreach and Effective Results*

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### **POLICY AND ISSUE DISCUSSION SHEET**

## ***Capital Gains and Stepped-Up Basis***

### ***Defining the Issue***

Individuals, family partnerships and family corporations own over 98 percent of our nation's two million plus farms and ranches. America values these family-owned farms and ranches because of the food, fiber, and fuel they produce the contribution that agriculture makes to job creation and the economy, and the open space that farming and ranching protects. Yet, our nation's estate tax policy can be in direct conflict with the desire to preserve and protect our nation's family-owned farms and ranches.

Farm Bureau believes that tax laws must protect, not harm the family farms that grow America's food and fiber, often for rates of return that are already miniscule compared to almost any other investment they could make. What is needed are tax policies that do not punish capital-intensive businesses like farms and ranches, and that do not hinder sons and daughters from following the agricultural legacy of their parents.

### ***AFBF Policy***

- Farm Bureau believes that estate taxes should be permanently eliminated.
- Farm Bureau believes that the \$11 million per person/\$22 million per couple indexed estate tax exemption that was passed as part of the Tax Cuts and Jobs Act should be made permanent and that unlimited stepped-up basis should continue.
- Farm Bureau supports removing the limitation on the amount that property values can be reduced under Special Use Valuation Section 2032A. Timber harvesting or the sale of a conservation easement should not trigger a recapture of estate taxes.
- Farm Bureau opposes the collection of capital gains taxes at death.

### ***OFBF Policy***

- We support revising the threshold to relieve an estate from full probate administration to \$70,000 for non-spouse and up to \$500,000 where the surviving spouse inherits all of the assets of the estate.
- We oppose any effort to reinstate a State of Ohio estate tax.

### ***Policy Backgrounder***

Current proposals in Washington, D.C. would eliminate stepped-up basis, double capital gains tax rates and charge a new capital gains tax at death on the appreciation of assets

like farmland. These proposals will crush family farms and small businesses throughout Ohio and across the country, all in the name of raising revenue for more government spending.

Farms are often kept in the family for many years. Tracking the appreciation of land and equipment over a period of decades would be extremely complex, and the value of land is likely to have increased so much that without stepped-up basis the next generation of farmers and ranchers could be forced to sell the land just to pay the taxes.

Here's a good backgrounder on the issue provided by Ryan Conklin, legal counsel with Wright & Moore Law Company, LPA.

***Basics of Tax Basis:*** If you have been following the news on Capitol Hill in recent weeks, you may have heard about proposed tax code changes. The STEP Act outlines several major revisions to gifting rules, capital gains, and stepped-up tax basis. Given the proposed changes to tax basis rules, I think it's a good time to talk about some basics of tax basis.

According to the IRS, tax basis refers to "the amount of your capital investment in property for tax purposes." This capital investment can be what you paid in cash, assumed in debt commitments, or exchanged for other property or services. Basis can be modified through events like adding improvements to real estate, inheritance, or through depreciation.

Let's look at an example - Pretend you purchase a 100-acre farm in 2000 for \$1,000 per acre. Your tax basis would be the \$1,000 per acre purchase price. Fast forward 20 years, and your heirs inherit the property after your death. After you pass away, the farm appraises at \$10,000 per acre. This new appraisal value constitutes the new tax basis because the heirs receive a "stepped-up" basis after your death.

A similar outcome is achieved with farm equipment. If you buy a tractor for \$100,000, the purchase represents the basis. From there, if you use applicable tax rules to depreciate the purchase, the new basis is the depreciated amount. At death, the tractor is reappraised, a new basis is established, and the tractor can be re-depreciated by the new owner.

The elimination of stepped-up basis could be catastrophic for family businesses. It could result in new taxable events stemming from gifts, moving assets into trusts or LLCs, sales of depreciated assets, or through inheritance. The capital-intensive and debt-reliant nature of agriculture means many farms could struggle with these tax bills. To cap it off, stepped-up basis could be hard to come by under this new statutory scheme.

Please keep in mind that the STEP Act is only a bill, and must clear tight margins and intense scrutiny in both houses of Congress. American Farm Bureau distributed an Action Alert in early April asking members to lobby their

representatives to oppose this bill. I would urge readers to join in this effort, as the loss of certain tax basis provisions could jeopardize farm survivability nationwide.

Consult your tax professional for more information to help your family or business.

### ***OFBF Issues Special Action Alert***

Member messages are important - Do not let this happen. This proposal and possible exemptions for farms are being considered now. Ohio Farm Bureau has issued an Action Alert, encouraging members to write to their members of Congress today urging their support for the continued use of stepped-up basis.

### ***Discussion Questions***

1. How many of your community council members, friends, and/or neighbors could be impacted by this issue? What would be the impact on rural neighborhoods if several farm families needed to liquidate assets to meet the tax obligations associated with this issue?
2. How would you explain this issue or problem to other community members outside of agriculture?
3. As a group, what factors would you incorporate into a letter or electronic message to your Congressman and Ohio's Senators? Use this [direct link to Farm Bureau's Stepped-Up Basis Action Alert](#) and send a message. Let your county Farm Bureau know if you receive a response.



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### ***Getting Involved in Policy Development***

#### ***Participation Begins with Member Involvement***

Farm Bureau is directed by its members. They define action programs, legislative priorities and regulatory positions on issues affecting farmers and rural communities through the organization's *policy development process*. Group discussion and input are the basic features of a grassroots approach that leads to the creation of policy positions that guide the Farm Bureau at local, state and national levels.

Farm Bureau members have several opportunities where members can pursue their interests and discuss current issues affecting agriculture, food production and their community. These include:

- *Community Councils:* Community Councils are groups that meet regularly to develop camaraderie and community while discussing farm and family topics. The council program began in 1936 and is unique to Ohio. Council members determine their own meeting schedule and gather regularly in each other's homes. Many Farm Bureau leaders can trace their initial involvement in Farm Bureau as a community council member.
- *Action Teams and Outreach Committees:* County Farm Bureaus provide avenues for local involvement, along with Membership, Public Policy and Communication Action Teams, county members support projects such as community gardens, on-farm dinner fundraisers, farm tours, local food experiences and more. County Farm Bureaus also host educational programs and briefings on topics such as taxes, CAUV, energy development and other community issues.
- *Young Ag Professionals:* The Young Ag Professionals (YAP) program is designed to provide leadership development and professional growth opportunities for Farm Bureau members who are age 18-35. This program hosts activities including the Winter Leadership Conference and Washington D.C. Leadership Experience and offers the Outstanding Young Farmer, Excellence in Agriculture and Discussion Meet contests. Connect on Facebook and sign up for the Growing our Generation e-letter. Many YAP groups meet on a regular basis to discuss issues and get involved in county Farm Bureau programs.