Statement of the
American Farm Bureau Federation

TO THE

HOUSE COMMITTEE ON WAYS AND MEANS

AND THE

SENATE COMMITTEE ON FINANCE

REGARDING THE JOINT HEARING ON

TAX REFORM AND THE TAX TREATMENT OF CAPITAL GAINS

June 28, 2012

600 Maryland Ave. SW | Suite 1000W | Washington, DC 20024 | p. 202.406.3600 | f. 202.406.3606 | www.fb.org

The American Farm Bureau Federation (Farm Bureau) commends the House Committee on Ways and Means and the Senate Committee on Finance for holding a joint hearing on the subject of tax reform and the capital gains tax. Farm Bureau submits this statement for the record on behalf of its farm and ranch members who live in all 50 states and Puerto Rico, and who produce every food, fiber and energy commodity commercially marketed in the nation.

The impact of capital gains taxes on farming and ranching is significant because production agriculture requires large investments in land and buildings that are held for long periods of time. Forty percent of all agricultural producers report some capital gains; nearly double the share for all taxpayers. The average amount of capital gains reported by farmers is about 50 percent higher than the average capital gain reported by other taxpayers.

Farm and ranch families comprise just 2 percent of the nation's population, yet 21 million workers (15 percent of the total United States workforce) are involved in producing, processing and selling the food and fiber produced on America's farms and ranches. In fiscal year 2010, approximately $109 billion worth of American agricultural products were exported around the world, creating a positive agricultural trade balance. Furthermore, U.S. agriculture generated more than $352 billion in total output in 2010. Capital gains taxes not only affect the current economic well being of the agriculture industry, but also impact the long-term outlook of food, fiber and energy production in the U.S.

Capital gains taxes influence the transfer of farmland to new or expanding farm and ranch operations. Land and buildings typically account for 76 percent of a farmer or rancher's asset base. Capital gains taxes apply when land and buildings from a farm or ranch are transferred to a new or expanding farmer or rancher while the owner is still alive. This occurs most often when a farmer wants to expand his or her farm or ranch to take in a son or daughter, or when a retiring farmer or rancher sells his or her business to a beginning farmer or rancher. Potential capital gains tax liabilities incentivize holding land rather than selling it, creating a barrier for new and expanding farms and ranches to use that land for agricultural purposes. Since approximately 40 percent of farmland is owned by individuals age 65 or older, capital gains taxes provide an additional barrier to entry for young farmers and ranchers at a time when it is already difficult for them to get in to the industry in general. In addition, the added acquisition cost associated with covering the tax can increase the cost of starting or expanding a farm or ranch. The added cost also increases the likelihood that farm and ranch land will be sold outside of agriculture for commercial uses to investors who are willing to pay more for the asset, causing agricultural land and open space to be lost forever.

To remain efficient and profitable, farmers and ranchers must have the flexibility to change their businesses to be responsive to market signals from American and overseas consumers. Because capital gains taxes are imposed when buildings, breeding livestock and land are sold, it is more costly for producers to shed unneeded assets to generate revenue to adapt, expand and upgrade their operations. This is neither good for the long-term prosperity of farm and ranch operations nor for the rural economies their operations help sustain.

Capital gains tax rates impact the retirement earnings of many farmers and ranchers to whom farm and ranch assets represent their retirement savings. Like many other small business owners, profits earned during a lifetime are reinvested in their businesses rather than saved in retirement accounts or other investments. Capital gains taxes imposed when farmland and other assets are sold directly reduce the living standard and buying power of retired agricultural producers.

Farm Bureau supports eliminating capital gains taxes in the long term but, until that can be accomplished, supports cutting the capital gains tax rate. Farm Bureau supports a capital gains tax exclusion for the sale of agricultural land that remains in production, and when a family business is transferred between parents and children. Farm Bureau believes capital gains taxes should not be assessed on conservation easements or farmland preservation easement payments. Farm Bureau rejects proposals that hold lower-income taxpayers harmless to capital gains tax rate increases. The exception does not mitigate the damage that will be caused to the agriculture industry if capital gains taxes are allowed to rise, since the sale of farm assets produces a one-time surge in income likely to push a farmer or rancher over the threshold for higher tax rates.