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Agricultural Implications of the American Taxpayer Relief Act of 2012

Walter J. Armbruster

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U.S. tax laws have been in a state of flux since 2001 passage of the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA). The ensuing decade was characterized by various limitations in deductions and exemptions affecting standard graduated taxes, as well as gradual changes in taxes affecting gifts, inheritance and business transfers to next generation owners. These provisions were particularly important to farm businesses where family wealth is often heavily tied in with the business. The provisions of EGTRRA were sunset in 2010 and included a one year repeal of estate taxes and Generation Skipping Taxes (GST) for 2010. A major concern for agriculture was that the sunset provision meant reversion to pre-EGTTRA exemption levels which would affect estates over $1 million. The original intent was that Congress would be forced to reexamine the tax laws before the end of 2009 to prevent these 2010 repeals from occurring and generally address gift, estate and GST taxation issues.

In the meantime, as the clock wound down on EGTRRA, the United States was embroiled in economic and financial turmoil. Attempts to recover from the "Great Recession" led to special temporary tax law changes, and Congress failed to replace EGTRRA before the 2010 repeals took place. The Congress then passed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 on December 17, 2010 which affected many of the taxes. However, it created a temporary situation with a sunset date of December 31, 2012. The uncertainty about what was to follow it created lots of concerns among taxpayers, especially those involved with small businesses which included many farm businesses. The significant increase in land values and in machinery investments in recent years made the taxes surrounding intergenerational transfers particularly worrisome to many agricultural producers.

Articles in this Theme:

An Overview of Changes in the American Taxpayer Relief Act of 2012 Impacting Agriculture

The Effects of the Federal Estate Tax on Farm Households

Farm Transition: Tough Tasks at Hand and Why Transfer Tax Isn't so Tough

The American Taxpayer Relief Act of 2012 finally brought resolution to the situation as of January 2, 2013. It made permanent many of the provisions of the 2001 EGTRRA, repealed a number of sunset provisions contained therein, and permanently increased exemption levels of the Alternative Minimum Tax (AMT). But the 2012 Act did not extend the recession driven payroll tax cuts in effect for 2011-2012, thus effectively increasing tax rates for all wage earners and self-employed taxpayers starting in 2013. The articles in this theme outline the provisions of the 2012 Act and examine its implications of particular relevance to agricultural producers and rural land owners.

McEowan leads off with a broad review of the provisions contained in the Act and identifies those of greatest significance to agricultural producers and rural land owners. These include tax rates, transfer taxes and the AMT. He goes on to address a number of other provisions extended from prior law which have potential implications for agricultural producers and rural land owners.

Durst points out that farmers and owners of other small businesses hold significant amounts of wealth in the form of business assets, and therefore may be subject to the Federal estate tax. Concerns about how this affects ability to transfer viable operations to the next generation has resulted in increasing exemption levels and special provisions targeting farmers and other small businesses owners. The American Taxpayer Relief Act of 2012 made the estate tax law permanent with a $5.25 million exemption amount (potential $10.5 million for married couples) for 2013, indexed for inflation in future years, and it provided for a 40% top tax rate. Durst examines how many farm households are likely to owe any Federal estate tax under the 2012 Act.

Van der Hoeven looks at the implications of the 2012 Act with particular attention to the planning opportunities created for transition of farm businesses as viable operating entities. By removing much of the uncertainty regarding transfer tax law, it opens the door for owners of farms and ranches in the United States who are planning estates and the transition of agricultural businesses to address and make the more difficult decisions. He offers significant insights into the issues which often interfere with this critical management responsibility to maintain business continuity and viability.

In total, this set of articles provides a good overview of the implications for agricultural producers and rural landowners of the American Taxpayer Relief Act of 2012.

For More Information

American Taxpayer Relief Act of 2012. P. L.122-240. Available online: http://www.gpo.gov/fdsys/pkg/BILLS-112hr8enr/pdf/BILLS-112hr8enr.pdf.

Economic Growth and Tax Relief and Reconciliation Act of 2001. P.L. 107-16, 115 Stat. 38. Available online: http://www.gpo.gov/fdsys/pkg/CRPT-107hrpt84/pdf/CRPT-107hrpt84.pdf.

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. P.L. 111–312. Available online: http://www.gpo.gov/fdsys/pkg/PLAW-111publ312/pdf/PLAW-111publ312.pdf.

Walter J. Armbruster (walt@farmfoundation.org) is President Emeritus, Farm Foundation, Oak Brook, Illinois.