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United States Department of Agriculture

Analysis of a proposal to increase land access for young, beginning, veteran, women, and minority farmers

Tia M. McDonald

Ron Durst

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Proposal

- Proposal formalized by *American Farmland Trust*
 - Policy
 - Exclude from taxation sales of agricultural land to young, beginning, veteran, women, or minority farmers for up to \$1 million of capital gain.
 - Purpose
 - Help facilitate land access for young, beginning, veteran, women, and minority farmers.



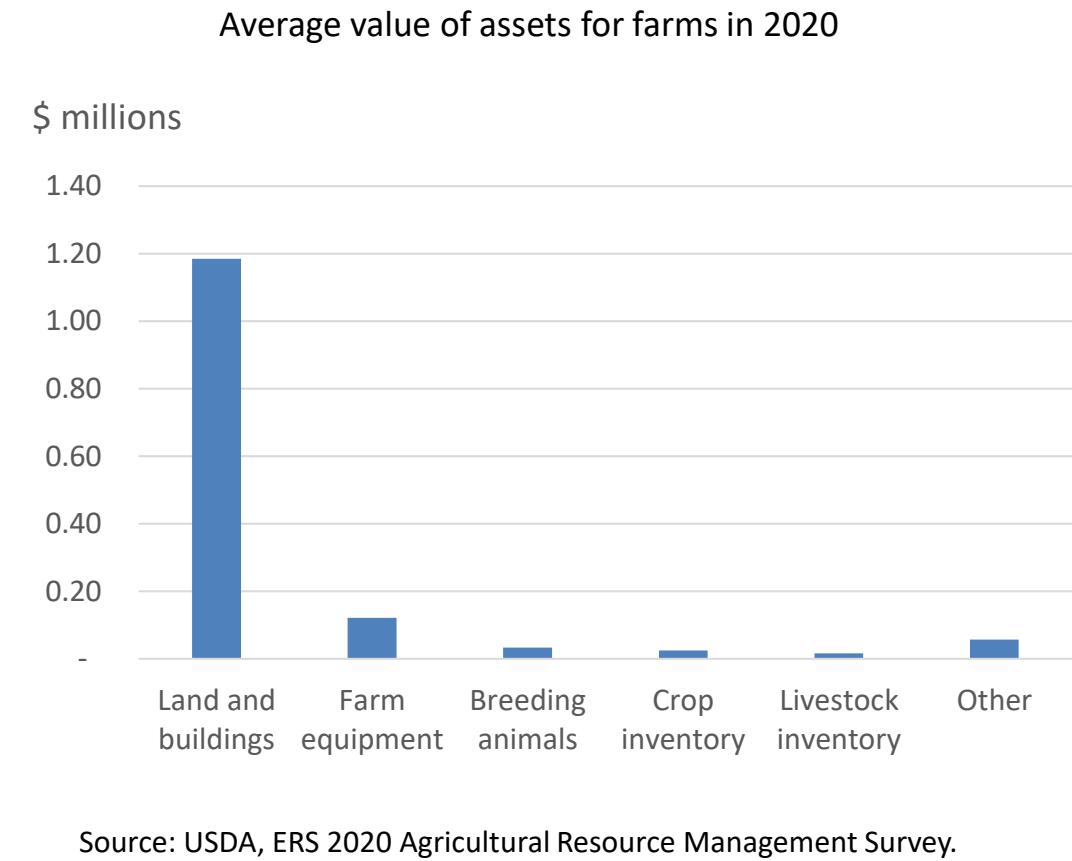
Background

- Current tax provisions allow for stepped-up basis. This means that those who inherit assets do not face capital gains tax liability on any gains that occur prior to the inheritance.
 - Capital gain taxes are applied to the difference between an asset's sale price and its tax basis.
 - Tax basis is the cost of the asset when purchased or acquired. Tax basis can increase due to additional capitalized investment and decrease due to depreciation.
 - This may encourage owners to hold assets until death.



Capital gains in agriculture

- Farm households have relatively high concentration of wealth in farm assets.
- Highest value asset for farms is land and buildings which often have long holding periods and have significant unrealized gains.
- Other assets factor into the operation of the farm business like
 - Farm equipment
 - Breeding animals
 - Crop and livestock inventory



Our analysis

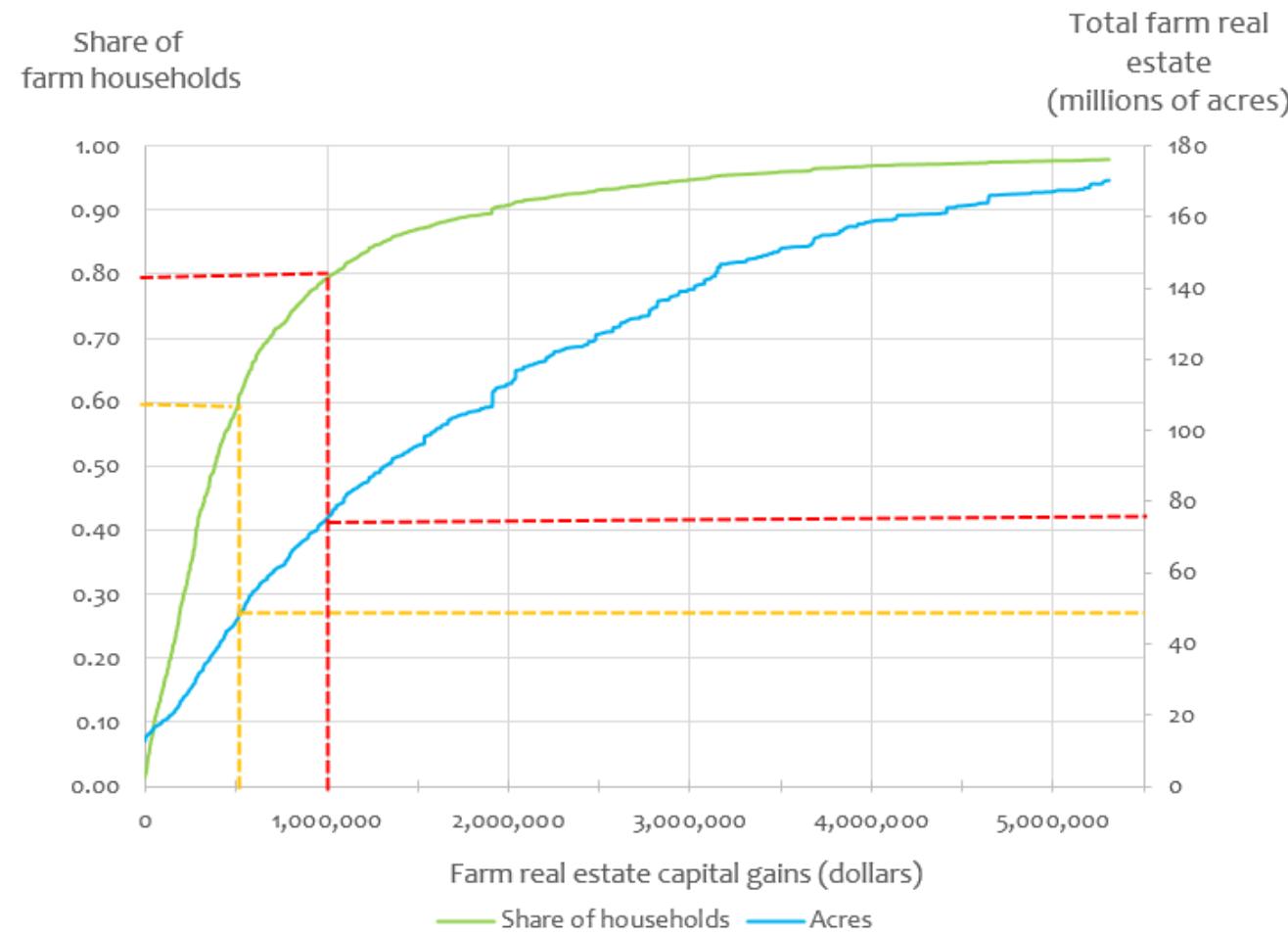
- Examined the reach of the proposal relative to estimated real estate gains for farm households
 - Using data from the Agriculture Resource Management Survey (ARMS), 2020 and ERS's Federal Income tax model
- Examined the reach of the proposal relative to current population of qualified buyers.
 - Using data from Agriculture Resource Management Survey (ARMS), 2017.
- Examined the pattern of expected land transfers
 - Using data from the Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey, 2014.



Real estate gains



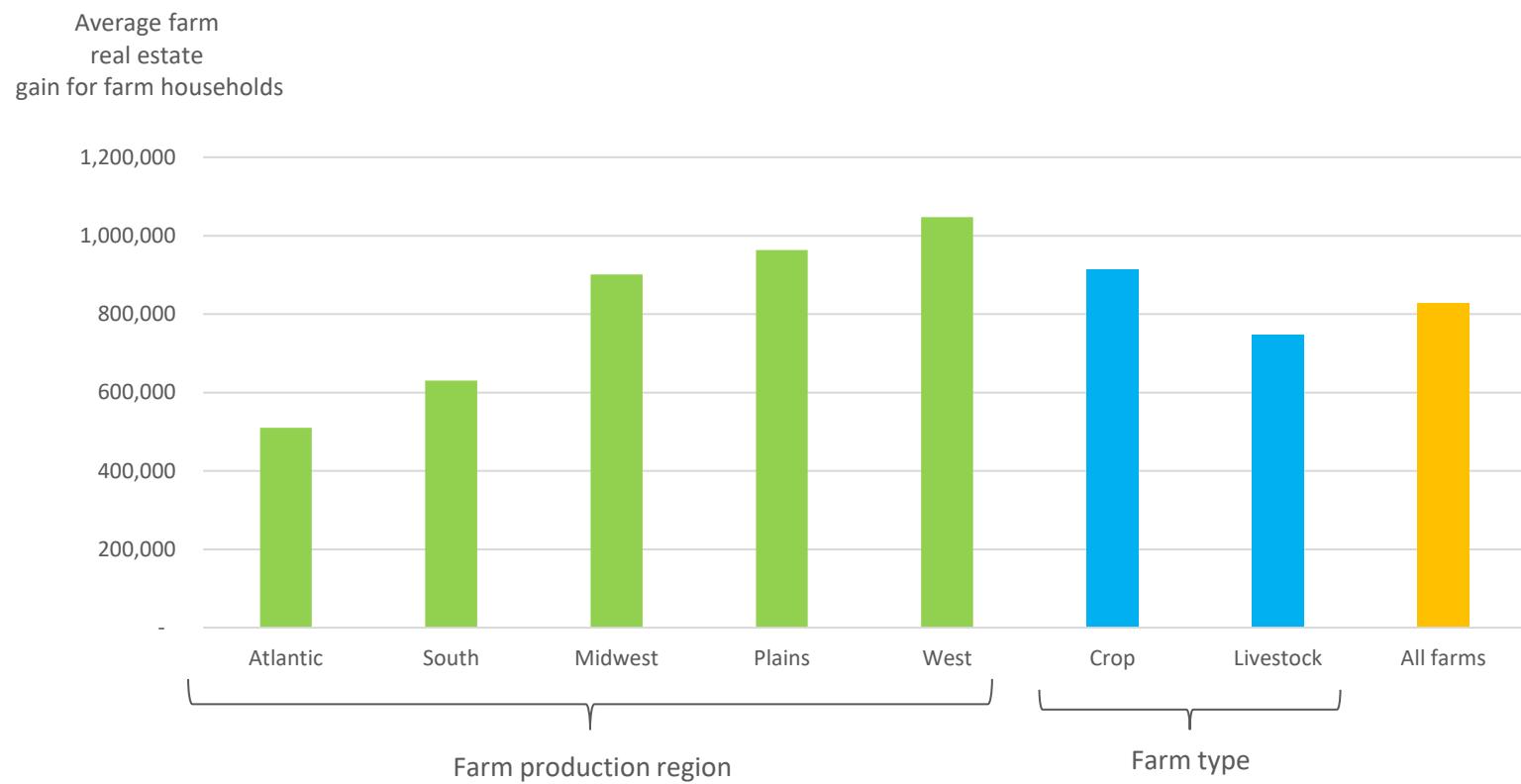
Farm real estate gains for principal operators over 65



Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2020 Agricultural Resource Management Survey.



Estimated farm real estate gains by region and type



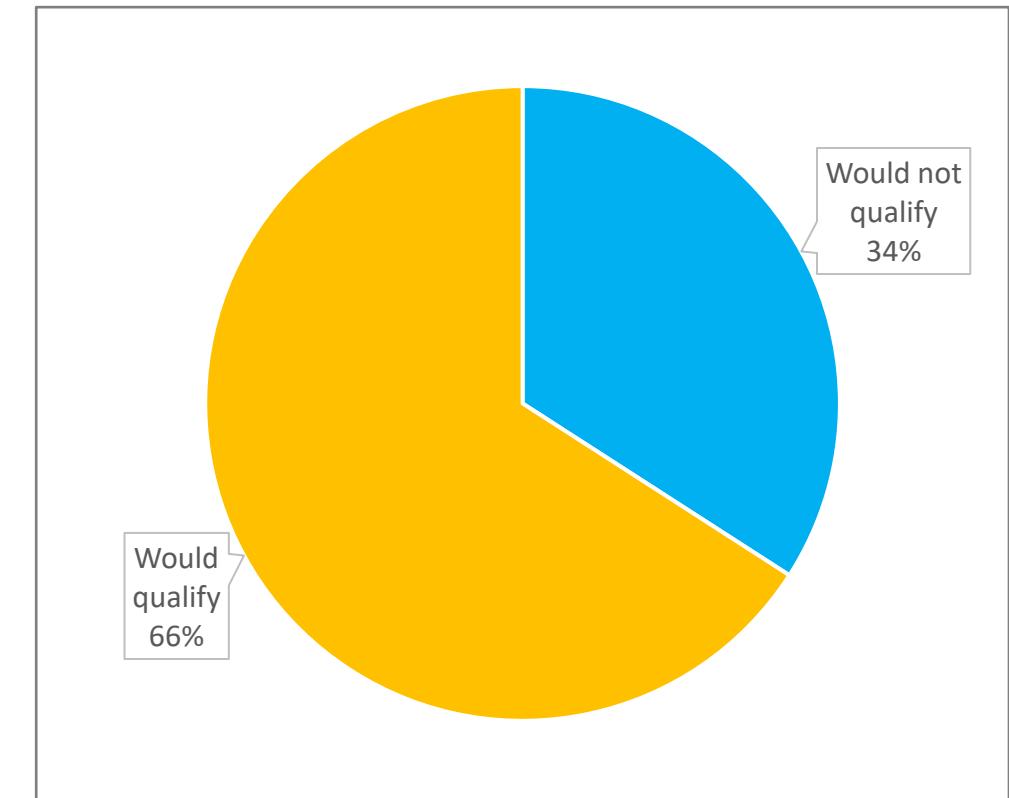
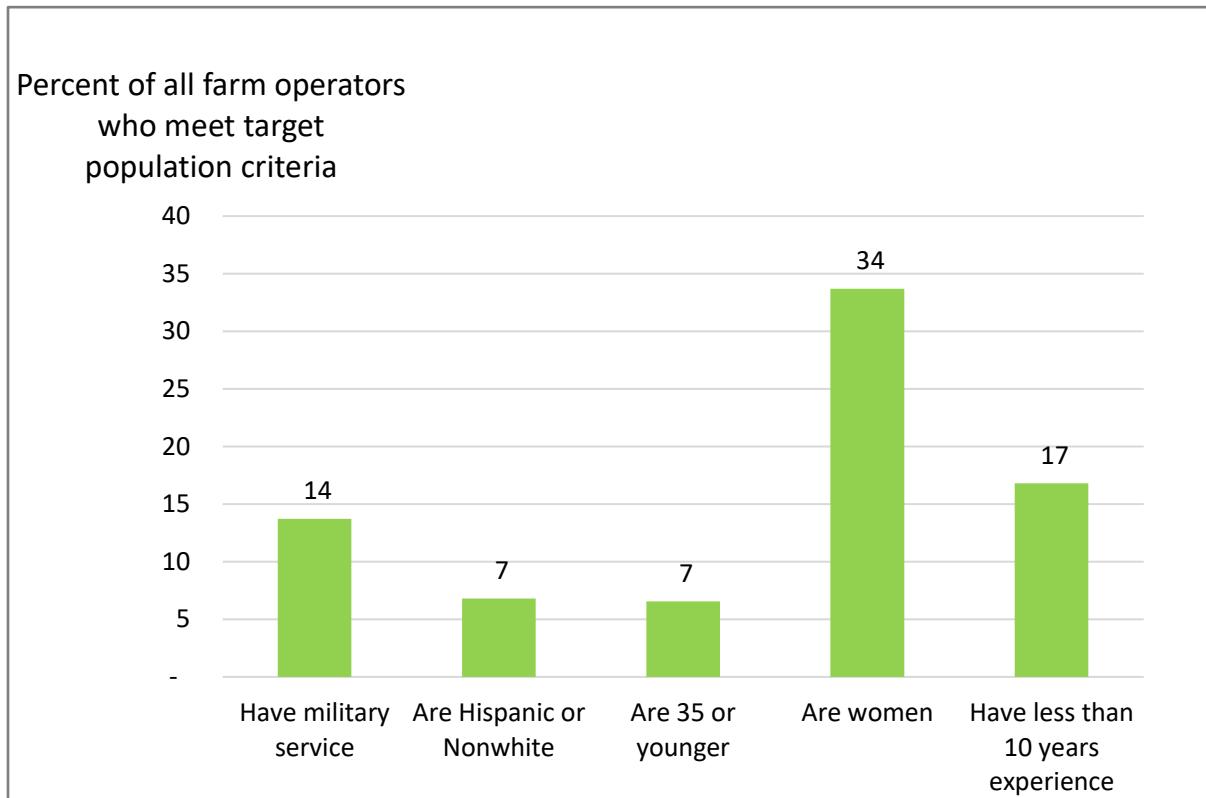
Note: Farm type determined by whether the largest portion of each farm operation's total gross value of sales came from crops or livestock.
Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2020 Agricultural Resource Management Survey.



Current population of qualified buyers



Share of farm operators that qualify as a member of the target population

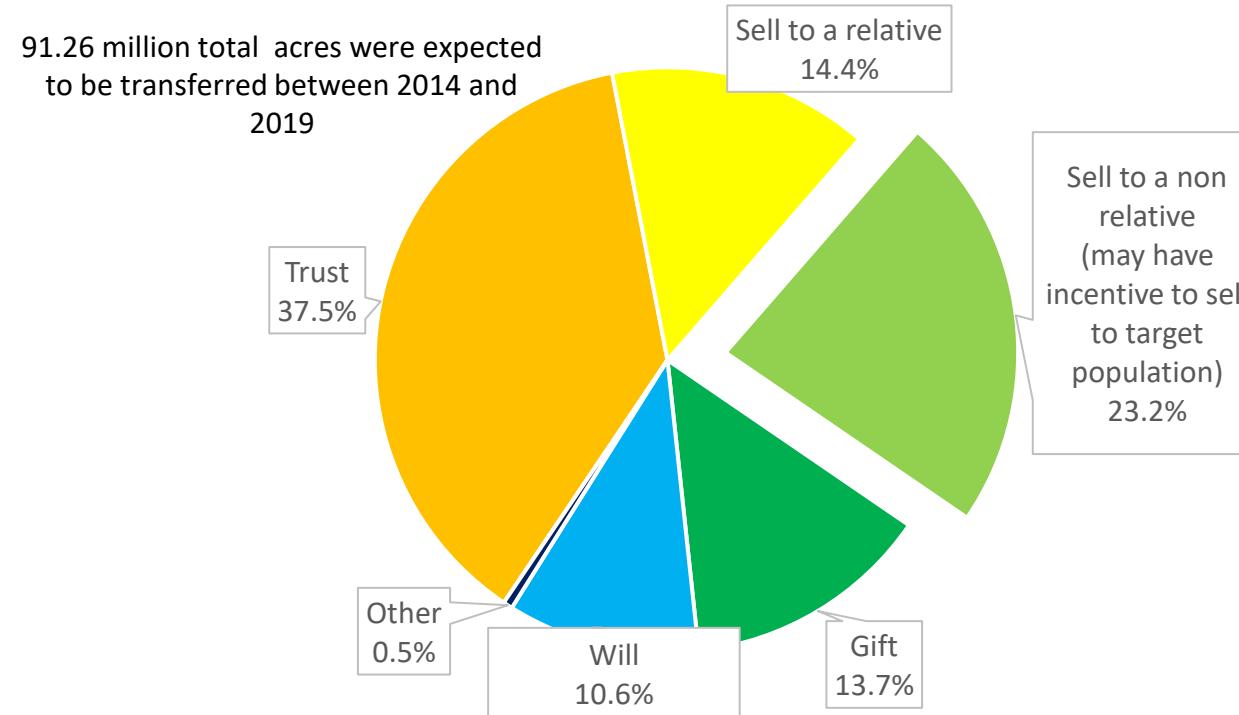


Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2017 Agricultural Resource Management Survey.

Pattern of land transfers



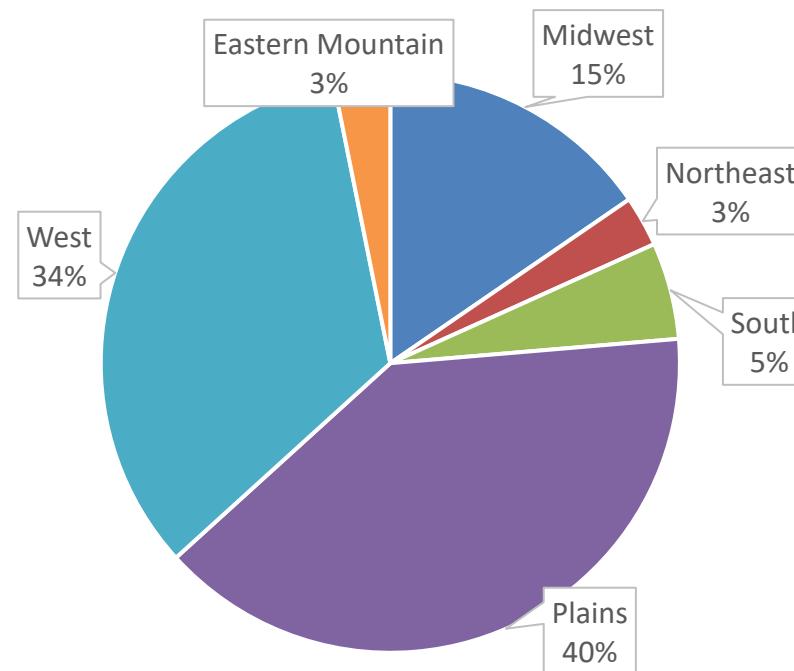
Likely impacts of changes to capital gains, given pattern of expected land transfers



Note: Expected land transfers include land owned by operator and non-operator landlords.
Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014
Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey.

Pattern of expected transfers relative to the target population

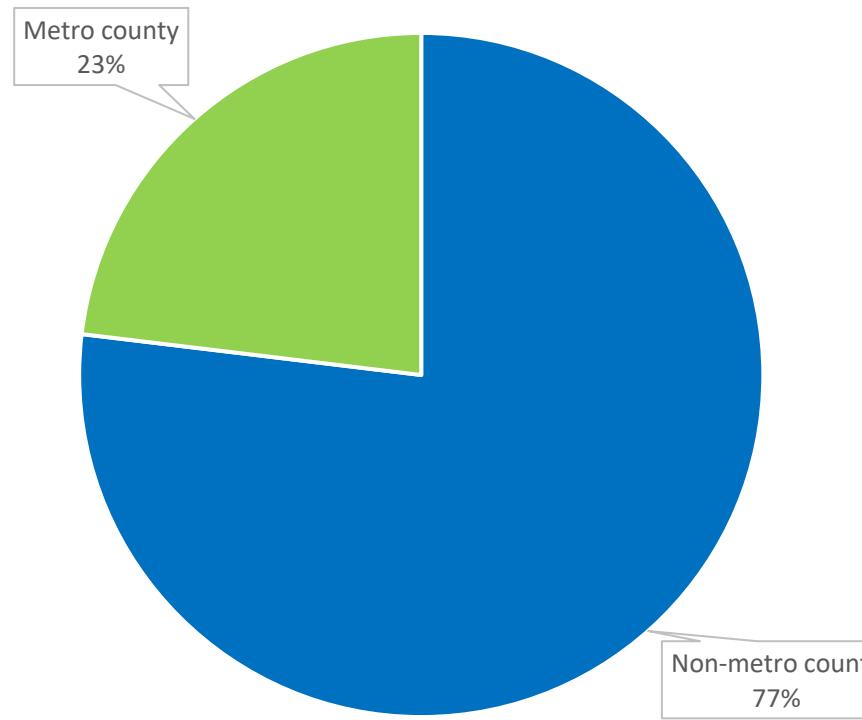
Expected land transfers (2014-2019) by region



Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey.

- Majority of Hispanic farm operators located in the West with second highest expected land transfers.
- African American farm operators more likely to live in South with among the lowest expected land transfers.

Expected land transfers relative to metro location



- Young and beginning farmers are more likely to locate in metro counties.

Note: Due to data availability, data represents expected land transfers from operator landlords and does not include data from non-operator landlords. Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey.



Summary

- Capital gains step-up in basis can provide an incentive for landowners to hold onto assets until death.
- Proposal to exempt from capital gains land sells to target population may increase land access.
- However, current pattern of land transfer implies that majority of land transfers would be unaffected.
- There are additional considerations regarding geographic distribution of target population and available land.





United States Department of Agriculture

Thank you

Tia M. McDonald, Ph.D.
Research Agricultural Economist
Farm Economy Branch, ERS
U.S. Department of Agriculture
tia.mcdonald@usda.gov

