
CAPITAL GAINS TAXES

Issue:

Farmers and ranchers borrow and invest large sums of money in capital assets like land and buildings in order to operate their businesses. They invest knowing there is high upfront costs, significant financial risk and with the understanding that any return on their investment will likely come well in the future.

Capital gains taxes are paid when a business sells a long-term capital asset, and the tax is based on the amount that the asset has increased in value since purchase. Income from the sale of a capital asset is taxed at special rates to encourage investment in businesses that grow our economy and create jobs and in recognition that these investments involve risk.

Background:

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 – on average 30 years. During that time, land values can more than triple. In addition to paying capital gains taxes on the sale of land, farmers also pay capital gains taxes when they sell other assets, such as buildings, breeding livestock, and timber.

Capital gains tax rates are applied to the amount that the property increased in value since it was purchased, and the asset must have been held for a minimum length of time for the capital gains rate (as opposed to the normal income tax rate) to apply. The current top capital gains tax is 20 percent. Farmers and ranchers often pay the top rate (which is assessed on high income taxpayers) because their capital gains can be realized in a single year, for example when a farm is sold. According to IRS statistics, in 2018, 36.3 percent of farms structured as pass through businesses report some capital gains or losses compared to 13.8 percent for an average individual taxpayer.

Starting or expanding a farm or ranch requires a large investment because of the capital-intensive nature of agri-business. In 2020, farm real estate such as land and buildings represented 82 percent of farm or ranch assets. The higher the capital gains tax rate, the greater the disincentive for farmland owners to sell property or alternatively to raise the asking price. If landowners are discouraged from selling, it can be harder for new farmers to acquire land to start farming and for existing farms to buy land to expand their business to include a son or daughter.

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 farmland are sold, the higher the tax the more difficult it is for producers to shed unneeded assets to generate revenue to adapt and upgrade their operations.

AFBF Policy:

Farm Bureau believes the capital gains tax rates should be reduced, and assets should be indexed for inflation. In addition, there should be an exclusion for agricultural land that remains in production, for transfers of farm business assets between family members, for farmland preservation easements and development rights, and for land taken by eminent domain. Capital gains taxes should not be collected at death, and the unlimited stepped-up in basis of inherited assets should continue.

Contact: Pat Wolff, 202-406-3670, patw@fb.org

April 2021