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

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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

Average value of assets for farms in 2020

Our analysis

• Examined the reach of the proposal relative to estimated real estate gains for farm households

• Examined the reach of the proposal relative to current population of qualified buyers.

• Examined the pattern of expected land transfers
Real estate gains
Farm real estate gains for principal operators over 65

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

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

91.26 million total acres were expected to be transferred between 2014 and 2019.

- **Trust**: 37.5%
- **Gift**: 13.7%
- **Will**: 10.6%
- **Sell to a relative**: 14.4%
- **Sell to a non relative (may have incentive to sell to target population)**: 23.2%
- **Other**: 0.5%

Pattern of expected transfers relative to the target population

Expected land transfers (2014-2019) by region

- **Plains**: 40%
- **West**: 34%
- **Northeast**: 3%
- **South**: 5%
- **Midwest**: 15%
- **Eastern Mountain**: 3%

- **Majority of Hispanic farm operators** located in the West with the 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

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.

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

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