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CBO FINDS TINY NUMBER OF FARMS FACE ESTATE TAX

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A new report by the Congressional Budget Office (CBO)[1] lays to rest the myth that the estate tax imposes a significant burden on America's farmers and forces many of them to sell their farms to pay the tax. In a thorough analysis of IRS data, CBO finds that with the amount of an estate that is exempt from the estate tax in 2005 — and particularly with the higher exemption levels that will take effect in coming years — exceedingly few farms will face the estate tax. In addition, CBO finds that only a miniscule number of estates could possibly be in a position of having to sell any part of the farm to pay the tax.

- CBO found that if the current exemption level of $1.5 million had been in place in 2000, only 300 farm estates[2] nationwide would have owed any estate tax. At a $2 million exemption level, the level that takes effect in 2006, only 123 farm estates would have owed any estate tax in 2000. The number of taxable farm estates drops to 65 nationwide at a $3.5 million exemption level, the level that takes effect in 2009.

Taxable Farm Estates in 2000 Under Different Exemption Levels

Exemption Level	All Taxable Farm Estates	Those With Liquidity Constraints
$1.5 million	300	27
$2.0 million	123	15
$3.5 million	65	13

Source: Congressional Budget Office

- The CBO report also found that of the few farm estates that would owe any estate tax, the vast majority would have sufficient liquid assets (such as bank accounts, stocks, bonds, and insurance) in the estate to pay the tax without having to touch the farm. For instance, at a $2 million exemption level, only 15 farm estates in the entire nation would have owed estate taxes in 2000 that exceeded the liquid assets in the estate; at a $3.5 million exemption, only 13 farms would have faced such a constraint.

- CBO further notes that it may have overestimated the number of farm estates with such liquidity constraints, because CBO did not include certain assets held in trusts (such as life insurance trusts) in calculating the liquid assets available to estates to help pay the tax. Furthermore, those farm estates that would face liquidity problems would likely have other options available to them — such as spreading their estate tax payments over a 14-year period — that would allow them to pay the tax without having to sell off any of the farm assets.

[1] Congressional Budget Office, "Effects of the Federal Estate Tax on Farms and Small Businesses," July 2005.

[2] CBO defines a farm estate as one where the decedent worked as a farmer in either the "agricultural crop" or "livestock" industry. CBO notes that, because the estate tax affects only the largest estates, farm estates "belong to wealthy people in farming industries, not to subsistence farmers or migrant workers." CBO also finds that using alternate definitions of farm estate would not alter the report's conclusions.