

**U.S. Tax Policy Proposals:  
Revenue Generation or Social Engineering Farm Sizes?**

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**Abstract**

In 2021 President Biden proposed new spending on infrastructure in the United States. Two proposals were introduced to provide offsets for the new spending. The Sensible Taxation and Equity Promotion Act proposed to eliminate stepped-up basis upon death of the owner. The For the 99.5 Percent Act would decrease the estate tax exemption to \$3.5 million (\$7 million per couple). At the same time, there are many in Washington D.C. pointing to the fact that farms in the U.S. continue getting larger. While the tax proposals would generate a new revenue source, a related question is whether it would also slow the growth in farm size.

This analysis examines the impact of the proposals on 94 representative farms and ranches located across the U.S. maintained by the Agricultural and Food Policy Center (AFPC) at Texas A&M University.

Under current tax law, only 2 of the 94 farms would be impacted by an event triggering a generational transfer. Under the STEP Act, 92 of the 94 representative farms would be impacted. Under the 99.5% Act, 41 of the 92 representative farms would be impacted. The proposals could lead to a farms selling land to pay taxes.

**Keywords:** tax policy, estate taxes, capital gains, farm policy, farm size, cash flows

**Introduction**

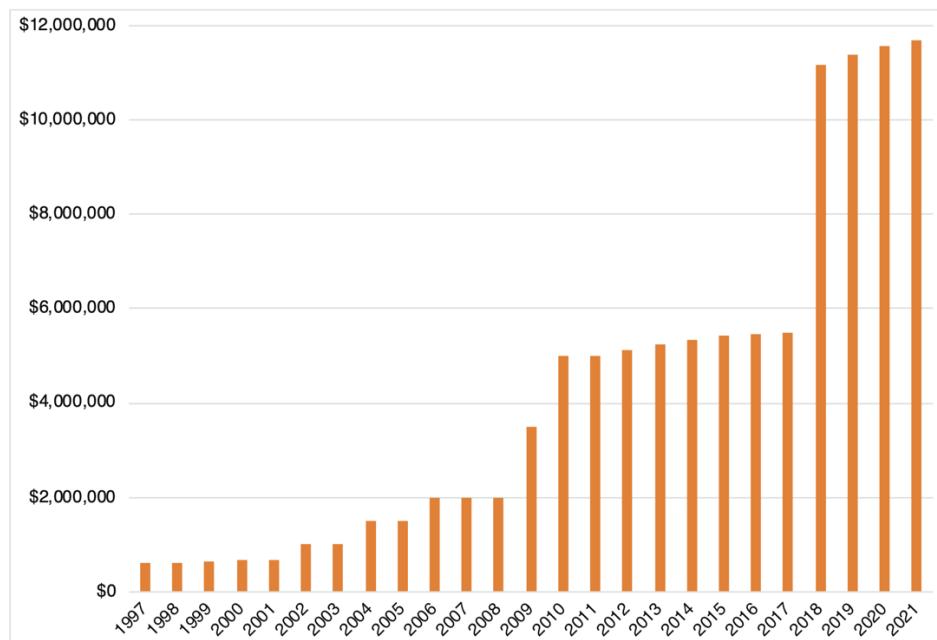
In his first year in office, President Biden proposed two broad based and expensive infrastructure proposals (roads and bridges and human). Together they would exceed \$4 trillion dollars in spending. Two proposals were put forth that would generate significant federal revenue if implemented. The Sensible Taxation and Equity Promotion Act (STEP Act) and the For the 99.5 Percent Act (99.5% Act) on would increase the amount of capital gains and estate taxes collected by the government. At the same time, there are many in Washington D.C. pointing to the fact that farms in the U.S. continue getting larger. While the tax proposals would generate a new revenue source, a related question is whether it would also slow the growth in farm size. The potential cost to farms across the U.S. and whether the tax obligations might cause farm restructuring are the questions analyzed in this paper. The tax results are presented relative to a status-quo baseline that maintains the current estate tax exemption and stepped-up basis provisions through 2026.

**Background on Stepped Up Basis and Estate Taxes**

When an asset appreciates in value, the difference between the current fair market value and the amount paid for the asset (less accumulated depreciation) is known as a capital gain. Under current tax law, assets held longer than one year are taxed at long-term capital gains rates of up to 20% depending on one's underlying taxable income. A provision of US tax law that has been in place since the Revenue Act of 1921, is that a capital gains tax is not imposed when assets are transferred at death to an heir. Furthermore, tax law allows the heir to increase their basis in the bequeathed assets to fair market value without paying capital gains tax (Ernst and Young). This is referred to as a step-up of basis.

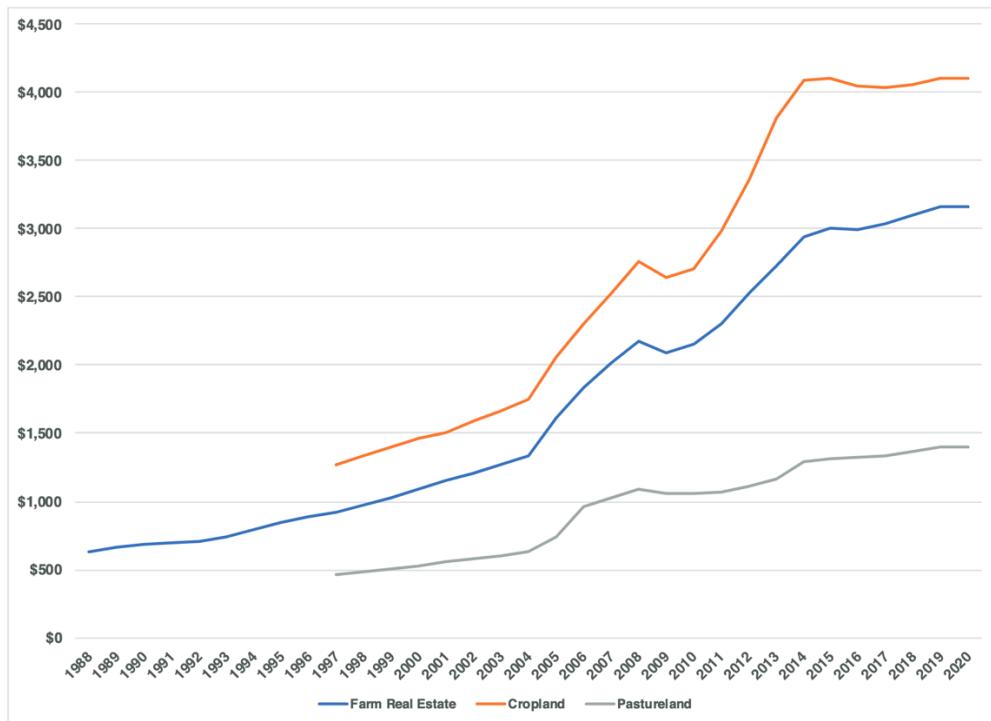
While stepped-up basis provisions have largely rendered capital gains tax irrelevant when assets are transferred to an heir at death, that is not the case with the federal estate tax. Prior to passage of the Tax Cuts and Jobs Act of 2017, the estate tax exemption level was \$5.49 million (indexed to inflation) (Figure 1). Because property left to a surviving spouse transfers free of the estate tax, the exemptions for a married couple are effectively doubled—\$10.98 million for 2017. The Tax Cuts and Jobs Act of 2017 raised the exemption level to \$11.18 million for 2018. As of 2021, the estate tax exemption is \$11.7 million per person which is set to expire in 2025, at which point the estate tax exemption reverts to \$5.49 million per person.

Agricultural producers are sensitive to changes in stepped-up basis and estate taxes because much of their net worth is traditionally comprised of land and equipment. Given recent trends in land values, that concern now is even more heightened. As noted in Figure 2, cropland values have more than tripled since 1997. So, even if a producer has not purchased any additional land, the land they were already holding is now considerably more valuable.



**Figure 1: Historic Individual Estate Tax Exemption Levels.**

**Source:** IRS and Jacobson *et al.*



**Figure 2: Farm Real Estate Values (Including Buildings), Cropland Values, and Pastureland Values (in \$/Acre), 1988-2020.**

Source: USDA/NASS

## Proposed Changes

The Sensible Taxation and Equity Promotion Act (STEP Act) proposes to eliminate stepped-up basis upon death of the owner. Under the STEP Act, \$1 million in capital gains would be excluded from taxation.

The For the 99.5 Percent Act (99.5% Act) includes modifications to estate, gift, and generation-skipping transfer taxes. The 99.5% Act would, among other things, decrease the estate tax exemption to \$3.5 million per individual and \$7 million per couple.

This analysis evaluates the elimination of stepped-up basis alone and in conjunction with estate tax changes, depending upon the scenario being analyzed.

## Data and Methods

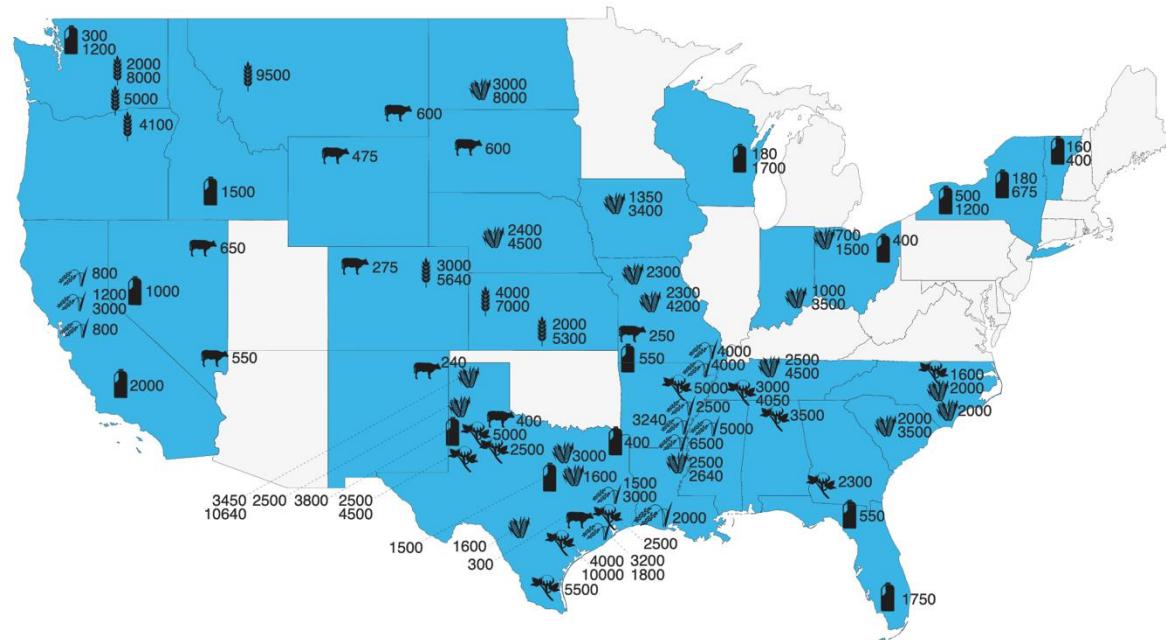
For over 30 years, the Agricultural and Food Policy Center (AFPC) at Texas A&M University has maintained a farm-level policy simulation model (FLIPSIM) developed by Richardson and Nixon (1986) for analyzing the impact of proposed policy changes on U.S. farms and ranches. AFPC currently uses a next generation simulation model—Farm Economics and Solvency Projector

(FarmESP) that moves to the Python platform and includes all the previous generation's policy and tax capabilities with a significant upgrade in terms of crop insurance capabilities.

The data to simulate farming operations in FarmESP comes primarily from AFPC's database of representative farms. Information to describe and simulate these farms comes from panels of farmers (typically 4-6 producers per location) located in major production regions in 30 states across the United States (Figure 3). The farm panels are reconvened frequently to update their representative farm's data. The representative farms are categorized by their primary source of receipts—for example, feedgrain, wheat, cotton, rice, dairy, and cattle ranches. The representative farm database has been used for policy analysis for over 30 years.

In the tables that follow, the first two letters of a farm's name is the state abbreviation followed by the letter describing the type of farm (e.g., G for feedgrain, W for wheat, etc) followed by an M or L indicating if the farm is moderate or large (an X indicates there is only one farm size of that type in the region). The number in a farm's name indicates the acres or number of head of cattle for ranches or milk cows for dairies. Additional information about the representative farms can be found in AFPC Working Paper 21-1 by Outlaw et al., March 2021. The breakdown of farms by type is as follows:

- Feedgrain: 25
- Wheat: 11
- Cotton: 13
- Rice: 15
- Cattle: 10
- Dairy: 20



**Figure 3: Map of AFPC Representative Farm and Ranches.**

Projected prices, policy variables, and input inflation rates are from the Food and Agricultural Policy Research Institute (FAPRI) 2021 Baseline (Tables 1 and 2). AFPC's representative farms and ranches are all assumed to be full-time, commercial-scale family operations. The results of this analysis will

vary greatly by farm depending upon each farm's asset base and the share of their farmland they own versus rent. Tables 3 and 4 provide the percent of the farm's cropland or ranch's pastureland that is owned for the representative farms. The percentage varies greatly across farms and farm types. For example, two of the four Texas rice farms are comprised only of rented land. As a result, any capital gains or estate taxes accrue from sources other than land. Importantly, the analysis does not include indirect impacts. For example, while two of the Texas rice farms own no land and were not impacted, if they were renting land from a landowner who was impacted by either proposal, one could reasonably assume that rental rates would increase as a result.

**Table I: FAPRI January 2021 Baseline Crop and Livestock Prices, 2019-2026.**

	2019	2020	2021	2022	2023	2024	2025	2026
<b>Crop Prices</b>								
Corn (\$/bu.)	3.56	4.22	4.04	3.96	3.91	3.85	3.80	3.78
Wheat (\$/bu.)	4.58	4.84	5.00	5.09	5.09	5.05	5.03	5.01
Upland Cotton Lint (\$/lb.)	0.5960	0.6816	0.6785	0.6675	0.6689	0.6807	0.6821	0.6919
Sorghum (\$/bu.)	3.34	4.59	4.06	3.98	3.90	3.86	3.82	3.82
Soybeans (\$/bu.)	8.57	11.15	10.49	10.34	10.09	9.80	9.60	9.45
Barley (\$/bu.)	4.69	4.64	4.76	4.78	4.73	4.68	4.63	4.61
Oats (\$/bu.)	2.82	2.77	2.63	2.69	2.70	2.69	2.67	2.67
All Rice (\$/cwt.)	13.50	13.10	12.61	12.85	12.98	13.12	13.33	13.60
Soybean Meal (\$/ton)	285.67	366.40	334.10	334.07	329.04	323.51	317.02	314.86
All Hay (\$/ton)	163.00	159.10	162.69	161.62	160.53	159.08	157.73	157.14
Peanuts (\$/ton)	410.00	426.61	412.71	404.76	400.25	401.29	402.55	404.02
<b>Cattle Prices</b>								
Feeder Cattle (\$/cwt)	153.65	145.83	148.81	163.34	171.77	177.61	182.36	184.49
Fed Cattle (\$/cwt)	116.78	108.46	116.47	122.63	127.73	131.68	134.85	136.33
Culled Cows (\$/cwt)	58.97	58.50	60.45	64.85	66.71	68.25	70.68	71.82
<b>Milk Price</b>								
U.S. All Milk Price (\$/cwt)	18.63	18.30	17.50	17.59	17.78	18.01	18.05	18.04

**Source:** Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri-Columbia.

**Table 2: FAPRI January 2021 Baseline Assumed Rates of Change in Input Prices and Annual Changes in Land Values, 2020-2026.**

	2020	2021	2022	2023	2024	2025	2026
<b>Annual Rate of Change for Input Prices Paid</b>							
Seed Prices (%)	-2.00	2.45	3.17	2.51	1.94	1.47	1.22
All Fertilizer Prices (%)	3.29	3.63	4.11	-1.03	0.37	0.54	0.50
Herbicide Prices (%)	-1.85	3.80	1.96	1.51	1.62	1.58	1.67
Insecticide Prices (%)	-6.59	2.80	1.87	1.71	1.81	1.77	1.82
Fuel and Lube Prices (%)	-3.26	2.17	6.45	6.72	2.42	3.17	4.20
Machinery Prices (%)	-0.12	1.98	1.84	0.94	1.13	1.17	1.30
Wages (%)	1.48	2.62	3.31	3.42	3.22	3.20	3.30
Supplies (%)	1.49	1.63	1.42	1.43	1.39	1.57	1.62
Repairs (%)	1.29	2.57	2.35	2.39	2.29	2.42	2.50
Services (%)	-0.24	1.81	2.44	2.15	2.16	2.13	2.24
Taxes (%)	1.36	3.17	2.46	4.94	5.13	1.33	1.40
PPI Items (%)	-0.89	3.52	2.51	1.33	1.04	1.12	1.27
PPI Total (%)	-0.39	3.32	2.57	1.71	1.47	1.38	1.53
<b>Annual Change in Consumer Price Index (%)</b>							
	1.25	2.12	2.46	2.10	2.12	2.15	2.23
<b>Annual Rate of Change for U.S. Land Prices (%)</b>							
	0.00	5.15	5.10	-2.20	-1.92	-1.33	-1.20

**Source:** Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri-Columbia.

**Table 3: Percent of Cropland on the Farm that is Owned by Farm Type.**

<b>Feedgrain Farms</b>	<b>Wheat Farms</b>	<b>Cotton Farms</b>	<b>Rice Farms</b>
IAG-M-1350	19%	WAW-M-2800	29%
IAG-L-3400	25%	WAW-L-10000	25%
NEG-M-2400	25%	WAAW-X-5500	45%
NEG-L-4500	48%	ORW-X-4500	44%
NDG-M-3000	24%	MTW-X-9500	53%
NDG-L-9000	44%	KSCW-M-2000	35%
ING-M-1000	30%	KSCW-L-5300	25%
ING-L-3500	35%	KSNW-M-4000	29%
OHG-M-700	50%	KSNW-L-7000	30%
OHG-L-1500	25%	COW-M-3000	70%
MOCG-M-2300	60%	COW-L-6000	50%
MOCG-L-4200	43%		
MONG-X-2300	70%		
LANG-X-2500	20%		
TNG-M-2500	25%		
TNG-L-5000	28%		
NCSP-X-2000	35%		
NCC-X-2030	11%		
SCC-X-2000	28%		
SCG-X-3500	40%		
TXNP-M-3450	75%		
TXNP-L-10880	38%		
TXPG-X-2500	75%		
TXHG-X-3000	15%		
TXWG-X-1600	9%		

**Table 4: Percent of Crop and Pastureland on the Farm/Ranch that is Owned by Farm Type.**

	Ranches				Dairy Farms				
	Cropland		Pastureland		Cropland		Pastureland		
	Acres	Percent	Acres	Percent	Acres	Percent	Acres	Percent	
NVB-X-650	1,300	100%	10,725	81%	CAD-X-2000	700	86%	0	n/a
NVSB-X-550	125	100%	375	100%	WAD-M-300	250	50%	0	n/a
MTB-X-600	900	100%	20,700	63%	WAD-L-1200	850	50%	0	n/a
WYB-X-475	330	100%	2,200	68%	IDD-X-1500	850	50%	0	n/a
COB-X-275	650	69%	3,050	75%	NVD-X-1000	500	60%	0	n/a
NMB-X-210	0	n/a	12,333	82%	TXND-X-3800	1,920	100%	0	n/a
SDB-X-600	1,000	100%	14,200	46%	TXCD-X-1500	616	59%	500	100%
MOB-X-250	360	60%	850	67%	TXED-X-400	950	50%	0	n/a
TXRB-X-400	0	n/a	20,000	50%	WID-M-180	800	50%	40	100%
TXSB-X-300	100	100%	1,575	51%	WID-L-1700	3,200	50%	0	n/a
					OHD-X-400	700	50%	25	100%
					NYWD-M-400	800	60%	0	n/a
					NYWD-L-1200	2,100	67%	50	100%
					NYCD-M-180	400	80%	30	100%
					NYCD-L-800	1,800	75%	50	100%
					VTD-M-160	220	45%	60	n/a
					VTD-L-400	1,000	53%	100	50%
					MOGD-X-550	460	100%	0	n/a
					FLND-X-550	600	75%	60	100%
					FLSD-X-1750	400	100%	470	100%

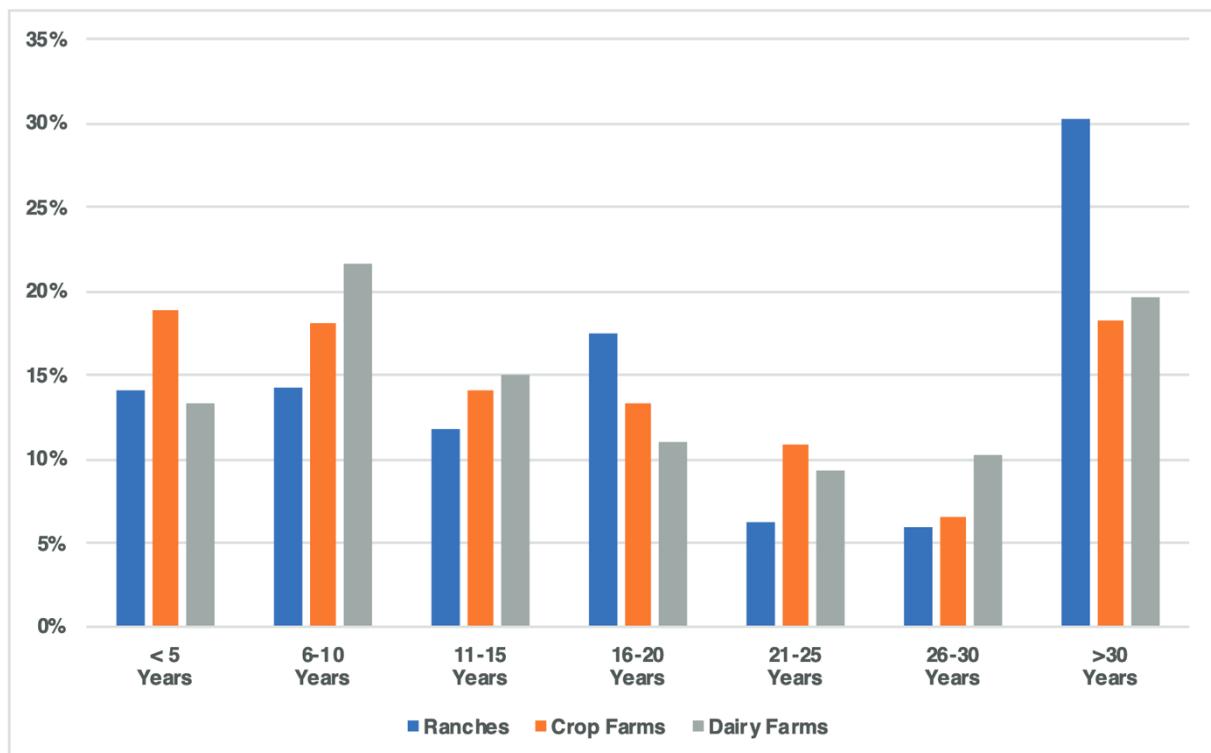
### Producer Input

Each time a policy proposal is evaluated that depends on individual producer responses, AFPC sends an email asking for information from representative farm panel participants that would make the analysis more realistic. For this analysis, representative farm participants provided information that

assisted with allocating the percentage of owned land on each type of farm (crop, dairy, ranch) into time periods of acquisition to calculate potential capital gains tax obligations.

A total of 247 responses were received from the representative farm/ranch panel members. This represents approximately 40% of the panel members in the AFPC database. This is by far the highest response rate AFPC has ever received when asking questions about potential policy changes.

The percentage of owned land by years of ownership has similar patterns across farm types. A relatively large percentage was purchased within the past 5 years, and 49 percent or more of the land for each farm type was acquired over 15 years ago. As discussed in more detail below, these percentages were utilized in the FarmESP simulation model to incorporate realistic land ownership patterns (Figure 4).



**Figure 4: Simple Average of Panel Member Responses to Length of Time They Have Owned Land.**

#### Model Modifications

To simulate the effects of the STEP Act and 99.5% Act provisions, the following changes were incorporated into FarmESP:

- To calculate the potential capital gain tax liability under the STEP Act, capital gain amounts were calculated for each farm based on owned land and equipment. The capital gain on land was dependent on the farm type (crop, dairy, or ranch) and panel member feedback on the length of time the land was owned.

- The taxable amount of capital gains on owned land was defined as the difference between the current market value of the land in 2021 and the value of the land when it was acquired. The value of the land when it was acquired was determined by taking the current market value in 2021 and applying a percentage price change for each land vintage that is equal to their state-level pastureland (ranches) or cropland (all other farms) percentage price change based on NASS data.
- The taxable amount of capital gains on machinery was calculated on the current market value of machinery in 2021 less the book value in 2021. The book value is based on the purchase price and depreciation schedule in FarmESP. Both the machinery and land capital gains were assumed to be taxed at the current 20% long-term capital gains rate. The exclusion of tax on the first \$1 million of capital gain was also assumed (consistent with the STEP Act).
- The estate tax liability under the 99.5% Act was calculated using the nominal net worth of each farm in 2021. The nominal net worth was taxed at the applicable updated marginal tax rates outlined in the 99.5% Act. Each farm was assumed to be eligible for double the \$3.5 million exclusion amount. Thus, the assumed estate tax exclusion on each farm went from \$23.4 million in current law to \$7 million under the 99.5% Act.
- This analysis for all of the farms starts in 2018 using actual prices and output variables (e.g., crop yields, milk production per cow, and calf crop) for 2018-2020 and uses FAPRI commodity and input price forecasts for 2021-2026. Using three years of history provides the opportunity to check to ensure the model results are aligned with the panel's experiences.
- The representative farms are constructed to analyze policy changes going forward. Under the status quo, the farms are assumed to continue operating in perpetuity. For purposes of this analysis and for the sake of consistency, the operator/landowner is assumed to die in 2021 with the farm transferring ownership in 2021 and taxes due in 2022. Naturally, farms that recently went through a generational transfer would not be impacted by the proposed changes (at least not in the near term), but this assumption is obviously key to analyzing the impact of the tax proposals on the farms in the event of an operator death.
- Finally, farms are expected to pay the calculated tax obligations in the year they are due.  
All farms are assumed to pay calculated taxes out of existing cash (if available). If the farm does not have enough cash to pay all cash obligations, then a carryover is experienced, and a short-term loan is established for the debt. While the results would suggest that some farms would have difficulty securing financing, this assumption of available financing is consistent with the fact that the STEP Act, for example, provides a 15-year financing option. While there are a number of ways a producer could choose to address a large additional tax liability, the assumptions made in this analysis provide a snap-shot of the magnitude of the financial impacts of the proposed tax policy changes.

## **Scenarios Analyzed**

The following five scenarios were analyzed for each of the 94 representative farms and ranches:

- **Scenario 1:** Current Tax Law with No Generational Transfer. This baseline scenario assumes current tax law remains in place and that no event triggers a generational transfer.
- **Scenario 2:** Generational Transfer under Current Tax Law. This scenario assumes current tax law remains in place and an event triggers a generational transfer in 2021 (e.g. death of the principal operator).
- **Scenario 3:** Generational Transfer under STEP Act. This scenario assumes the STEP Act is in effect and an event triggers a generational transfer in 2021 (e.g. death of the principal operator). Under the STEP Act, the current estate tax exemption levels are maintained and stepped-up basis is eliminated.
- **Scenario 4:** Generational Transfer under 99.5% Act. This scenario assumes the 99.5% Act is in effect and an event triggers a generational transfer in 2021 (e.g. death of the principal operator). Under the 99.5% Act, the estate tax exemption levels are lower but stepped-up basis is maintained.
- **Scenario 5:** Generational Transfer under STEP Act and 99.5% Act. This scenario assumes both the STEP Act and the 99.5% Act are in effect and an event triggers a generational transfer in 2021 (e.g. death of the principal operator). In this scenario, the estate tax exemption levels are lower and stepped-up basis is eliminated.

## **Results**

As noted above, Scenario 1 is a baseline scenario where no event triggers a generational transfer. Under this status quo scenario, 38 of the 94 representative farms and ranches are projected to have a negative ending cash balance at the end of 2026—and that is without any policy changes. In other words, even in the status quo scenario, there are farms struggling to cash flow across all types of farms and ranches (7 feedgrain, 4 wheat, 5 cotton, 10 rice, 8 dairy and 4 cattle ranches) (Table 5).

Under Scenario 2 (Generational Transfer under Current Law), only two of the larger dairies (CAD-X-2000 and TXND-X-3800) face estate tax liabilities as a result of a generational transfer—owing to stepped-up basis (i.e. no long-term capital gains tax) and the \$23.5 million estate tax exclusion in current law. Naturally, larger farms would be impacted by current law during a farm transition, but none of the other 92 farms in AFPC’s database would incur capital gains or estate taxes resulting in a change in ending cash balances under current law.

**Table 5: Summary of Results for the Representative Farms for the Five Tax Scenarios.**

	<b>Scenario 1 No Generational Transfer Current Tax Policy</b>	<b>Scenario 2 Generational Transfer Current Tax Policy</b>	<b>Scenario 3 Generational Transfer STEP Act</b>	<b>Scenario 4 Generational Transfer 99.5% Act</b>	<b>Scenario 5 Generational Transfer STEP + 99.5% Acts</b>
Number of Farms Impacted	n/a	2/94 (2%)	92/94 (98%)	41/94 (44%)	92/94 (98%)
Average Additional Tax Liability Incurred for Farms Impacted	n/a	\$370,431	\$726,104	\$2,166,415	\$1,431,408
Average Change in Ending Cash Balances (2026)	n/a	-\$382,200	-\$796,627	-\$2,375,717	-\$1,588,365

In sharp contrast, under Scenario 3 (Generational Transfer under the STEP Act), 92 of the 94 representative farms are impacted. Despite the \$1 million exclusion included in the STEP Act, the elimination of stepped-up basis impacts almost all of the representative farms. Across the 92 impacted farms, the additional tax liability incurred averages \$726,104 per farm.

Under Scenario 4 (Generational Transfer under the 99.5% Act), lowering the estate tax exemption levels to \$3.5 million (or a combined total of \$7 million per couple) impacts 41 farms, with the additional tax liability incurred averaging \$2.17 million per farm.

If the STEP Act and 99.5% Act were both implemented (Scenario 5), 92 of the 94 representative farms would be impacted. The additional tax liability incurred would average \$1.43 million per farm across all 92 farms. While the average impact in Scenario 5 is lower than that in Scenario 4, that is entirely because Scenario 5 impacts 92 farms (whereas Scenario 4 impacted only 41 farms). Importantly, when looking at individual farm results (Table 6), in no case was the tax liability in Scenario 5 lower than that incurred in Scenarios 3 or 4; in other words, combining the two policies always resulted in an equal or higher tax liability.

Table 5 also includes the average change in ending cash balances in 2026 for each scenario. The fact that the reduction in ending cash balances exceeds the tax liability incurred largely reflects the interest costs incurred in financing the debt resulting from the tax liability.

Tables 6 and 7 contain the results for the 25 feedgrain, 11 wheat, 13 cotton, 15 rice, and 20 dairy farms along with 10 cattle ranches. For this analysis, the key output variables used to demonstrate the impact of the two tax policy changes are (1) additional tax liability incurred and (2) ending cash balances in 2026. With everything on the operation staying the same except for the policy change associated with each scenario, these variables highlight any liabilities and potential cash flow shortfalls that would be created by the tax changes.

Tables 6 and 7 also utilize average annual net cash farm income (NCFI) for 2021-2026 under the

baseline scenario (i.e. current tax law with no generational transfer) as a point of reference. NCFI equals total cash receipts minus all cash expenses. It is used to pay family living expenses, principal payments, income taxes, self-employment taxes, and machinery replacement costs.

**Table 6: Average Annual Net Cash Farm Income (NCFI) and Tax Liability for the Representative Farms for Select Tax Scenarios (in Dollars).**

Type	Farm	Average Annual NCFI	Scenario 2 Generational Transfer	Scenario 3 Generational Transfer	Scenario 4 Generational Transfer	Scenario 5 Generational Transfer
		Base (2021-26)	Current Tax Policy	STEP Act	99.5% Act	STEP + 99.5% Acts
Feedgrain	IAG-M-1350	89,090	0	283,842	0	283,842
	IAG-L-3400	531,862	0	1,244,826	1,027,064	1,711,563
	NEG-M-2400	435,960	0	713,177	0	713,177
	NEG-L-4500	419,070	0	2,956,842	4,591,837	6,070,258
	NDG-M-3000	278,514	0	450,627	0	450,627
	NDG-L-9000	1,351,884	0	2,763,619	5,996,955	7,378,764
	ING-M-1000	239,848	0	332,811	0	332,811
	ING-L-3500	652,927	0	1,467,786	1,738,634	2,507,257
	OHG-M-700	125,353	0	201,014	0	201,014
	OHG-L-1500	407,906	0	346,212	0	346,212
	MOCG-M-2300	575,856	0	1,513,229	1,873,664	2,655,537
	MOCG-L-4200	1,122,730	0	2,321,461	4,605,774	5,766,504
	MONG-X-2300	587,196	0	1,716,843	2,201,626	3,065,311
	LANG-X-2500	205,219	0	193,054	0	193,054
	TNG-M-2500	322,796	0	288,653	0	288,653
	TNG-L-5000	874,612	0	850,887	1,835,971	2,268,907
	NCSP-X-2000	183,313	0	306,738	0	306,738
	NCC-X-2030	422,000	0	4,424	0	4,424
	SCC-X-2000	195,420	0	191,371	0	191,371
	SCG-X-3500	493,834	0	784,226	42,908	784,841
Wheat	TXNP-M-3450	666,326	0	760,188	491,731	933,396
	TXNP-L-10880	1,515,870	0	2,026,900	6,140,075	7,153,525
	TXPG-X-2500	324,813	0	503,516	0	503,516
	TXHG-X-3000	154,201	0	119,460	0	119,460
	TXWG-X-1600	63,661	0	31,866	0	31,866
	WAW-M-2800	307,995	0	113,573	0	113,573
	WAW-L-10000	751,923	0	839,410	1,580,241	2,019,522
	WAAW-X-5500	16,889	0	90,880	0	90,880
	ORW-X-4500	145,686	0	30,282	0	30,282
	MTW-X-9500	759,114	0	844,122	497,394	970,260
Cotton	KSCW-M-2000	315,536	0	215,694	0	215,694
	KSCW-L-5300	751,846	0	618,500	8,088	618,533
	KSNW-M-4000	289,968	0	479,058	0	479,058
	KSNW-L-7000	525,991	0	1,048,546	378,545	1,084,027
	COW-M-3000	179,199	0	368,527	0	368,527
	COW-L-6000	65,283	0	666,247	0	666,247
	TXSP-X-4500	230,148	0	140,492	0	140,492
	TXEC-X-5000	410,855	0	338,474	0	338,474
	TXRP-X-3000	5,356	0	12,680	0	12,680
	TXMC-X-2500	161,687	0	52,494	0	52,494
	TXCB-M-4000	175,477	0	219,094	0	219,094

**Table 6: Average Annual Net Cash Farm Income (NCFI) and Tax Liability for the Representative Farms for Select Tax Scenarios (in Dollars) (continued).**

Type	Farm	Average Annual NCFI	Scenario 2	Scenario 3	Scenario 4	Scenario 5
			Generational Transfer Base (2021-26)	Generational Transfer Current Tax Policy	Generational Transfer STEP Act	Generational Transfer 99.5% Act
<b>Rice</b>	CAR-M-1200	349,839	0	387,583	0	387,583
	CAR-L-3000	112,705	0	1,471,776	2,696,234	3,440,680
	CABR-X-800	262,352	0	400,802	0	400,802
	CACR-X-800	-76,059	0	352,582	0	352,582
	TXR-M-1500	37,579	0	147,822	0	147,822
	TXR-L-3000	157,929	0	4,464	0	4,464
	TXBR-X-1800	148,843	0	0	0	0
	TXER-X-2500	213,467	0	0	0	0
	LASR-X-2000	99,116	0	116,394	0	116,394
	ARMR-X-6500	831,787	0	797,103	958,548	1,418,087
	ARSR-X-3240	316,344	0	464,406	0	464,406
	ARWR-X-2500	291,745	0	885,012	82,666	885,133
	ARHR-X-4000	209,290	0	880,740	271,001	899,695
	MSDR-X-5000	1,009,655	0	2,132,270	4,659,867	5,726,002
<b>Ranch</b>	MOBR-X-4000	229,378	0	1,119,486	741,637	1,368,706
	NVB-X-650	97,922	0	1,851,122	2,064,410	3,011,086
	NVSB-X-550	83,046	0	386,106	0	386,106
	MTB-X-600	144,217	0	874,000	620,397	1,101,097
	WYB-X-475	34,455	0	236,199	0	236,199
	COB-X-275	151,476	0	1,460,362	4,038,415	4,768,596
	NMB-X-210	47,185	0	544,318	0	544,318
	SDB-X-600	10,942	0	1,032,121	297,084	1,032,193
	MOB-X-250	216,147	0	192,957	0	192,957
	TXRB-X-400	119,777	0	972,300	731,541	1,266,307
<b>Dairy</b>	TXSB-X-300	134,256	0	570,520	0	570,520
	CAD-X-2000	1,483,972	1,815	2,124,243	7,016,637	8,078,759
	WAD-M-300	-67,127	0	223,542	0	223,542
	WAD-L-1200	376,854	0	1,158,760	3,055,598	3,634,978
	IDD-X-1500	1,276,968	0	1,217,659	1,888,263	2,514,284
	NVD-X-1000	814,030	0	318,521	218,965	434,172
	TXND-X-3800	2,318,634	739,047	2,091,233	8,910,791	9,821,758
	TXCD-X-1500	526,077	0	779,773	1,033,075	1,462,828
	TXED-X-400	-53,969	0	81,163	0	81,163
	WID-M-180	345,162	0	455,045	0	455,045
	WID-L-1700	1,205,662	0	2,459,744	4,761,203	5,991,074
	OHD-X-400	298,843	0	651,910	0	651,910
	NYWD-M-400	267,324	0	422,625	0	422,625
	NYWD-L-1200	797,816	0	1,733,207	3,802,948	4,669,552
	NYCD-M-180	237,356	0	105,510	0	105,510
	NYCD-L-800	598,976	0	1,384,251	1,860,716	2,572,514
	VTD-M-160	-57,479	0	48,520	0	48,520
	VTD-L-400	-158,767	0	544,104	0	544,104
	MOGD-X-550	279,483	0	174,427	0	174,427
	FLND-X-550	123,601	0	109,499	0	109,499
	FLSD-X-1750	190,761	0	761,215	1,409,379	1,814,163

**Table 7: Years of Net Cash Farm Income (NCFI) Required to Eliminate Tax Liability for the Representative Farms for Select Tax Scenarios.**

Type	Farm	Scenario 3		Scenario 4	Scenario 5
		Generational Transfer	STEP Act	Generational Transfer	Generational Transfer
<b>Feedgrain</b>	IAG-M-1350	3.2			3.2
	IAG-L-3400	2.3		1.9	3.2
	NEG-M-2400	1.6			1.6
	NEG-L-4500	7.1		11.0	14.5
	NDG-M-3000	1.6			1.6
	NDG-L-9000	2.0		4.4	5.5
	ING-M-1000	1.4			1.4
	ING-L-3500	2.2		2.7	3.8
	OHG-M-700	1.6			1.6
	OHG-L-1500	0.8			0.8
	MOCG-M-2300	2.6		3.3	4.6
	MOCG-L-4200	2.1		4.1	5.1
	MONG-X-2300	2.9		3.7	5.2
	LANG-X-2500	0.9			0.9
	TNG-M-2500	0.9			0.9
	TNG-L-5000	1.0		2.1	2.6
	NCSP-X-2000	1.7			1.7
	NCC-X-2030	0.0			0.0
	SCC-X-2000	1.0			1.0
	SCG-X-3500	1.6		0.1	1.6
	TXNP-M-3450	1.1		0.7	1.4
	TXNP-L-10880	1.3		4.1	4.7
	TXPG-X-2500	1.6			1.6
	TXHG-X-3000	0.8			0.8
	TXWG-X-1600	0.5			0.5
<b>Wheat</b>	WAWV-M-2800	0.4			0.4
	WAWV-L-10000	1.1		2.1	2.7
	WAAW-X-5500	5.4			5.4
	ORW-X-4500	0.2			0.2
	MTW-X-9500	1.1		0.7	1.3
	KSCW-M-2000	0.7			0.7
	KSCW-L-5300	0.8		0.0	0.8
	KSNW-M-4000	1.7			1.7
	KSNW-L-7000	2.0		0.7	2.1
	COW-M-3000	2.1			2.1
	COW-L-6000	10.2			10.2
<b>Cotton</b>	TXSP-X-4500	0.6			0.6
	TEXC-X-5000	0.8			0.8
	TXRP-X-3000	2.4			2.4
	TXMC-X-2500	0.3			0.3
	TXCB-M-4000	1.2			1.2
	TXCB-L-10000	0.9		1.2	1.6
	TXVC-X-5500	1.1		0.4	1.2
	ARNC-X-5000	0.8		1.7	2.1
	TNC-M-3000	0.1			0.1
	TNC-L-4050	0.8		0.1	0.8
	ALC-X-3500	0.3			0.3
	GAC-X-2500	1.3		2.0	2.7
	NCNP-X-1600	2.2			2.2

**Table 7: Years of Net Cash Farm Income (NCFI) Required to Eliminate Tax Liability for the Representative Farms for Select Tax Scenarios (continued).**

Type	Farm	Scenario 3	Scenario 4	Scenario 5
		Generational Transfer STEP Act	Generational Transfer 99.5% Act	Generational Transfer STEP + 99.5% Acts
<b>Rice</b>	CAR-M-1200	1.1		1.1
	CAR-L-3000	13.1	23.9	30.5
	CABR-X-800	1.5		1.5
	CACR-X-800	a/		a/
	TXR-M-1500	3.9		3.9
	TXR-L-3000	0.0		0.0
	TXBR-X-1800			
	TXER-X-2500			
	LASR-X-2000	1.2		1.2
	ARMR-X-6500	1.0	1.2	1.7
	ARSR-X-3240	1.5		1.5
	ARWR-X-2500	3.0	0.3	3.0
	ARHR-X-4000	4.2	1.3	4.3
	MSDR-X-5000	2.1	4.6	5.7
	MOBR-X-4000	4.9	3.2	6.0
<b>Ranch</b>	NVB-X-650	18.9	21.1	30.7
	NVSB-X-550	4.6		4.6
	MTB-X-600	6.1	4.3	7.6
	WYB-X-475	6.9		6.9
	COB-X-275	9.6	26.7	31.5
	NMB-X-210	11.5		11.5
	SDB-X-600	94.3	27.2	94.3
	MOB-X-250	0.9		0.9
	TXRB-X-400	8.1	6.1	10.6
	TXSB-X-300	4.2		4.2
<b>Dairy</b>	CAD-X-2000	1.4	4.7	5.4
	WAD-M-300	a/		a/
	WAD-L-1200	3.1	8.1	9.6
	IDD-X-1500	1.0	1.5	2.0
	NVD-X-1000	0.4	0.3	0.5
	TXND-X-3800	0.9	3.8	4.2
	TXCD-X-1500	1.5	2.0	2.8
	TXED-X-400	a/		a/
	WID-M-180	1.3		1.3
	WID-L-1700	2.0	3.9	5.0
	OHD-X-400	2.2		2.2
	NYWD-M-400	1.6		1.6
	NYWD-L-1200	2.2	4.8	5.9
	NYCD-M-180	0.4		0.4
	NYCD-L-800	2.3	3.1	4.3
	VTD-M-160	a/		a/
	VTD-L-400	a/		a/
	MOGD-X-550	0.6		0.6
	FLND-X-550	0.9		0.9
	FLSD-X-1750	4.0	7.4	9.5

a/ Under the current baseline outlook, the average annual NCFI is negative. In other words, the farm is already in poor shape under status quo conditions and there is no expected NCFI available to help pay down the tax liability incurred.

Table 7 reflects the ratio of additional tax liability incurred to NCFI for Scenarios 3-5. For context, Table 7 illustrates how many years it would take to pay off the new tax liability if NCFI were used exclusively for that purpose. For example, on the 4,500-acre Nebraska feedgrain farm, it would take 14.5 years using all of the NCFI generated by the farm (while ignoring all other obligations normally covered by NCFI) to pay off the tax liability from the STEP Act and 99.5% Act.

## Summary and Conclusions

This analysis utilized 94 representative farms located across the U.S. to determine the likely impacts of two tax policy proposals—the Sensible Taxation and Equity Promotion Act and the For the 99.5 Percent Act—on the farm’s ability to cash flow. Under current tax law, an assumed death of the principal operator would impact 2 of 94 representative farms.

Eliminating stepped-up basis in the Sensible Taxation and Equity Promotion Act—even with the \$1 million exclusion—would impact 92 of 94 representative farms, including all of the ranches and dairies, with an additional tax liability incurred of \$726,104 per farm.

Imposing lower estate tax exemption levels from the For the 99.5 Percent Act would impact 41 farms (26 of 64 crop farms, 5 of 10 ranches and 10 of 20 dairies) with an average additional tax liability incurred of \$2.17 million per farm. The combination of the two tax policy changes would impact 92 representative farms at an average additional tax liability incurred of \$1.43 million and an average loss in ending cash balances of all affected farms of \$1.59 million in 2026. While the average tax liability declines (relative to imposing the For the 99.5 Percent Act alone), the number of farms impacted climbed from 41 to 92.

While these policy proposals were intended to increase tax revenues to offset other proposed expenditures, they also increase the chances that farms and ranches would have to sell some of their land to pay their taxes. There does seem to be at least some support to the notion that tax policy could lead to a redistribution of farm assets – most notably land. However, it is not clear that smaller operations would be the beneficiary, as larger, more liquid farms could purchase land being sold for tax purposes thereby nullifying any social engineering attempts.

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