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IFB Policy Development Webinar

Friday, August 4, 2017

Death tax, stepped up basis
and the prospects for
passing tax reform for the
first time in
30 years

What we'll cover in the next 20-25 minutes

- **IFB Tax Reform Policy** – What's there? What isn't? And how do IFB members prioritize our policy? **AFBF's** tax policy?
- Where is Congress and the Administration on tax reform and what's the timetable? What has to happen for tax reform to pass in this Congress?
- Where did the crazy idea for death tax repeal minus stepped up basis come from? What's our policy on stepped-up basis?
- Where's our focus? Besides burying the death tax, what provisions do we have to keep? What role can you play in getting tax reform that benefits Illinois agriculture across the finish line?
- Please type in your questions as they occur to you, and I'll do my best to answer as many of them as possible before the end of the webinar.

So What's Congress up to?

- Writing a FY 2018 Budget Resolution that sets spending parameters for governmental agencies and programs in the coming fiscal year.
- Contain “reconciliation instructions” for 10-year budget savings (2018-27) that will waive the filibuster in the Senate and permit Congress to pass tax reform with a simple majority in the Senate.
- The FY18 Budget Resolution will direct USDA to cut \$10 billion over the next 10 years. Overall, it would reduce the deficit by \$7T.
- **But** Republicans might not have the votes and putting tax reform in jeopardy. Moderate R's support raising budget caps and oppose mandatory spending cuts. HFC wants more than \$200 B in mandatory spending cuts. Plan B – a “shell” budget which the Senate would block.

July 27 – Big Six Release on Tax Reform

- “Big Six” – Speaker Ryan, Leader McConnell, Treasury Secretary Mnuchin, National Economic Advisory Cohn, Senate Finance Committee chair Hatch, and Ways and Means Committee chair Brady.
- We’ve listened to 100s of members and grassroots and business groups
- Single most important action to grow economy: “Fix broken tax code”
- Lower rates, simplified code
- BTW: Border Adjustment – Dead
- Regular order – through committees on to the floor
- “Our hope is that our friends on the other side of the aisle will participate in this effort.”

121. Federal Estate Taxes

- Support repeal “while still retaining a stepped up basis at the time of inheritance.”
- Eliminating the \$850,000 ceiling and limitation on the percentage of the total value of the estate allowed in determining the existing exemption under IRS 2032-A for agricultural productive value.
- Increasing the maximum gift tax exclusion per recipient to \$50,000 per year.
- Oppose any reduction in federal tax exemption.
- Until repeal become feasible, support an increase in the exemption to \$10 million, indexed to inflation

126. Tax Reform
(page 93)

- Lower marginal rates
- Cut capital gains rates and/or indexing (the exemption)
- Farmer Savings Plan – tax deductible at time of contribution, taxed at distribution
- Flat tax study on agriculture
- Extend bonus depreciation
- Unrestricted use of cash accounting
- Improvements to Section 1031 exchanges

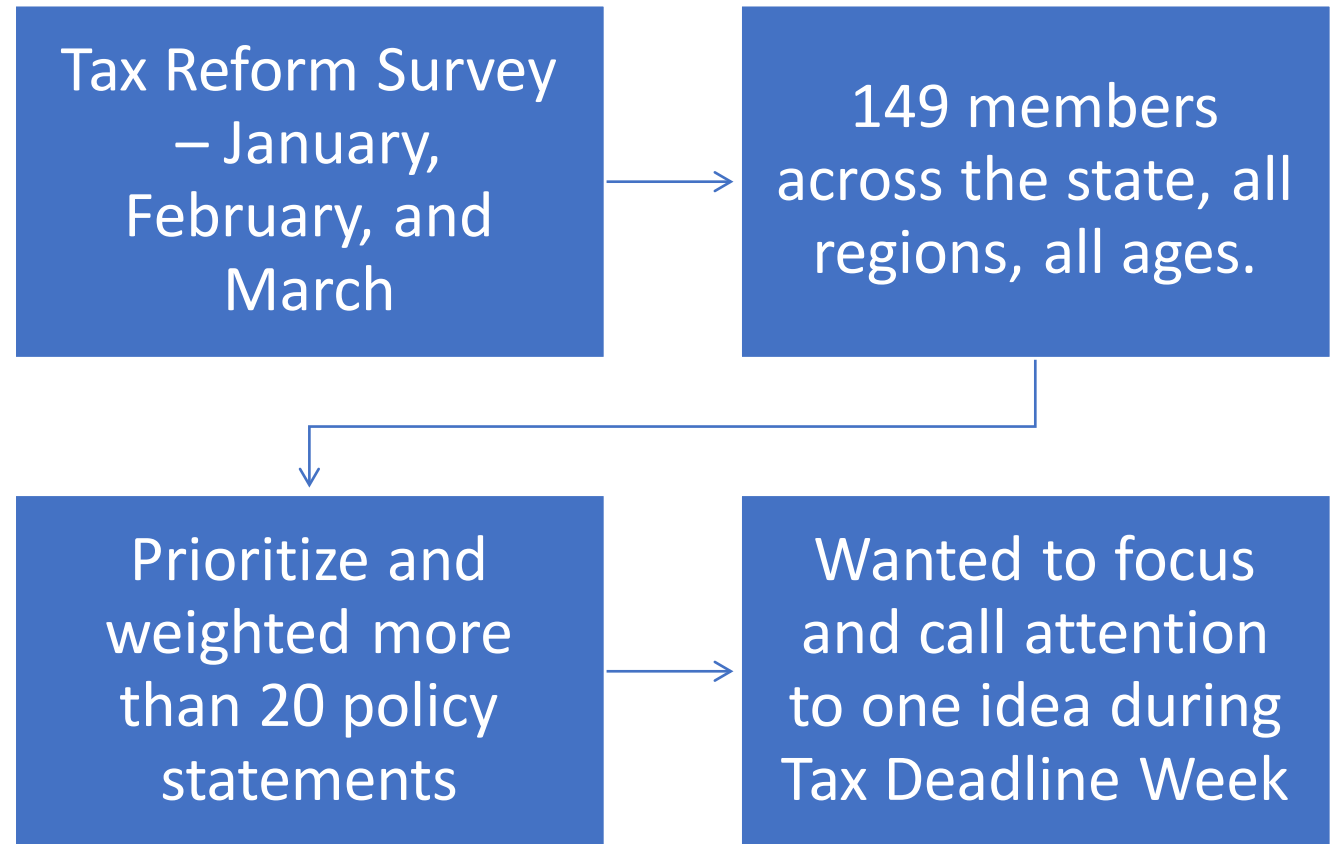
126. Tax Reform

Repeal	Repeal ACA tax increases
Exempt	Exempt land taken by eminent domain from capital gains
Tax	Tax incentives for those who sell or lease land or equipment to beginning farmers

AFBF 439 Taxation p.
166

- Charitable deductions for food donations
- Permanent Section 179 at \$500K – indexed
- Annual expensing of preproduction expenditures
- Accelerated depreciation
- Deducting all state and local taxes
- A deduction for business interest expense
- Permanent 50 percent bonus depreciation
- Extend 1031 window to identify property from 45 days to six months and extend closing window from six to 12 months.

We have a lot of policy statements, but what do we REALLY support?



2017 IFB Tax Reform
Priority Provisions:
Top priorities

1. Full repeal of the federal estate tax with stepped up basis
2. Maintain production **agriculture's special tax exemptions** (i.e. annual expensing of pre-production expenditures, "pre-buy" and the **business interest deduction**).

2017 IFB Tax Reform
Priority Provisions:
High priorities

- Unlimited use of cash accounting regardless of level of gross receipts.
- Increase the maximum gift tax exclusion per recipient to \$50,000 (2017-\$14k)
- Establishments of Farmer Savings Accounts – tax exempt contributions, taxed withdrawals.

2017 IFB Tax Reform Priority Provisions: Priorities

1

Cut capital gains rate and/or index capital gains to inflation

2

Allow a taxpayer to defer capital gains taxes from the sale of property and machinery by investing the proceeds into a retirement account with taxes due at withdrawal.

3

Provide tax incentives to taxpayers who sell or lease property or farm assets to beginning farmers.

4

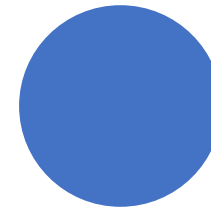
Cut income tax rate for S-Corps, LLCs and other pass throughs

5

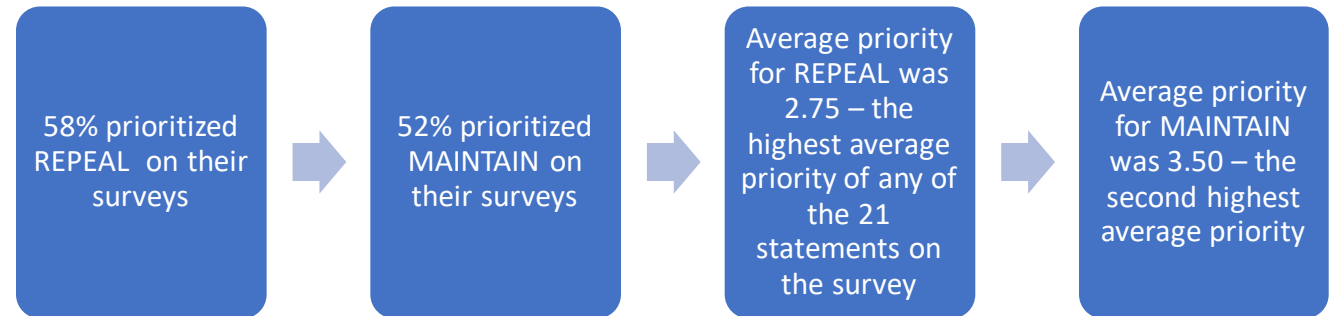
Allow farmers to income average over a five-year period (and allow share-based rental income to be income averaged)

- Extend 50 percent bonus depreciation
- Maintain and modify Section 1031
- Exempt cash rent from self employment taxes
- Extend federal tax credits for cellulosic ethanol and biodiesel
- Exempt sale of family-owned farmland (for at least 10 years) taken by eminent domain or threat of ED
- Flat tax study
- Maintain deduction for charitable contributions
- Reasonable investment tax credit proposal
- Exempt SE taxes on CRP payments

What didn't make the
priority list?



Death Tax Cage Match – Repeal v. Maintain



Death Tax Cage Match – Repeal v. Maintain

- 25 points to allocate among priorities

REPEAL received the most weighting points of any tax provision – 470 – an average of 5.7 per survey

MAINTAIN received the second most weighting points – 317 – or an average of 4.06 per survey.

Death Tax Cage Match – Repeal vs. Maintain

1

Of the 40 farmers who prioritized both REPEAL and MAINTAIN on their surveys, 24 ranked REPEAL as a higher priority than MAINTAIN.



2

If REPEAL is not achievable, the survey found there is a very strong desire to maintain the current estate tax provisions -- \$5.49 million per individual in 2017.

Death Tax Cane Match Summary

- Percentage who prioritized – 58% to 52% Winner: DEATH TAX REPEAL
- Average Priority -- 2.75 to 3.5 Winner: DEATH TAX REPEAL
- Weighting points per survey – 5.4 to 4.06 Winner: DEATH TAX REPEAL

So, what does our policy (121. Federal Estate Taxes) say?

- “Until repeal becomes politically feasible, we support an increase in the exemption to \$10 million to ease the movement of farms and small businesses from one generation to the next. The exemption should be indexed to inflation.” (We’re at \$5.49 million)
- **My takeaway** – Our policy supports where our members are today on the death tax.

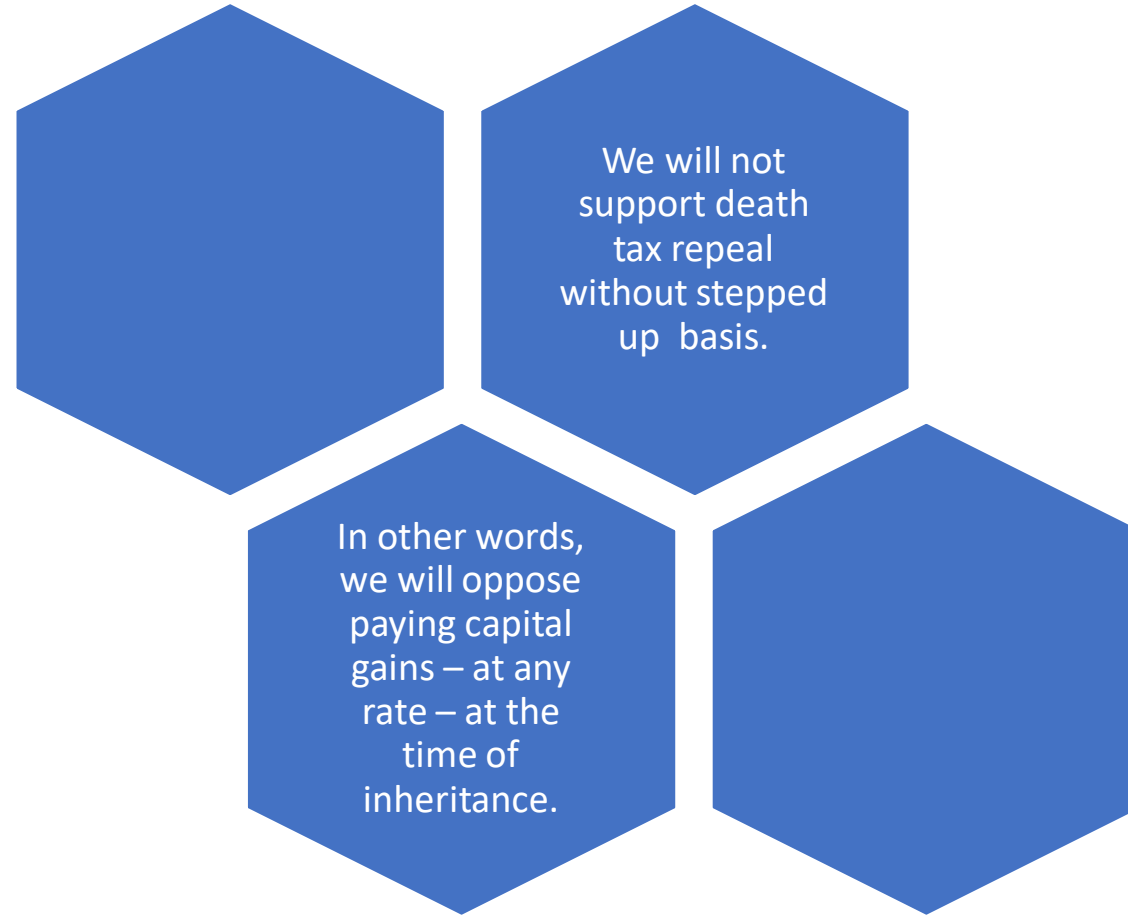
Who's behind
the plan to
drop "stepped
up" basis --
Forbes --
"biggest
loophole in
the tax code"

- Obama 2015 proposal to close the "trust fund loophole" on an estate's capital gains at death unless the assets were left to a spouse or a charity. No tax due until surviving spouse dies – other small exemptions
 - 21% of all savings from "step up" go to the top 1% income households
 - 28% of all savings from "step up" go to the 96-96% percentile income
 - Five-year cost of step up was \$175 billion from 2014-2018
 - Capital gains rate for high income earners went from 25 to 28.8 % (ACA)
- Koch Brothers – net worth \$48 billion each

Death Tax exemption and top rates

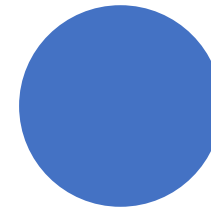
Year	Top Rate	Exemption per individual/couple	Acres to trigger
2010		Repealed	
2011	35%	\$5 mil/10 mil	
2012	35%	\$5.12 mil/\$10.24 mil	
2013	40%	\$5.25 mil/\$10.50 mil	
2014	40%	\$5.34 mil/\$10.69 mil	
2015	40%	\$5.43 mil/\$10.86 mil	
2016	40%	\$5.45 mil/\$10.90 mil	About 675 at \$5 mil
2017	40%	\$5.49 mil/\$10.98 mil	

Bottom line:



- **Comprehensive** – Help all farm and ranches businesses and organizational structures.
- **Effective Tax Rate** – Tax reform should reduce combined income tax rates enough to account for any deductions or credits lost.
- **Cost Recovery** – Tax reform should allow businesses to deduct expenses when incurred, continue cash accounting and keep Section 1031 “like kind” exchanges.
- **Estate Taxes** – Tax reform should repeal estate taxes and continue stepped-up basis which sets asset values at time at inheritance
- **Capital Gains Taxes** – Tax reform should lower taxes on capital investments. Cap gains should not be levied on transfers at death.

Farm Bureau’s Tax Reform Principles



01

Review tax policy

02

Talk about the need for tax reform from your farm's perspective with your federal elected officials and staff during the August recess. If you live in Rep. Roskam's district, we are meeting with him next Wednesday morning at Mike Kenyon's farm in South Elgin.

03

Go to the Legislative Action Center
Sign up for IFB Leaders to Washington – Sept 11-13 – Tax Reform will be at the top of our priority list.

04

Participate in our next tax reform-related action request.

How can you help?

Tax Deadline Week Action Request on Protecting the Business Interest Deduction

01

Worth between \$450-600 million per year to Illinois farmers.

02

Represents between 2- and 6% of farm expenses.

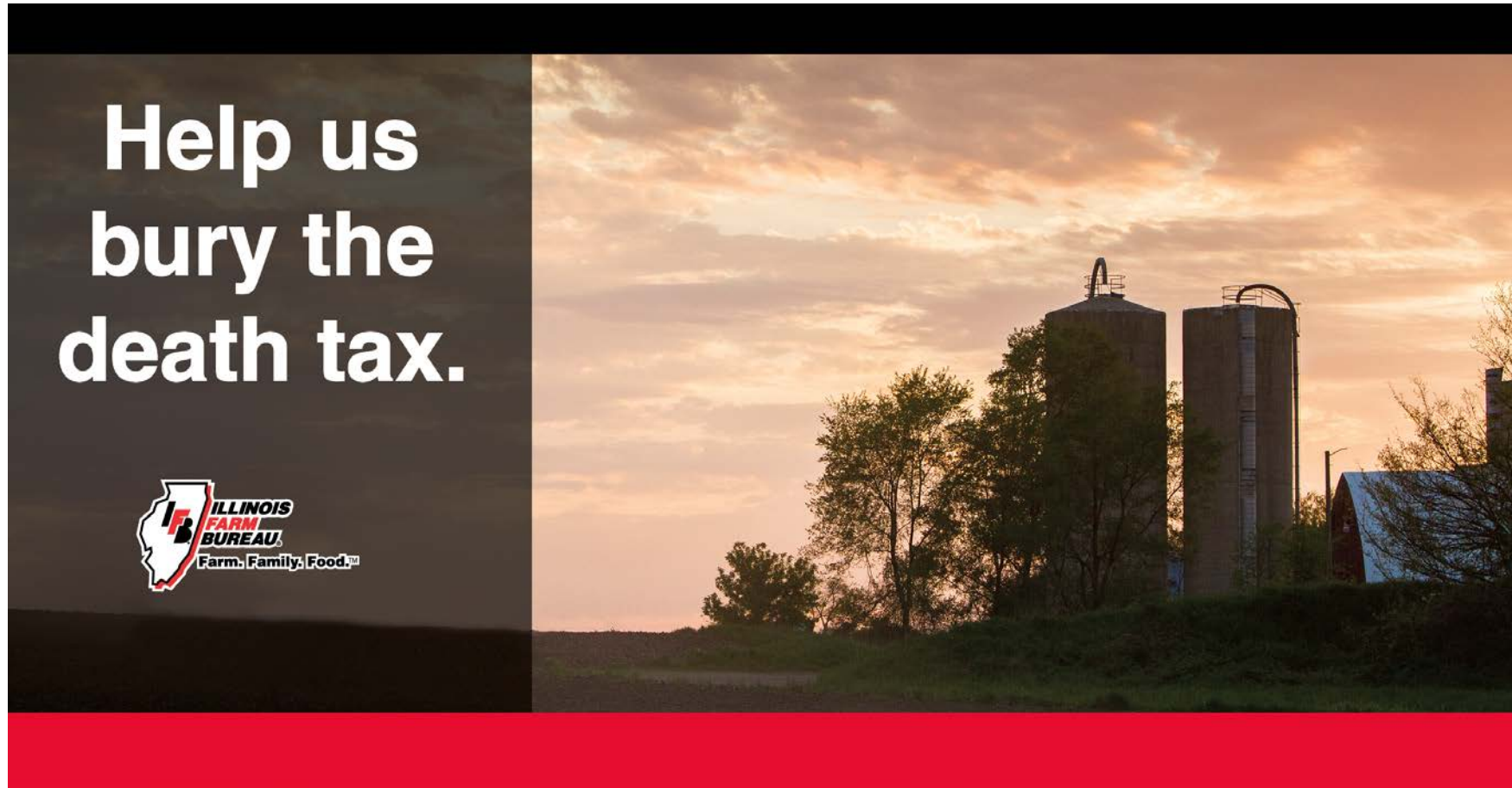
03

Farm Bureau advocates stepped up making more than 5,000 contacts to their Congressman, Senators, and Illinois two House Ways and Means Committee members – Reps. Roskam and Danny Davis.

04

How do I know you got through. Many offices were ready to discuss the issue when I was in DC in late April.

Finally, we're going to start through social media to ask members to share their death tax stories.



Policy Questions

- Should IFB support estate tax repeal if it does NOT contain stepped up basis?
- Is estate tax repeal still favored policy over a slowly climbing, inflation-adjusted exemption?
- At what tax rate would farmers feel comfortable giving up deductions and credits like the deduction for business interest expense?
- With the potential for losing important deduction and exemptions – in the quest for a simple, flatter tax code – should Illinois Farm Bureau policy reflect the need for a lower *effective* tax rate?
- Do we need to do some policy clean up?