



ESTATE TAX AND SPECIAL USE VALUATION

Issue:

IRS Code 2032A Special Use Valuation allows property to be appraised as farmland rather than at development value when determining estate taxes at time of sale. The provision needs to be modernized to remove outdated limitations so that it can serve its intended purpose of helping to preserve family farm and ranch businesses.

Background:

The Tax Cuts and Jobs Act (TCJA) temporarily doubled the estate tax exemption from \$5.5 million to \$11 million per person (indexed) through 2025. While the higher but temporary exemption level protects the vast majority of the nation's farms and ranches from the devastating consequences of estate taxes, farm and ranch families with businesses that top the exemption level are still plagued by estate taxes and related planning costs.

Estate tax liabilities often make continuing a family business after the death of a loved one difficult because paying the tax typically drains business resources. Section 2032A Special Use Valuation is one tool available to help family business owners manage their estate tax liability. The provision allows farmers and ranchers to pay estate taxes on the value of farmland based on agricultural use, rather than the value if sold for development.

Farm and ranch families who choose to use Sect. 2032A Special Use Valuation commit to continue operating their farm or ranch business for 10 years. If they stop farming or ranching, sell the farm or ranch outside of the family, or change the use of their property, they must repay forgiven estate taxes. In addition, certain activities trigger an estate tax recapture. These include but are not limited to harvesting timber and selling a conservation easement.

In addition to helping farmers and ranchers, Sect. 2032A Special Use Valuation can also be used to help other family-owned business. Eligibility is limited to situations where the family business makes up a substantial part of the estate and requires the involvement of the deceased family member in the business for at least five years before death. In addition, the person(s) inheriting the business must be family members who are actively involved in running the family business operation.

Although Sect. 2032A Special Use Valuation holds great promise for protecting larger family-owned farms and ranches from estate taxes, it is not widely used due to its complexity which increases legal expenses. In addition, there is a \$750,000 limit (indexed) in the amount that property values can be reduced. As a result, when Sect. 2032A Special Use Valuation is calculated, the resulting savings is insufficient to compensate for the restrictions put on the farm or ranch business. Allowing more farm and ranch land to qualify for Sect. 2032A Special Use

Valuation would help more farm and ranch businesses transition to the next generation and protect valued open space from development.

Legislative Status:

Farm Bureau supports H.R. 4937 – The Preserving Family Farms Act of 2023, to allow more farmland or ranchland to be valued at agricultural value rather than development value under Sect 2032A Special Use Valuation. The bipartisan legislation was introduced by Reps. Jimmy Panetta (D-Calif.) and Mike Kelly (R-PA). The bill has 11 cosponsors.

AFBF Policy:

Farm Bureau believes that the TCJA \$11 million indexed exemption should be made permanent as a step toward the permanent repeal of estate taxes.

Farm Bureau supports allowing inherited farmland to be valued at its agricultural value, rather than at development value, without limitation under Sect. 2032A Special Use Valuation.

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