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INTERRELIGIOUS
TASKFORCE ON US FOOD POLICY
110 MARYLAND AVENUE, NE, WASHINGTON, DC 20002 202/543-2800

September 4, 1981

Dear Friend:

Enclosed please find a draft copy of a working paper on federal tax policy and the structure of US agriculture. We send this draft to you hoping that you will have time to read it and critically respond to it either in writing or by phone (or both).

We are circulating this draft widely within the religious community and among farm families, farm-related groups, and acadmemics so as to receive maximum input before proceeding. We will circulate other drafts if necessary. Our tentative plans are to revise this piece for use as a study paper and to publish a popularized and condensed version for our regular readership.

Please critique this draft for:

- --substance (are the facts right? is our analysis sound? do the recommendations follow?)
- --clarity (are the concepts presented in an understandable way? are the presentations too brief or too verbose?)
- --additions and deletions (what is missing in terms of analysis or recommendations? what could be left out?)
- --general readability

We will greatly appreciate any time you can give to reviewing this draft. If you wish, write your comments in the margins of the draft and return it to us. Or, write separately or give us a call, as seems appropriate. We will proceed to the next stage on the basis of comments in hand by Septemer 28; earlier responses would be helpful.

We will share our final version when it is available. Thanks for your help.

Sincerely,

Don Reeves Ferd Hoefner

Don Reeves, Family Farm Consultant Ferd Hoefner, Policy Advocate

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TAX BREAKS: WRITING OFF FAMILY FARMS

DRAFT

September 4, 1981

INTERRELIGIOUS TASKFORCE
ON US FOOD POLICY
110 Maryland Avenue, N.E.
Washington, DC 20002

Attention: Don Reeves/Ferd Hoefner

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The Interreligious Taskforce on US Food Policy is a team of Washington-based staff of national religious agencies who work together for a morally responsible US food and development policy. Twenty-eight Protestant, Roman Catholic, Jewish, and ecumenical agencies and networks cooperate in its work.

The Taskforce seeks to serve the cause of bread and justice for all:

--By providing reliable information and recommendations about US food and development policy and policy options.

--By encouraging and facilitating concerted action by cooperating religious agencies and networks and their members in advocacy of responsible US policy.

--By advocating in its own name policy positions on which there is broad consensus in the religious community represented by its member agencies.

The Taskforce currently works on specific issues and programs in four overarching categories:

--International Economic Policy
--International Development Policy
--Agricultural Policy
--Nutrition Policy

Farm Agenda: The Taskforce has been involved in farm issues, particularly those dealing with the structure of agriculture, for the last five years. Four major publications have been issued in that time:

"Family Farming and the Common Good" (Feb. 1977)
"The Family Farm Development Act" (March 1979)

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"Toward a More Just US Farm Policy" (April 1980)

"US Family Farm Policy: Substance or Rhetoric" (Feb. 1981)

In addition, the Taskforce initiated and published two major interfaith undertakings on farm issues:

"Interfaith Statement on Public Policy and the Structure of Agriculture" (April 1980) - a joint declaration by 17 national religious leaders from 15 denominations and faith groups. (see Appendix B)

"An Agriculture Based Primarily on Small and Moderate Sized Farms" (Feb. 1981) - a report from An Interreligious Conference on Public Policy and the Structure of US Agriculture held in Dec. 1980.

The legislative agenda has included issues such as family farm policy language and reporting requirements, commodity program payment and loan limitations, tax reform, limited resource loan programs, reform of the 1902 Reclamation Act, family farm anti-trust provisions, the Family Farm Development Act, and farm entry assistance programs.

During the current year (1981), major attention has been given to the 4-year reauthorization of the omnibus farm bill, focusing primarily on targeting commodity program benefits to moderate-sized family farms. Current efforts are in support of "The Family Farm Amendments of 1981" proposed by Representative Berkely Bedell which are pending action during floor consideration of the 1981 Food and Agriculture Act.

Following passage of the farm bill, greater attention will be given to tax policy. Unfortunately, Congress has jumped the gun on tax "reform" measures by lumping them in with the tax cut bill recently signed into law (see below). This paper is intended to stimulate discussion toward major shifts in tax policy in the future.

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"The primary beneficiary of the present tax system of farm tax preferences is the individual who has a large income, whether he springs from the farm sector or the nonfarm sector. This was particularly evident in our examination of the personal income tax, the corporate income tax, and the estate tax. A distressing aspect of this tax bias in favor of the extremely large farmer is that it provides an artificial incentive for farms to increase in size."

Charles Sisson, Tax Policy
Division, International Monetary
Fund; formerly with Economics and Statistics
Services, USDA
(from The US Tax System and the
Structure of American Agriculture, a
National Rural Center publication)

"Tax law encourages the growth and expansion of existing farms. Some of this growth comes at the expense of other farms; some, at the cost of denying entry to persons who want to begin farming."

A Time to Choose, Summary
Report on the Structure of Agriculture,
US Department of Agriculture.

"Were agriculture less tax favored than it is, land prices would undoubtedly be lower; there would be less need for sophisticated financial and tax advice; holding periods for farm assets would likely be less; there would likely be a higher proportion of owner-operators in farming; there would be fewer high bracket taxpayers in farming; and farmers might even be younger on average."

Charles Davenport, Rutgers Law School

"Tax benefits to agriculture seldom increase the after-tax income of agriculture as a whole. Encouraging hog production through the tax code results directly in the production of more hogs leading to lower prices. The benefits received by tax-oriented cattle feeders supress fat cattle prices and are bid into feeder cattle prices. Tax benefits encouraging purchase of farmland ... and those rewarding purchase of technology capable of handling a larger land base get bid into higher land prices,thereby increasing the cost of production."

Tax Law: Its Impact on Who Will
Control Agriculture, Center for
Rural Affairs.

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"By promoting specialization and mechanization, tax policies have led to a form of monoculture associated with the export of unprocessed agricultural products. This is creating a pattern of one-crop, export-based agricultural activity in the corn, soybean, wheat and sorghum regions that is very similar to the type of monocultural dependence formerly associated with colonialism. In an important and sobering sense, the grain belt of America is acquiring the characteristics of a colony. Big, single purpose farm units ... are lacking in shock-absorbing capacity, and in their capacity to alter their output mix. The American agricultural structure is losing its capacity to adapt."

Philip Raup, Professor of Agricultural
Economics,
University of Minnesota, "Recent
Trends in Land Values, Use and
Ownership in the US"

"The net effect (of tax laws) in to throw almost insuperable roadblocks in front of under-financed capable young farmers as assets are priced out of their reach .... I suspect tax laws cause young, debt-burdened farmers actually to subsidize their well-financed competitors.

Let's be honest. There is no chance of preserving family farming if tax laws are not changed.... By the same token, although much is heard about estate taxes ... a sharply graduated estate tax is an essential part of any policy to retain family farming."

Harold Breimyer, Professor of
Agricultural Economics and Extension
University of Missouric (Testimony, House Agriculture Committee,
2/27/81)

"Many of the religious traditions we represent have taken public policy positions on the plight of the family farm. Drawing from the concern of our respective fellowships, we declare our support for public policy that would:

3. Restruture tax laws ... so as to strengthen an agriculture based primarily on small and moderate-sized family farms. This involves eliminating incentives that favor large units, stimulate absentee ownership, or encourage corporate control of resources."

"Interfaith Statement on Public Policy
and the Structure of Agriculture."
A joint declaration by 17 leaders from
14 religious groups, 4/28/80.

The Interreligious Taskforce on US Food Policy views with alarm the conclusions reached by many experts regarding federal tax policy and the future of the family farm system of agriculture. Three years ago, the Taskforce was instrumental in drafting legislation to reform certain aspects of special farm income tax rules. Even while Congress has been busy creating new tax breaks this year, the Taskforce has been engaged in a review of tax policy as it relates to the structure of agriculture. Our analysis and conclusions closely parallel those quoted above.

This paper examines many of the personal income tax, estate tax, and corporate income tax rules which affect the structure of agriculture. Specific tax law changes are proposed in each of these three areas which in our judgment would encourage the retention of "an agriculture based primarily on small and moderate-sized family farms."

Before proceeding with that effort, however, we would call attention to the four appendices to this paper:

A. The Changing Structure of US Agriculture: Some Considerations

B. Interfaith Statement on Public Policy and the Structure of Agriculture

C. The Tax Code: General Observations

D. The Economic Recovery Act of 1981

These appendices are intended to serve as introductory and background material to the main text. We encourage readers to peruse these sections first, especially appendices C and D, as we assume familiarity with the material presented there in the main text.

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Whither The Family Farm?

The family farm system of agriculture is in jeopardy. Farm production and land ownership continue to move into fewer and fewer hands. Sometimes those hands belong to nonfarm investors; more often to farmers themselves. In either case, land prices are bid up, severely limiting access to land for small and beginning farmers. A recent USDA publication predicts that if current trends continue, by the year 2000 less than 20,000 farms will account for over half of all farm production, compared to the over 160,000 farms it takes today.

Of course, farm consolidation has been going on for some time. Total farm numbers have decreased by four million since 1935. Though this loss has slowed considerably, America still lost 30,000 farms annually over the last decade. With the advent of the technological, biological, and chemical revolutions in agriculture, much of the earlier consolidation in the farm sector was probably inevitable. But given the high levels of efficiency and relatively low farmgate food prices the system has achieved, other values related to farm structure have increasingly come to the fore--values related to family life, community structure, rural amenities, democratic control of resources, and responsible stewardship.

The greatest push toward consolidation of existing farms today comes from nonproduction -related causes. Nearly every study of on-farm cost efficiencies has arrived at the same conclusion: economies of size are largely neutral factors in farm expansion beyond rather small

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production units for most commodities. Yet, over three-fifths of all farmland purchases each year are for the purpose of expanding existing farms.

Federal farm and credit programs and especially federal tax policy, on the other hand, play a major role in fueling consolidation. In some instances it has been a case of policies having unintended effects. In other instances, farmers and farm organizations have supported program and tax rules which, while beneficial to each individual farmer, have been counterproductive in terms of the whole system. As someone has put it--"what's good for family farmers isn't necessarily good for family farming."

Earl Heady, agricultural economist at Iowa State University, put the current situation this way: "American society needs to decide whether it wants a few large farms scattered alone over rural space or whether there are other values relating to rural space which are best maintained by an efficient set of modest-sized family farms. Unless public policy is changed soon, family farms as most people know them may disappear completely from agriculture. The agricultural public and the society at large need to hurry to make a decision on whether it is going to let the trend to superfarms continue."

In its comprehensive study on public policy and the structure of agriculture, published in part as A Time To Choose: Summary Report on the Structure of Agriculture, the last Administration at USDA made two general policy recommendations with which we concur:

1. "We must systematically remove from our policies those incentives

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which encourage and even reward the acquisition and holding of farmland in quantities beyond that necessary for an efficient-sized production unit."

2. "As a matter of principle behind our commodity, tax. and credit policies, we should try to direct the benefits to working farmers. The farm sector does not need to have additional investment stimulated through special privileges to nonfarm investors."

This paper attempts to apply these principles to federal tax policy.

Farms as Tax Shelters

Considerable attention has been given in recent years to specific uses of farm investment as tax shelters by nonfarm investors: movie stars buy cattle ranches; dentists develop orchards; executives invest in cattle feeding operations, etc. Less attention has been given to the extent that almost every farm is a tax shelter. With the exception of the very smallest farms, net farm income is taxed less severely than equivalent income from nonfarm sources. Moreover, this spread between taxes on farm income and nonfarm income grows as farms grow larger. The following chart, which reflects 1978 tax returns, illustrates this point.

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Table 1.

	Federal Taxes As a Percent of Adjusted Family Income	
Income ($000)	Total Population	Farm Families*
0-1.25	12	46
1.25-2.5	7	13
3.75-5	12	10
8-10	16	8
22.5-25	17	8
45-50	19	8
90-100	27	8
200-350	31	12
350-500	33	14
500-1000	35	14

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*Families with farm income greater than nonfarm income.

Source: Charles Sisson, The US Tax System and the Structure of American Agriculture.

In discussing this phenomenon, Charles Sisson, former USDA economist in charge of the Tax Policy Project, concludes:

> "It is...clear that tax rules favoring farming in general and backed by farmers as a whole have had differential impacts on small and large farmers. While the smaller farmer may benefit from these tax advantages, the larger operations are able to reap larger benefits. Over time, this differential advantage is translated into greater ability to bid for land, equipment, livestock, and other productive inputs. The general result of farm tax aids is a restructuring of farming operations towards larger farming operations. Tax provisions which benefit small farmers in the short run become obstacles to their survival in the long run."

Effect on Land Prices and Farm Prices

Income, corporation, and estate tax laws which provide income shelters have created an artificial excess demand for farmland.

no ¶

This excess demand pushes prices upward. At the same time, certain features of these laws have limited the supply of farmland offered for sale, further increasing prices. In nearly every case, an established farmer or a wealthy nonfarm investor can far outbid a beginning farmer for land because of the existing tax breaks. The value of these tax breaks thus get bid into land prices.

Recent work at Purdue University by Timothy Baker and others highlights the ability of persons in high tax brackets to outbid beginning farmers for land. Assuming that the overall tax load among potential buyers of a piece of land is 30 percent and that the value of the land at that rate is $3386/acre, then the value of that land for buyers with no tax liability is only $2388. For buyers in the 50 percent tax bracket, however, the same land is worth $4604, nearly twice as much. Is it any wonder that beginning farmers cannot compete and that nearly all farms are purchased by already established farmers and others having substantial income?

The existence of tax shelters has also stimulated the production of tax-favored crops and livestock. This has the effect of lowering prices for all farmers, even while increasing the price of land and other resources which are carried as costs of production.

What are the specific federal tax rules which result in this dual phenomenon? What specific changes must be made in the tax code, if the nation is serious about preserving small and moderate-sized family farms?

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INCOME TAX RULES

Capital Gains and Ordinary Income

Farm expenditures are of two general classes. Current expenditures cover those items which are used up in one season and presumably relate to a farmer's income in the same year--seed, tractor fuel, most fertilizer, labor, interest, taxes, etc. These expenses are generally deducted from each year's gross sales; the net income is taxed as ordinary income.

More permanent items, or capital assets, contribute to several or many years' income. Some, such as tractors, wear out over a period of years, and part of the value (depreciation) is allowed as a deduction against each year's sales. Others, such as land, are considered permanent, and no depreciation is allowed. When capital assets are sold, any increase in value over the "basis" (original cost, plus any major improvements, less certain depreciation) is considered capital gains and is taxed at a reduced rate. Sixty percent of capital gains are deducted from income; the remaining 40 percent is taxed as ordinary income.

Preferred taxation of capital gains was instituted in 1921, with the hope that it might induce taxpayers to move their investments to even more productive ventures. It was also thought that if the tax burden of "realizing" any gain in a less productive investment were not so great, increased tax revenue from the more productive investment might more than offset the loss.

More recent reductions in the capital gains tax rate have been

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supported on the premise that inflationary increases in dollar value should not be taxed away, since they do not represent increased real value. Others have noted that capital gains accumulate over more than one tax year but are taxed only in the year the asset is sold--often pushing the taxpayer into a higher income tax bracket. Therefore, some allowance might fairly be made for an income averaging effect. In each change, there has been a continued presumption that preferred taxation of capital gains will lead to increased investment and hence to greater productivity.

Some tax analysts, including Philip Raup at the University of Minnesota, maintain that there is no necessary link between the favored taxation of capital gains and productive investments. Capital gains considerations often outweigh those of productivity or even of current returns to investment. These analysts see favored treatment of inflationary gains as a substantial factor in continued inflation. They point to instances where actual year-to-year losses may prove profitable to wealthy investors. See Example IV, page 27.

Carryover Basis for Capital Gains

The reduced taxation of capital gains may be further reduced, or even avoided altogether, on property passed by inheritance. When heirs sell land or other inherited capital assets, the "basis" for figuring capital gains is the value at which they inherited the property, rather than the cost to the family member who bought the property earlier. The "basis" does not carry over; this means that the gain in value before death is not taxed.

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Gifts are treated differently; the "basis" of the donor carries over to the new owner--property received as a gift, then sold is taxed more heavily than inherited property which is sold. Since pre-death sales to family members are also subject to capital gains taxation, there is a significant tendency for owners of property not to give or sell property prior to death if the property has gained in value since it was purchased. If the family waits, the heirs may sell the property and pay less taxes.

Congress established a carryover basis for inherited property in 1976. The provision was not popular among farmers, even though it probably would have meant more farmland available for sale. In addition, the provision was not well written. Rather than correct the provision, Congress revoked it in 1978.

Capital gains taxation provisions apply to a wide range of capital investments, of course. They are especially important to farming because the capital investment required for farming is very large. Their impact on farming is greatly enhanced because of other related tax rules. (See Example II, page 18.

Special Farm Tax Rules

There are three special farm income tax rules which, when added to capital gains provisions, account for most of the preferential tax treatment of farm income:

(1) Cash Accounting. Farmers may choose between simple cash accounting, which includes cash receipts and expenditures but ignores inventory changes for tax purposes, and ordinary business

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(accrual) accounting, under which inventory changes are counted and taxed.

Cash accounting for farmers was justified in a 1915 administrative decision on the basis that, by being able to adjust the timing of expenses and sales, farmers could level their income from year to year. Furthermore, it was thought that accrual accounting was too complicated for farmers. None could foresee the possibilities inherent in combining cash accounting with later tax rules. (See Example I, page 15. Besides, few farmers were liable for income tax in its initial stages, in any event.

(2) <u>Cashing out capital investments</u>. Farmers may write off the costs of developing certain capital assets as a cash expenditure, rather than treating the expenditures as a capital investment, to be depreciated over the useful life of the asset.

Again, the problem of accounting was a major factor in this 1919 Treasury ruling. Farmers also face the practical difficulty of separating costs among different classes of assets--young trees versus producing trees in an orchard, for example, or of accounting for grain fed to calves destined for market versus those destined for the breeding herd.

Almond and citrus growers finally concluded that this tax rule, in combination with the cash accounting rule and the capital gains treatment of profit from later resale, was attracting too many tax-prompted investors and in 1969 and 1970 successfully petitioned Congress to require development expenses for those crops to be

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capitalized and depreciated over the productive life of the orchard.

A recent comparison and projection between citrus and almonds which are subject to the capitalization rules, and avocados, grapes, and walnuts which are not, showed decreased acreage and higher crop prices for the first group, but increased development and lower prices for the latter, especially for grapes.

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Table 2

Simulated Percentage Impact of Tax Reform on Total Acreage, Bearing Acreage, Production and Prices of Selected California Perennial Crops, 1973, 1978 and Projected 1985

Crop	Years	Total Acreage	Production	Price
		------------percent difference-------------		
Navel Oranges	1973	- 2.78	- 3.75	3.85
	1978	- 5.12	- 7.06	3.78
	1985	- 7.54	-10.46	7.89
Valencia Oranges	1973	-10.10	-11.69	3.34
	1978	-17.39	-21.15	3.25
	1985	-19.03	-27.18	4.92
Lemons	1973	-11.70	- 7.27	6.90
	1978	-21.36	-18.90	14.96
	1985	-21.04	-27.42	31.81
Almonds	1973	- 0.96	1.41	-0.33
	1978	- 1.96	.74	- .21
	1985	- 2.11	- .99	.49
Walnuts	1973	2.29	- 3.61	4.51
	1978	9.00	.88	- .41
	1985	1.95	6.12	-2.72
Avocados	1973	0.43	0.88	-0.48
	1978	- .43	.49	- .56
	1985	.14	0	0
Grapes	1973	9.95	- 5.69	2.01
	1978	14.68	10.30	-2.37
	1985	14.32	12.92	-3.40

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Source: Carman, Hoy F. "The Estimated Impact of Orchard Development Cost Capitalization Provisions in California Orchard Development" Paper in Progress. 1980, pp. 27-59. All percentage calculations use the without tax reform simulated results as the base.

(3) Capital gains for livestock. Congress confirmed, in 1951, farmers' right to receive capital gains treatment of income from sale of livestock held for draft, dairy, or breeding purposes, even if the costs of growing the livestock had earlier been deducted as cash expenses. Certain livestock held for sporting purposes were added in 1969.

This rule has been the basis for rather widespread nonfarm investment in beef cow herds and in "pig factories." Its effects depend on the combined effect of all three of these special farm tax rules, plus preferred taxation of capital gains. (See Examples I, II, III, below.)

Some Examples

Having briefly described individually the major tax rules which affect farmers, we can begin to look at examples of how they work together for various farmers. In the examples which follow, we use the tax rate tables for married couples filing a joint return. These tax tables assume a standard deduction, after personal exemptions for other dependents. For the sake of simplicity, we use mostly the 1980 rates (or 1981, ignoring the 1-1/4 percent tax cut). Where noted, we use the rates which will apply after specific provisions of the Economic Recovery Tax Act of 1981 are fully phased in.

Example I is intended to show the effect of cash accounting for two farmer-taxpayers. Case 1 assumes expenses and corresponding income in the same year. Essentially the same effect would be expected from accrual accounting. Case 2 assumes deferral of income (or advance payment of expenses) into a different tax year--the most

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usual use of cash accounting for tax purposes--and stable income between years. Case 3 parallels Case 2, except that a drastic reduction in taxable income is assumed for each taxpayer in the second year.

The only effect of deferral of income between years of level income and steady tax brackets (Case 2) is the saving from postponing the tax for one year. (In 1982 and 1983, at least, there will be an additional saving from reduced rates!) The big payoff from cash accounting comes if taxes may be deferred from a high income year to a low income year (Case 3). These cannot always be anticipated, of course, but it actually pays to take the chance (Case 2).

Perhaps the most instructive observation is to make the reversal of the progressive character of the basic income tax structure. In Case 1, the lower bracket taxpayer has more after tax income--$152 from $1,000 sales, compared to $102 for the high bracket. In Case 2, this advantage is diminished; in Case 3, it is sharply reversed. This reversal will be a common observation in each of our Examples, and although exaggerated by these simplified examples, is true to life.

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Table 3

GAIN FROM CASH ACCOUNTING FOR FARMERS in 49 percent and 24 percent Income Tax Brackets 1980 and 1981*

	Case 1		Case 2		Case 3	
	Income & Expense		Same Tax Bracket Both Years		Lower Tax Bracket in Second Year	
			Expense 12/80		Expense 12/80	
	both in 1980		Income 1/81		Income 1/81	
Cash from farm sales						
- Rec'd in 1980	1,000					
- Rec'd in 1981			1,000		1,000	
Cash farm expenses (disbursed in 1980)	800		800		800	
Profit from farm operation	200		200		200	
Tax Bracket						
$60,000 income @ 49%	Tax Bracket		Tax Bracket		Tax Bracket	
$20,000 income @ 24%	24%	49%	24%	49%	24/16	49/24
$7,500 income @ 16%						
Taxes on income						
Due for 1980	48	98	-192	-392	-192	-392
Due for 1981	--	--	240	490	160	240
Sum of taxes due	48	98	48	98	-32	-152
Value of deferred payment of taxes (11 months @ 15%)	--	--	26	54	26	54
Cash left after taxes and interest allowance	152	102	178	156	258	406
Gain from Cash Accounting						
24% bracket taxpayer		--	26		106	
49% bracket taxpayer	--			54		304

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*Figures for 1981 do not reflect 1-1/4 percent tax cut.

Example II assumes cash accounting but applies it to capital gains sales of assets which have been developed with cash expenditures. For each of the same two taxpayers we compare the tax burden on current ordinary income with that from deferred ordinary income, and from deferred capital gains, but with no change in tax brackets. A dramatic change in after tax income occurs: from $152 to $322 for the 24 percent taxpayer; from $102 to $450 for the 49 percent taxpayer. There is no benefit for the non-taxpayer. The progressivity of the income taxes rules is completely reversed.

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PROFIT FROM SALE OF CAPITAL ASSETS DEVELOPED WITH CASH-DEDUCTIBLE EXPENDITURES

Table 4	Non Tax-Payer	24% Bracket Taxpayer			49% Bracket Taxpayer		
		Taxed as Current Ordinary Income	Taxed as Deferred Ordinary Income	Taxed as Deferred Capital Gains	Taxed as Current Ordinary Income	Taxed as Deferred Ordinary Income	Taxed as Deferred Capital Gains
Cash Rec'd from Sale	1,000						
in 1980		1,000			1,000		
in 1981			1,000	1,000		1,000	1,000
Cash Expense (1980)	800	800	800	800	800	800	800
Gain from sale of asset	200	200	200	200	200	200	200
Tax Due 1980	---	48	-192	-192	98	-392	-392
1981	---	---	240	96	---	490	196
Net Tax	---	48	48	-96	101	98	-196
Interest Value of Deferred Payment of Tax (11 months @ 15%)	---	---	26	26* <	---	54	54* <
Profit after tax and Interest Credit	200	152	178	322* <	102	156	450* <
Gain from Taxation as Capital Gains (including interest credit)	---	---	---	** 170* <	---	---	** 348* <

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*This example assumes an eleven month delay in income. Most instances would involve a longer period between expenditure and sale; the interest value of the tax deferral would generally be larger.

**Note that a 25 percent bracket taxpayer could show a moderate profit, and a 50 percent bracket taxpayer a handsome profit if there had been no gain from the sale, or even if the sale had shown a loss.

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Example III is a very brief review of a "hog factory"--a fairly recent phenomenon in pork production. Each tax rule we have described has some part in enabling wealthy investors to recover as much as half their investment in a share of such a venture in the first year as tax benefits.

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Table 5

From: Small Farm Advocate, Spring 1981
Center for Rural Affairs, Walthill, NE

A tax-motivated investor in a hog factory will receive nearly three times as much tax saving as a working farmer whose hog production from 48 sows is equal to the investor's share of the factory output, even if the two are in the same tax bracket (which they rarely would be since hog factory investors are almost always in the higher tax brackets and working farmers rarely are). The farmer's primary input is labor, management and husbandry, which receive no tax subsidy. The investor's primary input is capital. If the investor is in the 50% tax bracket, his savings will be over four times greater than the farmer's.

In the hypothetical case below, the investor buys a 10 percent interest in a $750,000, 480-sow farrowing factory while the farmer spends $17,000 remodeling an old barn and buying equipment and breeding stock--the way thousands of farmers have started in agriculture. The farmer makes optimum use of his breeding stock by farrowing his sows at least four times before selling them for slaughter. The investor, however, sells all his gilts after one litter to take maximum advantage of capital gains provisions in the tax code. The investor takes double-declining depreciation on his investment in the new factory, while the farmer takes the regular depreciation rate on his smaller investment in the remodeled facility (both get double-declining depreciation on the breeding stock).

TAX PROVISION	INVESTOR		FARMER
	Tax Savings if in 20% bracket	Tax Savings if in 50% bracket	Tax Savings if in 20% bracket
Depreciation (7 months in first year)	$2,204	$5,509	$1,143
Investment Credit	5,768	5,768	1,700
Capital Gain (on breeding stock sold)	769	1,923	247
Total	$8,741	$13,200	$3,090

More General Business Tax Rules

Several other more general tax rules, some of which are already assumed in the above examples, and which add to the effect of the capital gains and special farm rules, must be specifically mentioned. Two of these rules tend to increase or accelerate investment in capital equipment on farms. Two others tend to make "tax-loss" farming more attractive.

(1) The Accelerated Cost Recovery System (ACRS) in the 1981 tax bill replaces earlier rules which provided for accelerated depreciation. Heretofore, the cost of a depreciable asset was deducted from income over a time period which approximated the actual useful life of the asset. A tractor, for example, would be depreciated over 10-15 years; a grain bin in 15-30 years. The depreciation could be accelerated; up to twice the proportionate share could be deducted from income in the early years of use. In addition, each taxpayer could deduct up to 20 percent of the first $20,000 of the cost of many items in the year the asset was put into use.

Under ACRS, the period for depreciation may be shortened to about half the useful life, with similar accelerated schedules. In lieu of the additional 20 percent first year depreciation and investment tax credit (see below), investors may treat as a cash expense up to $5,000 of the cost of the depreciable property ($7,500 in 1984 and 1985; $10,000 thereafter).

Depreciation faster than actual decline in value results in a deferment of tax liability or an interest-free loan in the amount of

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the deferred tax until it comes due at a later date. It is useful whenever there is taxable income, from whatever source, from which the extra depreciation may be deducted. Its value is proportional to the tax rate for the affected income.

One result of ACRS, as of accelerated depreciation under the present law, will be to encourage earlier or greater investment in depreciable capital assets than might otherwise have occurred. A second will be to inflate the value of eligible assets, particularly in relation to the cost of labor. A third effect will be to inflate the value of farmland, as farmers bid part of the tax savings into their offers to lease or purchase land.

The accompanying table shows the tax effect of accelerated depreciation and the new ACRS, compared to straight line depreciation, for different taxpayers who purchase the same $20,000 tractor. We call attention to two phenomenon (circled on table):

(a) The tax savings (deferment) for each class of taxpayers are greatest in the first year, but

(b) the greatest cumulative benefit is during the fourth and fifth years of the tractor's life, when the total deferred taxes (interest-free loan) are the greatest. After the fifth year, taxable income will presumably increase because the depreciation has been "used up." A fairly common reaction by a taxpayer facing such increased tax would be the purchase of another tractor (a combine, or truck, etc.).

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Table 6

TAX EFFECTS OF ACCELERATED DEPRECIATION AND ACCELERATED COST RECOVERY SYSTEM
($20,000 tractor)

Depreciation (1980)

Accelerated Cost Recovery System
Fully Phased In - After 1985

Year	Straight Line	200% Dec. Balance St. Line	Change in Taxable Income	Tax Saving Tax Bracket		Interest-Free Loan Effect		Depreciation 200% D.B. SYD.	Changes in Taxable Income	Tax Saving Tax Bracket		Interest-Free Loan Effect	
				24%	49%	24%	49%			25%	50%	25%	50%
1	2000	4000	-2000	480	980			8000	-6000	1500	3000		
2	2000	3200	-1200	288	588	480	980	4800	-2800	700	1400	1500	3000
3	2000	2560	-560	134	274	768	1568	2880	-880	220	440	2200	4400
4	2000	2048	-48	12	24	902	1842	2880	-880	220	440	2420	4840
5	2000	1638	+362	-87	-177	914	1866	1440	+560	-140	-280	2640	5280
6	2000	1311	+689	-165	-338	827	1689	----	+2000	-500	-1000	2500	5000
7	2000	1311	+689	-165	-338	661	1351	----	+2000	-500	-1000	2000	4000
8	2000	1311	+689	-165	-338	497	1013	----	+2000	-500	-1000	1500	3000
9	2000	1311	+689	-165	-338	330	675	----	+2000	-500	-1000	1000	2000
10	2000	1310	+689	-167	-337	165	337	----	+2000	-500	-1000	500	1000
Total	20,000	20,000	0	0	0			20,000	0	0	0		
Interest Value of Tax Deferment						832	1698					2439	4878

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(2) Investment tax credit (ITC), generally 10 percent of the value of industrial equipment--6 percent for short-lived items--may be subtracted directly from tax liability as opposed to being deducted from income before figuring taxes. The ITC provision has from the beginning included farm machinery. More recently, purchases of breeding livestock and single-purpose farm structures (e.g., bins, silos, and special livestock buildings such as hog farrowing houses) have been made eligible for investment tax credit.

The principal effect of ITC is to inflate the value of most eligible assets, by attracting marginal investors or prompting marginal investments. ITC is somewhat less onerous in its effect than the other tax breaks described here, in that it affects all taxpayers equally, or at least those who have money to invest. It does favor taxpayers over nontaxpayers and discriminates against the poorest farmers who generally have little or no income tax to pay.

Table 7.

The following table illustrates its impact on three families with taxable incomes of $7,500, $20,000, and $60,000.

Taxable Income	Marginal Tax Bracket	Tax Due (1980)	Investment Tax Credit	Maximum ITC Allowable	ITC Carried Forward
$7,500	16	656	2,000	656	1,344
$20,000	24	3,225	2,000	2,000	-----
$60,000	49	19,678	2,000	2,000	-----

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(3) Interest paid on a loan may be deducted as a business expense. Under the federal income tax code, there is a limit on interest deductions for "passive" investments, but this is an unlimited privilege insofar as it affects farm investors. Whether the borrowing is for a small farm, a large farm, or for speculation, the interest may be deducted from taxable income, regardless of its source. The real cost of money to each borrower is the nominal interest rate less whatever proportion would have been paid in taxes had the expense not been incurred. High bracket farm investors, in effect, pay less to borrow money than poorer ones.

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Table 8.

AFTER TAX COST OF BORROWING MONEY

For Various Taxpayers (1980)

Taxable Income After Personal Deductions*	Marginal Tax Rate**	Nominal Interest Rate					
		8%	10%	12%	15%	18%	20%
		After Tax Cost, If Deductible					
$ 2,000	0%	8%	10%	12%	15%	18%	20%
$ 7,500	16%	6.7%	8.4%	10.1%	12.6%	15.1%	16.8%
$20,000	24%	6.1%	7.6%	9.1%	11.4%	13.7%	15.2%
$60,000	49%	4.1%	5.1%	6.1%	7.6%	9.2%	10.2%

---

*This table assumes the standard deduction of $3,400 for married taxpayers filing jointly. All business borrowing is deductible.

**1980 rates. Marginal rates will change for specific income levels as the 1981 tax law is phased in. The tax rate on the last increment of income determines the net cost of additional borrowing.

The temptation to leverage one's investments through borrowing to invest in appreciable assets becomes stronger as one moves into a higher tax bracket. Farmland has been very attractive in this regard for investors who have after tax income greater than is required for family living.

<u>Example IV</u>. Consider, for example, the case of an investor who has $50,000 cash to invest. Invested in a savings account at 12 percent it would yield $6,000, netting perhaps as little as $3,000 (6 percent) after taxes. But what happens if the taxpayer puts the same $50,000 in farmland, along with $150,000 in borrowed funds? It may prove quite profitable. (Don't laugh at the interest rate assumptions; they might be too high next month!) See also "Effect on Land Values," page 7.

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<u>Table 9.</u> AFTER TAX COMPARISON OF INVESTMENT IN FARMLAND AND FIXED INCOME SECURITIES

			Before Taxes (or no tax liability)	After Tax	
				25% Tax Bracket	50% Tax Bracket
Cost of farm	$200,000				
Equity	50,000				
Borrowed money	$150,000	@ 12% =	$18,000		
Net Income		@ 4%	8,000		
Net Loss			$10,000	$ 7,500	$ 5,000
Gain in equity		@ 10%	20,000	20,000	20,000
Total Gain (after tax)			$10,000	$12,500	$15,000
Return on equity, plus cash loss (which may be regarded as additional investment)			$\frac{10M}{60M} = 16.7\%$	$\frac{12.5M}{57.5M} = 21.7\%$	$\frac{15M}{55M} = 27.3\%$
Savings Account (after tax)	$50,000 @ 12%		$6,000 12%	$4,500 9%	$3,000 6%

(4) Losses in farming may be used to offset taxable income from other sources, and thus produce tax savings. This is true even if the losses are artificial, arising from cash accounting or from deduction of interest which is more than offset by unrealized increases in value. This feature of the tax code often makes farm investments attractive to nonfarm investors with high tax liability. It is an assumption in each of the examples given, insofar as they apply to nonfarm investors.

CONCLUSION AND RECOMMENDATIONS

The Taskforce concludes that our system of agriculture based on small and moderate sized family farms is seriously undermined by the personal income tax provisions we have enumerated. The system will probably not survive unless the provisions are changed, rather drastically, and quite quickly.

Individually and collectively, the provisions we have described create value for certain farm investments which would not exist except for the provisions. This extra value is available to every taxpayer, but the value varies in proportion to the marginal income tax bracket of each.

Insofar as farm investors behave as rational economic beings, their investment decisions are made on the basis of net after-tax returns. As we might expect, ownership of farm property having extra tax value moves toward those for whom the extra value is the greatest. Farm ownership is being concentrated among the wealthy.

Prices for eligible assets are inflated. The tax breaks add enough to the after-tax returns from farmland for high tax bracket

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taxpayers that they can afford to pay prices that are unprofitable (and impossible) for low bracket taxpayers. In recent years, well established farmers and wealthy nonfarm investors have accounted for nearly all farmland purchases. Smaller, younger, and beginning farmers have by and large been squeezed out or kept out.

Insofar as the extra returns to tax assets come from the public treasury, rather than from increased productivity, they represent a waste of resources.

There is a strong tendency for the tax value for most other farm assets to be bid into the price of farmland.

Recommendations:

The Taskforce recommends changes in the personal income tax code which will eliminate or reduce the tax expenditures which affect farm assets, particularly those which single out farm property or income for special treatment. Family farmers would be well served by changes which make all farm income subject to a more progressive tax schedule. We made such suggestions realizing that a rather painful period of adjustment will be required, even for families on small and moderate sized farms, because they receive some year-to-year benefits from the same rules which so handsomely benefit their wealthier competitors. Their economic position can be expected to improve substantially, however, as tax-motivated investment is withdrawn. Asset values, particularly for land, will decline or at least level off as tax-motivated investment declines. Product prices will increase as tax-inspired marginal production dries up.

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More specifically, the Taskforce recommends that:

(1) Capital gains income should be taxed more severely. The most effective change would be to tax all realized capital gains as ordinary income. Somewhat less severely, capital gains might be indexed to inflation, with the gain attributable to inflation taxed at the existing preferred rate and all gain above inflation taxed as ordinary income. Indexing capital gains, with only the excess taxed as ordinary income, would probably not be severe enough to discourage speculative investment.

A supplemental change might be to limit, annually or by lifetime, the amount taxable as capital gains, with any excess taxed as ordinary income.

(2) A carryover basis should be reestablished for determining capital gains for inherited property. In nearly all instances this would not affect inherited farms that stay in the family. It would remove one barrier to pre-death sales and transfers of farm assets.

(3) Cash accounting privileges for farmers should be terminated. Cash accounting is the key provision enabling wealthy investors to maximize gains from most of the other tax rules enumerated. Most farmers already keep annual inventories which could be adapted to accrual accounting. Income tax averaging provisions will suffice to level taxation from extreme year-to-year savings in income. If ending cash accounting is politically impossible, its use should be limited to moderate-sized farms (i.e., up to $150,000 gross sales--1981 prices).

(4) All expenditures to develop capital assets or increase

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their value should be capitalized and depreciated, if applicable, over the useful life of the asset.

(5) Depreciation schedules for capital assets should approximate the real useful life of each asset, and at a rate which approximates actual decline in real value. Depreciation deducted from ordinary income should be recovered and taxed as ordinary income if a capital asset is sold for a gain.

(6) The Investment Tax Credit should be eliminated for livestock and farm buildings and probably for farm equipment.

(7) Unlimited deduction of interest as a farm business expense should be restricted to farmers active in the day-to-day operation of their farm.

(8) Use of farm losses to offset taxable income from nonfarm sources should be prohibited for at least three classes of farmers:

(a) any corporation;
(b) any farmer who uses cash accounting; and
(c) any farmer whose principal livelihood arises from nonfarm sources (probably as measured by a nonfarm income test).

Use of farm losses to offset nonfarm income should be restricted, even for farm families, to modest levels (e.g., an amount equal to the national poverty level, or to the national median income).

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FEDERAL ESTATE AND GIFT TAXES

When the federal estate tax was first established in 1916, few farm estates were valuable enough to be liable for estate taxes (including gift taxes).* More recently, especially during the past decade, inflation has accelerated so that even moderate-sized farms have come to represent fairly large estates. Many farms, though still a minority, have been subject to estate taxes.

Much attention has been given by farm groups and the farm press to estate tax reforms which would permit the passing of family farms intact to the next generation. In fact, the number of farms having to be sold to pay the estate tax is virtually nil. Borrowing by an estate or heirs to pay estate taxes, while keeping the farm intact, is nearly always related to concurrent division of an estate among several heirs.**

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*Prior to 1976 gifts were taxed separately from estates. Since 1976 a single tax has been levied against the residual estate and gifts made by a decedent after 1976. Throughout this discussion "estate tax" will include both, except as the context indicates otherwise.

**This perspective differs sharply from the prevailing argument in Congress. But we have yet to learn of a specific instance of a farm having been sold solely to pay estate taxes. If readers of this draft have such knowledge, please send particulars.

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The fears, real or imagined, of the impact of estate taxes on the continuity of family farm businesses were a major factor in general estate tax reform in 1976 and again in 1981. They resulted in especially generous tax treatment of certain farm estates under the 1976 law. These special benefits for farm estates were enlarged in the recent law, in spite of meager knowledge of whether the 1976 changes were in fact benefitting the target groups.

Several analysts suggest that the 1976 changes have had unintended, adverse impact on the family farm system of agriculture. Probable or certain effects, in their view, include inflated land values and increased non-farm investment in farm land. The 1981 changes will almost certainly strengthen this negative impact.

To see why, it is necessary to review briefly how estate and gift taxes are calculated, whom they affect, and in what ways.

PAYING ESTATE AND GIFT TAXES

Who Pays Estate Taxes

Overall, less than three estates in 100 have been subject to estate tax under recent law. Were the new law, to be phased in by 1987, applied to today's values, less than 3/10 of one percent of all estates would be taxed. An allowance for inflation by 1987 will raise the proportion, perhaps to 1/2 of one percent. The proportion of farm estates liable for tax is almost certainly substantially higher, but apparently no one has exact figures. Only about one percent of all estate tax returns filed from 1977-81 made use of the special farm estate provisions.

Calculating the Basic Tax

Estate taxes are calculated on the net value of each estate, after

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subtracting debts and estate expenses and adding the value of gifts made since 1976. A tentative tax is figured on a progressive schedule which begins at 18 percent for the first $10,000 and rises to 70 percent of all value over $5 million. (Under the 1981 law, the maximum rate is reduced in four annual steps to 50 percent of value over $2.5 million by 1985.) This tentative tax is reduced by a "unified credit" of $47,000, which offsets the tax due on the first $175,000 in combined difts and residual estate. (Under the new law, the unified credit is stepped up each year, to reach $192,800 for 1987 and after, which will offset the tax on the first $600,000 of each estate.)

Gift Tax Exclusion

Gifts of less than $3,000 ($10,000 after 12/31/81) per donor per donee are excluded from gift tax liability. This permits tax-free gifts of up to $12,000 per year ($40,000 after 12/31/81) from a couple to each married child and his or her spouse, for example. This exclusion, which was originally a nuisance-avoidance rule to allow for intrafamily gifts, has in recent years become a significant estate tax planning tool. Its usefulness is greatly enhanced by the higher limits in the new law for those few families still subject to estate tax. The gift tax exclusion is also an inducement to incorporation of farms, since shares of stock may be passed as gifts within the annual limit, whereas it is much more difficult to pass small portions of a farm.

Marital Deductions

The new tax law completely eliminates estate or gift taxes on property transferred between spouses. Such tax free transfers were formerly limited to one-half the value of each estate.

ESTATE PLANNING

Great differences in estate tax liability arise from the manner in which title to property is held or the manner in which title is transferred at death. Most farm families may reduce estate tax liability by more than one-half, or completely avoid it, by taking two relatively minor steps: (1) Title to property may be divided between spouses under marital deduction rules and held in separate estates; (2) each spouse may, by will, bequeath his or her property directly to other heirs, retaining a "life estate" for the surviving spouse.

This procedure permits propety to be taxed in two separate estates. Arrangements which leave all the property to the surviving spouse (survivorship titles, bequest by will, unlimited marital deduction) mean that all the property is taxed in a single estate at the death of the survivor, in effect forfeiting the tax credit available at the death of the first spouse.

Other more complicated arrangements may result in even greater tax savings (e.g., creating a corporation with more than one class of stock, so that all inflation accrues to the younger generation).

Our analysis presumes that most families whose estates are large enough to be taxable will have taken estate planning steps such as suggested, and that most farms will be at least twice as large as corresponding individual estates. Thus, by 1987, only farms with net assets more than $1.2 million would be liable for estate tax. We recognize this presumption may discriminate against a few families when

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property is now owned by a surviving spouse. But it also recognizes that tax rules create extraordinary benefits for wealthy families who do extensive planning.

Our analysis does not depend upon gifts under the annual gift exclusion rule or any other extraordinary tax planning steps available in all estate planning.

Special Farm Estate Tax Rules

Two changes were made in 1976 in estate tax law for "closely held businesses," nearly all of which are farms. Singly or together, they create the possibility for substantial sheltering of large farm estates from taxation. First, qualified estates may be valued for estate tax purposes at "use value", as opposed to "market value" which is used for all other estates. To qualify, each estate must be primarily farm property, including land "used in the business." The farm must have been operated by the decedent or a member of his family for five of the eight years preceding death and by a member of the family for five of the eight years after death and must meet certain other requirements. The valuation formula usually reduces the value of a farm estate by at least half; the reduction in value may not exceed $500,000 ($750,000 after 1982).

The second rule, for which qualifications are slightly more stringent, permits qualifying heirs to pay the tax from qualified farm or small business estates in installments over a 15-year period, with only a 4 percent interest charge (limited to the tax on first $1 million of qualified assets). The combined effect is a drastic reduction in

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estate tax liability for large farms.

Consider the example of a farm estate with a net market value of $1,750,000, which qualified under both rules. The tax on a nonfarm estate or a non-qualifying farm estate would be $621,300. ($475,500 after 1987, when the new law is fully phased-in.)

Assuming the maximum permissible reduction from special use valuation--$500,000 ($750,000 after 1982), the tax would be reduced to $401,300 ($153,000), a tax saving of $220,000 ($322,500). If the market rate of interest were 12 percent (prime rate is 20-1/2 percent as of this writing), an additional savings of up to $149,245 ($76,420) would result from use of the 15 year, 4 percent extended payment option.

Savings from special use valuation would be slightly larger for even larger estates, because the reduced rates would apply to property in a higher tax bracket. Under our presumption that larger farms will be held in two estates, each of these advantages would be doubled for a family whose farms were large enough.

The average assets per US farm in 1980 were about $330,000. Assuming that such a farm were held in two estates, as outlined above, there would have been no estate tax liability under recent tax law, utilizing only the regular tax credit. An even larger than average farm ($1.2 million) will pass tax-free when the recently adopted rules are phased in, by 1987, still not counting "use valuation." If we were to add a presumption of lifetime excluded gifts or lifetime concessional sales, both of which are quite common, only a small minority of much larger than average farms will be able to benefit at all from the

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special use valuation and extended payment provision. The maximum benefits would go to only a very few of the largest farms (more than $5.5 million in net assets).

The table and graph below show that nearly all the benefits from the 1981 estate tax changes will accrue to only a few families owning the largest farms.

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Table 10

FARM ESTATE TAX LIABILITIES: 1981 and 1987
WITH AND WITHOUT SPECIAL USE VALUATION (SUV)*

Net Estate Value**	Nonfarm or non-qualifying farm 1981	Farm qualifying for SUV 1981	Nonfarm or non-qualifying farm 1987	Farm qualifying for SUV 1987
175,000	----	---- ----	---- ----	---- ---- ----
300,000	57,800	---- 57,800	---- 57,800	---- ---- ----
600,000	145,800	40,800 105,000	---- 145,800	---- 40,800 ----
1,200,000	380,800	182,800 198,000	235,000 145,800	---- 182,800 235,000
2,400,000	929,800	688,800 241,000	784,000 145,800	429,500 259,300 354,500
4,800,000	2,365,800	2,028,800 337,000	1,983,000 382,800	1,608,000 420,800 375,000
over 5,500,000 - - - -	- (maximum saving) (from special)	350,000		
over 3,250,000 - - - -	- (use valuation) - - -	- - - - -	- - - - - - - - -	- - - - 375,000

⬭--savings from 1981 tax bill ▭--savings from Special Use Valuation

*Reduction in value for special use valuation assumed to be 50 percent of net estate, up to maximum reduction (1981/$500,000; 1987/$750,000). The actual reduction would be larger for most farm estates.

**Many farm estates, including most of those for which there might be estate tax liability, will be divided between spouses and passed to heirs in such a way as to be taxed as two separate estates. To estimate tax liability for farms so treated, double the tax shown for estates approximately one-half as large. It makes a difference!

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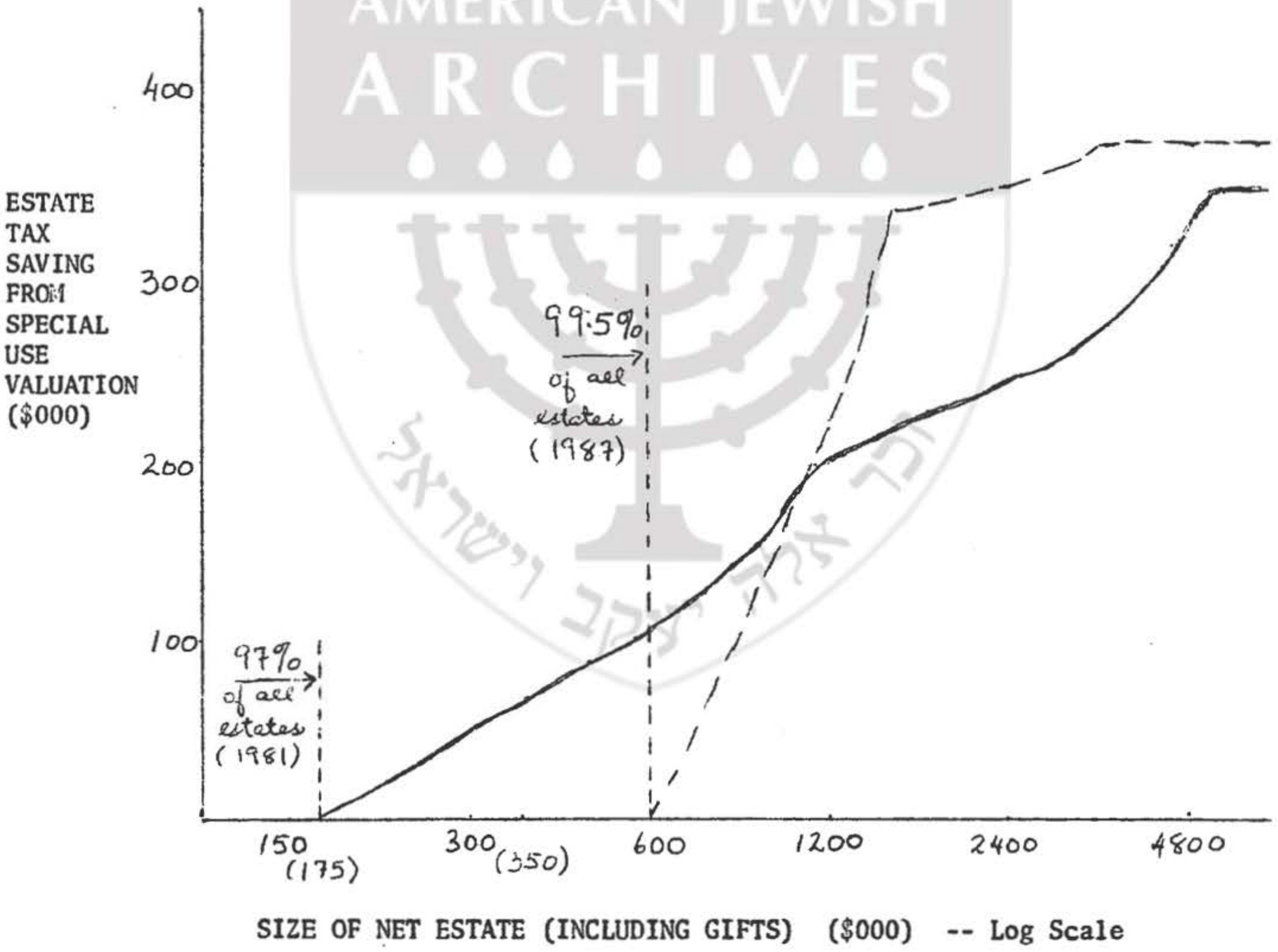
Table 11.

ESTATE TAX SAVING FROM
SPECIAL USE VALUATION (SUV)
1981 and 1987



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Effects of Estate Tax Rules

Recent estate tax laws have had two opposing effects on farm ownership. The basic progressive schedule for all gifts and estates might have been presumed to restrain a tendency toward the accumulation of very large family estates--whether farms or other property. As a matter of fact, such restraining effect has probably been more than offset by the special treatment accorded owners of larger than average farms under the 1976 law.

Any redistribution effect will be virtually eliminated by the increased estate tax credit now being phased in. The offsetting special treatment of farm assets has been liberalized and is a very strong incentive for building a farm estate larger than necessary for a family farm operation. Specifically:

(1) For wealthy families, farm assets are preferred over other classes of property. The estate tax incentive to own farmland may range up to $400,000 per estate or double that for a couple.

(2) The special use valuation formula favors farmland over non-real estate assets; it favors high-valued land over low-valued land. Concentration of ownership will probably be greatest for the most valuable farmland.

(3) Indebtedness is encouraged, because the value of assets is reduced while there is no corresponding reduction in indebtedness. Note the interrelationship with unlimited deduction of interest for farm investments for income tax purposes;

(4) Older investors are favored over younger ones--the present

value of future benefits diminishes over time.

(5) Less land will be offered for sale. Farms which might otherwise be sold near or at death will be retained by families; retired persons will be less inclined to sell if the cash might be taxed more than the farm assets; heirs will retain the land to live out the extended tax payment contract.

(6) As families seek to build or enlarge farm estates, and less land is offered, farmland values will be further inflated. Inflation will strike hardest at beginning, small, and moderate-sized farms, for whom the special benefits have no value.

(7) As farms are enlarged, and as nonfarming heirs are encouraged to retain their equity, more labor and farm managers will be hired; ownership will be further divorced from operatorship.

RECOMMENDATIONS AND CONCLUSION

Estate tax laws changes to support small and moderate-sized family farms would stiffen estate tax rules rather than relax them. The effect should be to discourage farm growth beyond the size needed to provide a family's livelihood.

The inflation adjustments just passed by Congress were greater than justified, both for the unified tax credit and for the annual gift tax exclusion. The reduced rates for estates over $2.5 million may be the most destructive part of the package.

Recommendations for Estate Tax Changes

The Taskforce recommends changes such as the following, which would help reestablish two widely accepted values of estate tax: to raise

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revenue and to restrain accumulation of property in the hands of wealthy families. They would also promote a system of agriculture based primarily on small and moderate-sized family farms.

1. Any future inflation adjustments in the unified tax credit, and in the annual gift tax exclusion should be restrained. We would diminish the adjustments just made to approximate inflation from the prior levels.

2. A progressive schedule should be readopted for estates larger than $2.5 million.

3. Special use valuation for farm estates should be eliminated; especially by the time the increased tax credits are phased in. If special use valuation is retained in any form, qualifying heirs should meet a residency and maximum assets test.

4. The highly subsidized interest rate should be discontinued for any extended payment contract for estate tax. If such contracts are written, they should bear interest at the cost of money to the government, since the only users of such contracts are already wealthy families.

5. Repeating from the capital gains discussion, the carryover basis for inherited property should be reinstituted.

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FAMILY FARMS TAXED AS CORPORATIONS

> "Apart from tax considerations, an individual's decision to incorporate is of relatively little socioeconomic consequence. But once a business is incorporated, the interaction between the personal income tax and corporate income tax almost forces the owner to expand the scale of his operation--indeed, . . . the tax savings from the corporation can be so great that they practically finance the expansion. Thus the implications of this corporate tax policy may well have far-ranging effects on the dynamics of the American business system and consequently in American society."
>
> --Charles Sisson, The US Tax System and the Structure of of American Agriculture.

The great majority of incorporated farms are closely held corporations, usually controlled by related persons. Such "family farm corporations" have generally been seen as benign and have been exempted from proposals for anti-corporate farm legislation. Form of business organization, per se, is not a moral question. Incorporating a farm or other family business will have both positive and negative consequences, as discussed below.

This paper does not attempt to deal with the issue of large nonfamily corporations which engage in farming, either directly or through wholly owned subsidiaries. The number of such non-family corporations in farming production is relatively small--on the order of 800--and their combined output is on the order of 3 percent of agricultural production. These and similar corporations control a significantly larger share of production decisions through contract ventures, however.

The Taskforce supports measures to exclude these large corporations from farming, whether under federal anti-trust laws or by straightforward prohibition of ownership or operation under state laws.

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Closely held corporations, such as most family farms, may choose to be taxed in either of two ways. The corporation may elect to be taxed as a partnership (under "Subchaper S" in the tax code). In such instances, the corporation pays no income tax. The net income is reported by the individuals who own it as part of their personal income and taxed accordingly.

Alternatively, closely held corporations may choose to be taxed as a corporation (Subchapter "C"). The discussions of income tax rules and effects that follow refer to those family farm corporations which choose to be taxed as corporations.

Recent tax laws, including the one just passed, have increased the pressure for farm families to incorporate their farm, to elect to be taxed as a corporation, and to continually expand the operation. Over a longer period, these same features will tend to separate ownership from operation, increasing absentee ownership. In some instances, they may lead to "tax-free" exchanges under which nonfarm corporations take over actual ownership and/or operation.

REASONS TO INCORPORATE THE FAMILY FARM

Lower Tax Rate. Farm families have several reasons to incorporate their farm business, most of them tax related. The most important of these grows from a substantially lower income tax rate for small corporations, which correspond to moderate-sized or large family farms. Their benefit may be realized by even smaller farm corporations whenever the owners have nonfarm income which puts them in the same tax brackets.

With the passage of the Reagan tax bill, 1982 income tax rates for individuals (including farms operated as sole proprietorships) start at 12 percent for the first income after personal deductions and graduate up to 50 percent for taxable income over $85,600 (11 percent graduated to 50 percent for over $162,400 after 1983). In contrast, the corporate income tax rates begin at 16 percent (15 percent after 1982) but are graduated much more slowly up to a maximum rate of 46 percent for net income over $100,000. The 1982 rates are compared in Tables 12 and 13, below.

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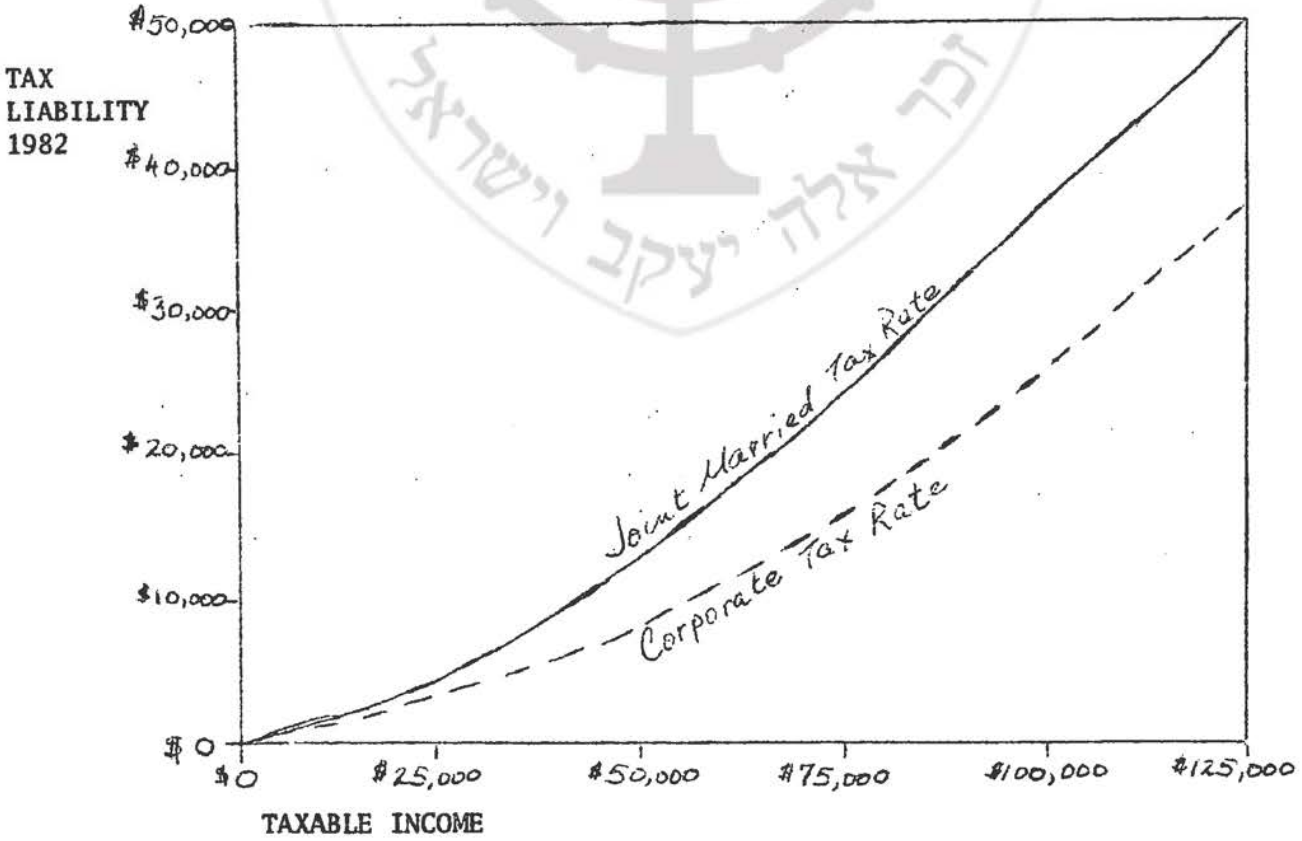
Table 12.

COMPARATIVE FEDERAL INCOME TAX RATES
For 1982

Married Taxpayers Filing Jointly		Corporate Income Taxes	
$0-3,400	no tax	$0-25,000	16%
$3,400-5,500	12%		
$5,500-7,600	14%		
$7,600-11,900	16%		
$11,900-16,000	19%		
$16,000-20,200	22%		
$20,200-24,600	25%		
$24,600-29,900	29%	$25,000-50,000	19%
$29,900-35,200	33%		
$35,200-45,800	39%		
$45,800-60,000	44%	$50,000-75,000	30%
$60,000-85,600	49%	$75,000-100,000	40%
over $85,000	50%		
		over $100,000	46%

Table 13.

JOINT MARRIED INCOME TAXES VS CORPORATE TAXES 1982



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Salaries paid to corporate employees, even if they are owners, are deductible expenses to the corporation but are taxable income to the employee. The corporation's net income is taxed at the corporate rate. If the net income is paid out to the owners as dividends, it is taxed again as personal income. However, if it is retained by the corporation, no further tax accrues.

Hence, the lower tax rate is attractive to a family if they do not require all the net income from the farm for current living expenses and wish to use the lesser-taxed money to provide later benefits or to expand the farm.

There are a few drawbacks, however. For example, social security taxes, which must be paid on salaries of any corporation's employees, are higher for an employer and employee (6.85 percent from each, totalling 13.7 percent in 1982) than for a sole proprietor (9.35 percent). On the other hand, there are "fringe benefits," noted below. For most families, however, there are distinct savings possible from the lower tax rate for incorporated versus nonincorporated farms whenever the farming family has about $20,000 in taxable income. Imaginative attorneys and tax accountants can develop multiple corporations and carefully assign various farm resources to personal or corporate holdings to achieve maximum benefits.

Not only may some taxes be deferred by incorporated family farms, they may be avoided altogether. If corporation owners wish to withdraw their equity later--for example, during retirement--they may sell the corporate stock. Any increase in value would be taxed as capital

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gains--40 percent of the gain would be taxed as regular income. If the stock is transferred by inheritance, then sold by the heirs, the capital gains may be avoided entirely. (See earlier discussion of capital gains and estate taxes.) This is true even if the heirs sell their stock back to the corporation and the payment is from the very tax dollars saved by the corporation.

Fringe Benefits. A second tax-related incentive relates to "fringe benefits." Any corporation may deduct certain expenditures made on behalf of its employees, even if the employees are the owners. At the same time, the value of the benefits are not taxed as income to the employee. Health or medical insurance and contributions to pension funds are the most common examples.

Convenience in Transfer; Business Continuity. A third advantage of incorporating family farms is more a matter of convenience than direct savings but is not unrelated to gifts and estate tax laws, as discussed earlier.

Under the new tax law, up to $10,000 may be given tax free by any individual to any other each year. Thus a couple may give up to $40,000 each year to a married child and his or her spouse. Shares of stock in a corporation are much easier to give in small units than portions of a farm. Divided ownership among heirs and possible later transfers among them are also much easier to manage. This eased transfer of ownership may enable continued operation of a family farm business which might otherwise need to be divided to satisfy nonoperating heirs.

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STRUCTURAL CHANGES FROM INCORPORATION

The pace of farms being incorporated and choosing to be taxed as corporations picked up dramatically after the 1978 tax law lowered the tax rates for small corporations. The pace will likely become even more torrid with the further reduction in the law just passed. Farms with net incomes larger than about $20,000 will almost be forced to incorporate to stay competitive. Once incorporated the incentive is strong to use tax savings to expand the corporation. Most expansion will likely be within the farm business, although expansion into other areas would be possible.

As with most other tax savings, most of the benefits will accrue to the wealthiest farmers. Two examples may be helpful. (See Table 14 .)

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Table 14

1982 TAX RATES

Example 1: Family with $25,000 income whether all from farm, or up to $12,500 from off farm.

All Income as Personal Income Only		Income as Combination of Personal and Corporate Income			
Income	$25,000	Salary as Personal income	$12,500	Corporate income	$12,500
Less: Personal deductions	4,000	Less: Personal deductions	4,000		
Equals: Taxable income	$21,000	Equals: Taxable income	$ 8,500		
		Personal income tax	$ 690	Corporate tax	$2,000
Tax	$ 3,137	Combined tax	$ 2,690		
		Tax savings	447		
After tax income	21,863	After tax income	22,310		
		Retained corporate earnings	10,500		
Disposable personal income	21,863	Disposable personal income	11,810		

Example 2: Family with $95,000 income whether all from farm or up to $25,000 from off farm.

All Income as Personal Income Only		Income as Combination of Personal and Corporate Income			
Income	$95,000	Salary as Personal Income	$25,000	Corporate Income	$70,000
Less: Personal deductions	4,000	Less: Personal deductions	4,000		
Equals: Taxable income	$91,000	Equals: Taxable income	$21,000		
		Personal income tax	$ 3,137	Corporate tax	$14,750
Tax	$34,949	Combined tax	$17,887		
		Tax savings	17,962		
After tax income	60,051	After tax income	77,113		
		Retained corporate earnings	55,250		
Disposable personal income	60,051	Disposable personal income	21,863		

Families with smaller farms and without substantial nonfarm income will not be able to "harvest" these tax savings, and their competitive position will become even worse than at present.

The litany of longer term effects from the corporate tax law as it affects farm structure is familiar. Expansion in size of operation is encouraged; transfer within families is facilitated, independently of whether the recipients care to operate the farm; absentee ownership and separation of ownership and operation seem certain to increase; farmland values will be further inflated, as part of the tax benefits are bid into land values and as fewer farms are offered for sale.

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There are additional structural effects flowing from widespread incorporation of farms. We have seen that the corporation is an excellent device to accumulate and hold property. Tax treatment makes it at least partly self-financing. But it turns out that a corporation is easier to get into than to get out of.

If corporate assets were sold by the incorporator(s) and the proceeds distributed as dividends, any gain over the original investment would be subject to tax as capital gains. Although the sum of corporate tax paid earlier and capital gains on the sale might not equal the tax that might have been paid at individual tax rates, it would still be a barrier to sale.

One solution to the "tax-due-on-sale" problem is to postpone sale until the corporate stock has passed by inheritance and a new basis has been established. Death provides a chance for "absolution" from capital gains.

An additional solution to exiting from a closely held corporation lies in the possibility of a tax-free exchange of property. Investment property may be exchanged for similar property without incurring capital gains taxation which would result from an outright sale. It remains to be seen whether this will lead to widespread takeover of family-held incorporated farms by larger corporations, but the phenonmenon is common enough to have a name--the Bud Antle Syndrome, after a family farmer who grew to be the largest lettuce producer in the world. He eventually traded his closely-held corporation for stock in General Foods. It would be ironic if family farm corporations became the vehicle for expanded ownership of farms by nonfarm corporations.

CONCLUSION AND RECOMMENDATIONS

> "It is somewhat ironic that the smaller agricultural firms will be the most adversely affected by the special low tax brackets in the corporate income tax, since the original justification for their inclusion was the belief that low tax rates on low levels of corporate income would foster small businesses. They may have a contrary effect in agriculture, however, because of the particular composition of the agricultural sector. In many sectors of our economy, a firm may be considered small if it has annual profits in the $50,000 to $500,000 range, but in farming, at least, that size of operation is still exceptional. It may not be so in the future, however, and if so, the signals inherent in our present system of corporate-personal tax differentials may be an important cause in this transformation."
>
> --Charles Sission, The US Tax System and the Structure of American Agriculture.

If the nation is determined to maintain a system of agriculture based on small and moderate-sized family farms, the pressure to growth of farm size which grows from incorporation must be overcome.

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Small and moderate-sized farms should not be at a competetive disadvantage because of corporate tax laws.

1. All farmers should be taxed according to the same tax schedule. It might be possible to tax all farm operations as corporations, but it would be far preferable to tax all farm corporations as partnerships, as indeed many farm corporations are already taxed.*

Taxing all farm corporations as partnerships would preserve the nonincome tax advantages of corporate structure having to do with divisibility and transfer of ownership. The disadvantages of higher social security taxes and the advantage of certain fringe benefits would also be continued. But it would eliminate most of the advantages to larger than family farms which arise solely because of tax differentials and from which most of the negative structural consequences arise.

2. Several of the recommendations made earlier should be repeated in the context of taxation and farm corporations:

--Any corporation engaged in farming should be required to use accrual accounting;

--Losses by any farm corporation should not be available to offset losses in other corporate enterprises;

--Use of losses by a family farm corporation to offset nonfarm family income should be restricted to modest levels.

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*The Taskforce is aware of proposals that no corporation should pay income tax directly, but that all net income should be taxable to the shareholders, whether paid as dividends or retained in the corporation. We consciously avoid taking a position on this larger question.

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EPILOGUE

> And you shall hallow the fifteenth year, and proclaim liberty throughout the land to all its inhabitants; it shall be a jubilee for you, when each shall return to your property and each of you shall return to your family.
>
> --Moses (Leviticus 25:10)

> The land shall not be sold in perpetuity, for the land is mine; for you are strangers and sojourners with me. And in all the country you possess, you shall grant a redemption of the land.
>
> --Moses (Leviticus 25:23-24)

> All the property that is necessary to a man for the conservation of the individual, and the propagation of the species, is his natural right which none can justly deprive him of; but all property superfluous to such purposes is the property of the public, who, by their laws have created it, and who may, therefore, by other laws dispose of it, whenever the welfare of the public shall desire such disposition.
>
> --Benjamin Farnklin

The development of the family farm system of agriculture in the United States was not an accident. Within weeks after drafting the Declaration of Independence, Thomas Jefferson was back in the Virginia House of Delegates. His first bill was to overturn the entail system (inheritance laws by which large family estates are kept intact). Within months, half the area of Virginia was released from the large landowners. Most of the other newly-independent states took similar action to break up large landholdings.

In the Continental Congress, early action included a decree against slavery in the new territories of the Ohio and Mississippi valleys, which in an area of nearly-free land meant that farming and limited landholding became almost synonymous.

In a much earlier time, Moses warned against concentration of landholding. His interpretation of God's law provided for periodic redistribution of land, in the year of the Jubilee. God's promise of well-being was interposed within his instructions regarding landholding,

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"Therefore you shall do my statutes, and keep my ordinances and perform them. . . .the land will yield its fruit, and you will eat your fill, and dwell in it securely." (Leviticus 25:18-19)

In our own time there is growing consensus that more equitable access to land and the required complementary resources lie at the very heart of solving problems of hunger and poverty in the world's poor nations. Thinking of the early history of the United States, we should resonate with cries for breaking up undue concentrations of land holding by very small minorities, a pattern common in most of these poor, hungry nations.

At the same time, we should resist any laws, or administration of laws, which encourage or subsidize undue concentration of wealth within the United States. Yet such is the overall effect, in our judgment, of the federal tax code on ownership of US farmland, even if completely unintended. Such policies are both morally wrong and, in a larger time frame, poor politics.

The Taskforce feels that the trend toward superfarms must be reversed. We feel that changes of the character and scope we have described will be required in the US tax code (among other federal and state policies and programs). We offer this paper as a contribution to the national dialogue leading to such changes.

They shall build houses and inhabit them;
They shall plant vineyards and eat their fruit.
They shall not hold houses and another inhabit;
They shall not plant and another eat;
  for like the days of a tree shall the days of my people be,
  and my chosen shall long enjoy the work of their hands.

--Isaiah

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APPENDIX A

THE CHANGING STRUCTURE OF US AGRICULTURE: SOME CONSIDERATIONS

When Congress passed the Food and Agriculture Act of 1977, it required the US Department of Agriculture (USDA) to prepare annual reports on the status of the family farm system of agriculture. Research stemming from these reports, as well as from USDA's own subsequent "Structure of Agriculture" study and other sources, brought to the public's attention anew the significant structural changes occurring within agriculture.

Most often cited among these changes is the steady decline in farm numbers and the corresponding concentration of farm production, landownership, and wealth in relatively few hands. Other noteworthy structural trends which have been identified include the increasing:

-- separation of landownership from farm management and labor
-- specialization of production
-- use of contractural production and marketing arrangements between processors and producers
-- barriers to entry into agriculture by new farmers except by means of inheritance, gifts, or other forms of family assistance
-- reliance on income from part-time nonfarm jobs, especially among small farmers.

This is not the place to describe in detail the many and varied changes which have occurred in US agriculture. Rather, attention is called to the bibliography which appears at the end of this paper. For information sake, however, several recent studies dealing with

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selected aspects of farm structure are summarized below.

Farm Size Trends

In a 1980 publication entitled US Farm Numbers, Sizes, and Related Structural Dimensions, USDA economists utilize several extrapolation models to predict future changes in the structure of agriculture if current trends continue and farm and tax policies remain essentially unchanged. Among many interesting findings are the following figures comparing actual data from 1974 with projections for the year 2000 (if trends and policies remain unchanged):

-- In 1974, the largest 50,000 farms represented 2 percent of the total number of farms, 31 percent of all farm production, and 35 percent of all farmland. By the year 2000, the largest 50,000 farms would increase to 3 percent of all farms (due to declining total number of farms), accounting for 63 percent of all farm production and over 50 percent of all farmland.

-- The largest 1 percent of all farms in 1974 accounted for 27 percent of all production; in 2000, the figure would reach 50 percent.

-- By 2000, 12 percent (compared to less than 1 percent in 1974) of all farms would gross over a half million dollars in sales, accounting for nearly 80 percent of all farm production. Some 23 percent of all farms would gross over $200,000, accounting for over 90 percent of all production.

-- All farm size categories (measured by gross sales) would decline in total number of farms with the exception of the over $200,000 category, with a majority of this increase lodged in the over

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$500,000 category. Inflation would account for only about a third of the gain in large farms; the other two-thirds would reflect real growth in size among these larger farms.

-- Medium-size farms would decline through the end of the century, continually sharpening the emerging bimodal distribution of a large number of small farms which contribute little to total production and a small number of large farms which account for the lion's share of production.

Family-sized Farms?

Addressing the questions of whether actual or projected changes in the structure of agriculture constitutes a decline of the "family farm" necessitates defining the term. Using widely differing assumptions and definitions, serious students of the family farm system have reached conclusions ranging from "all is well and improving" to "the last legs are about to collapse." While no perfect definition exists, the Taskforce makes use of a fairly standard working definition of a family farm, namely: an agricultural production unit in which the members of a family assume the risk and provide the management and a majority of labor, peak seasons excepted.

Using the "majority of labor" test as a division line between family-sized farms and larger than family-sized farms, and assuming that most contractually integrated farms fall outside the management provision requirement, family farms today probably account for roughly half of all farm marketings. In addition to management and labor provisions, some analysts would include a "majority of land owned by

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the operating family" test to distinguish family farms from tenant farms of all sizes, while others would require that either the family or the principal operator receive a "majority of earnings" from the farming operation to distinguish family farms from "part-time" farms. Factoring in either or both of these requirements would further lower the relative position of family farms. (For more information on the relative well-being of family farms according the varying definitions, refer to items with plus marks (+) next to them in the bibliography.)

Economies of Size

A 1981 USDA publication entitled "Economies of Size in US Field Crop Farming" reaches these conclusions concerning efficient production for seven different crop mixes and regions of the country:

-- Most (90 percent) economies of size are attained on farms with sales in a range of $17,000 to $60,000, with the average being $46,000.

-- All (100 percent) economies of size are attained on farms with sales in a range of $100,000 to $175,000, with the average being $133,000.

-- The increasing average size of farms implies the absence of significant diseconomies of size, not the existence of further economies of size.

-- Society likely benefits little in terms of lower real food costs from increases in farm size beyond medium size.

Social and Community Impact of the Structure of Agriculture

In a recent study of 83 communities in California's Central Valley,

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Dean MacCannell, professor of applied behavioral science at the University of California at Davis, found that *any* increase in the proportion of land owned by non-residents of a local community is associated with measurable community deterioration, using standard social indicators such as family income, educational levels, business volume, inequality, and civic organization. While variation in the amount of local ownership proved to be the strongest and most straightforward predictor of variation in social conditions, farm size was also found to be correlated with the quality of life in rural communities. Specifically, growth in farm size up to medium size (160 acres, irrigated agriculture in California's Central Valley) was associated with positive community benefits, while any increase above this point was associated with measurable community deterioration, again using standard social indicators.

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INTERFAITH STATEMENT
ON
PUBLIC POLICY
AND THE
STRUCTURE OF AGRICULTURE

Leaders from a wide range of religious groups have endorsed the following joint declaration, first issued at the US Department of Agriculture April 1980 hearing on "The Structure of American Agriculture and Rural Communities."

In the two centuries since its birth, America has drawn both physical and spiritual nourishment from an agriculture based on small and moderate-sized farms. The yield of these farms fed our people. Farmers worked to protect the vitality of our land in order to leave a sound inheritance to the next generation. Many of the small towns that helped shape the American character flourished as trading centers for farm people. Our food supply remains secure because productive land was not the private preserve of a rural gentry, but rather was distributed among millions of our fellow citizens. Finally, family farms of modest size offered a unique opportunity for a certain way of life—simple, self-reliant, close to nature and to God.

Today this source of national strength is at risk. Four million farms have vanished over the past half century, and America is still losing 30,000 a year. The loss of farmland by minority people has been especially severe.

Consolidation in the agricultural sector has many causes: the progressive industrialization of society, the substitution of machines for labor on the farm, the individual economic and social rewards of farm expansion, and so on. Some of this consolidation was probably inevitable and even now individual producers may feel great pressure to expand their farms. However, there is no significant overall economic benefit likely from further consolidation. Moreover, social and community costs of this trend have been and will continue to be high.

One of the most potent forces fueling the trend towards fewer and larger farms has been federal agricultural policy. Legislation has often had the effect of benefiting large farms at the expense of small ones, provided incentives for excessive expansion, and made it more difficult for young people to get a start in agriculture.

As religious leaders, we view the deterioration of the family farm system with alarm and pain. It alienates ordinary people from the land, which is God's free gift to all. It saps the strength of rural communities. And it creates a situation where control of food production could be concentrated in the hands of a few. We cannot stand by and see this happen without protest.

Many of the religious traditions we represent have taken public positions on the plight of the family farm. Drawing from the concern of our respective fellowships, we declare our support for public policy that would:

1. Actively encourage the preservation of an agriculture based primarily on small and moderate-sized family farms.

2. Strive to ensure that families that derive a substantial part of their livelihood from farming can earn an equitable return on labor and management. Commodity pricing policies should consider both justice to American farmers and possible disincentives to developing nation farmers from underpriced exports.

3. Restructure tax laws and target the payments from federal commodity programs so as to strengthen an agriculture based primarily on small and moderate-sized family farms. This involves eliminating incentives that favor large units, stimulate absentee ownership, or encourage corporate control of resources.

4. Promote the continued renewal of an agriculture based primarily on small and moderate-sized family farms by establishing programs to aid new farmers in acquiring land. Low-cost credit and loan guarantees should also be made available to small and beginning farmers with limited resources.

5. Seek to stop the loss of land by minority farmers and establish programs to help reverse the trend.

6. Actively encourage cooperation rather than competition among farmers through such devices as community land trusts, collective bargaining, purchasing and marketing cooperatives, and equipment and labor-sharing arrangements.

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7. Seek to provide farmworkers the basic privileges and protections provided other American workers. Help qualified farmworkers to become farmers in their own right or train them for other dignified and substantial employment.

8. Create special extension, training, and cooperative programs to help small farmers, whom government aid often fails to reach.

9. Distribute access to public land and water rights so as to strengthen an agriculture based primarily on small and moderate-sized farms.

10. Target government-funded research and extension so as to strengthen an agriculture based primarily on small and moderate-sized farms. Give special attention to developing technologies appropriate for use on small and moderate-sized farms.

We must never forget the words of the Psalmist, "The earth is the Lord's and the fullness thereof." Public policy that pursues these broad goals, in our time and place, will contribute to responsible stewardship of the precious earth and its bounty of food, and to justice for farmers.

The Rev. A. James Armstrong
Bishop of the Dakotas Area
United Methodist Church

The Rev. Shirley E. Greene
Executive Secretary
Wyoming Church Coalition

Sr. Dorothy Kinsella, O.S.F.
NETWORK

Paul Longacre
Hunger Concerns Secretary
Mennonite Central Committee

Most Rev. Lawrence J. McNamara
Bishop of Grand Island, Nebraska
President, National Catholic Rural Life Conference

The Rev. Joseph P. Muyskens
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Reformed Church in America

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Dr. Loretta Williams
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Dr. Albert C. Winn
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Presbyterian Church in the United States

(organizations for identification purposes only)

Additional copies of this statement may be obtained from the Interreligious Taskforce on US Food Policy, 110 Maryland Avenue, NE, Washington, DC 20002. Call toll-free 800/424-7292 (Washington, DC area residents please call 543-2800).

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