



**United States Department of Agriculture**

# Analysis of a proposal to increase land access for young, beginning, veteran, women, and minority farmers

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Midwest Agriculture Conference

Federal Reserve Bank of Chicago

November 29, 2022



# Proposal

- Proposal formalized by *American Farmland Trust*
  - Policy
    - Exclude from taxation sales of agricultural land to young, beginning, veteran, women, or minority farmers for up to \$1 million of capital gain.
  - Purpose
    - Help facilitate land access for young, beginning, veteran, women, and minority farmers.



# Background

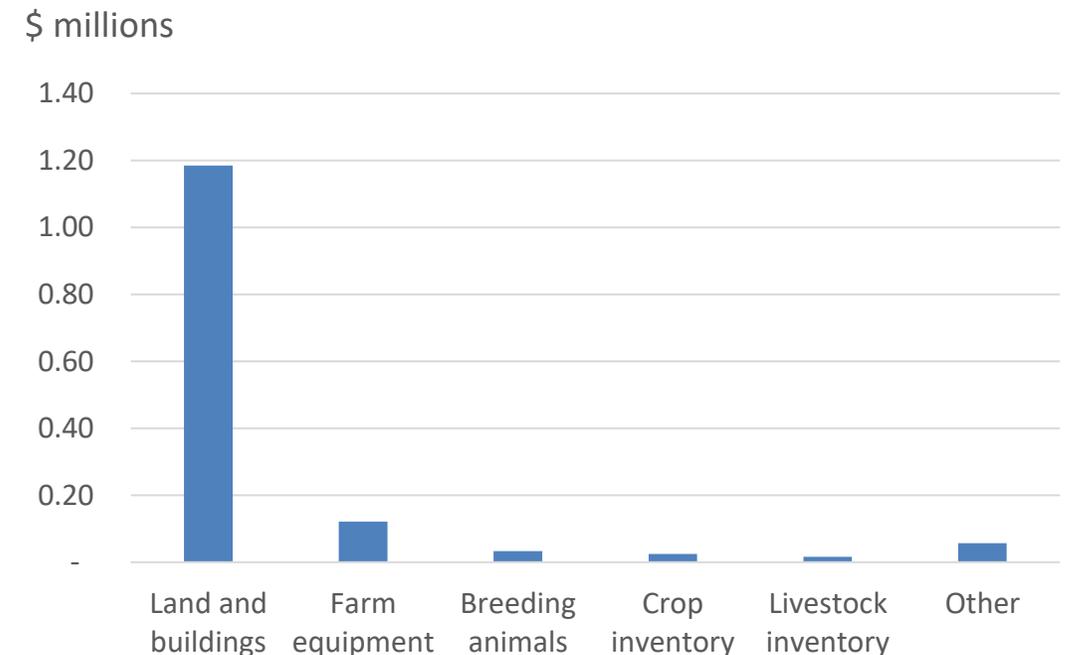
- Current tax provisions allow for stepped-up basis. This means that those who inherit assets do not face capital gains tax liability on any gains that occur prior to the inheritance.
  - Capital gain taxes are applied to the difference between an asset's sale price and its tax basis.
  - Tax basis is the cost of the asset when purchased or acquired. Tax basis can increase due to additional capitalized investment and decrease due to depreciation.
  - This may encourage owners to hold assets until death.



# Capital gains in agriculture

- Farm households have relatively high concentration of wealth in farm assets.
- Highest value asset for farms is land and buildings which often have long holding periods and have significant unrealized gains.
- Other assets factor into the operation of the farm business like
  - Farm equipment
  - Breeding animals
  - Crop and livestock inventory

Average value of assets for farms in 2020



Source: USDA, ERS 2020 Agricultural Resource Management Survey.



# Our analysis

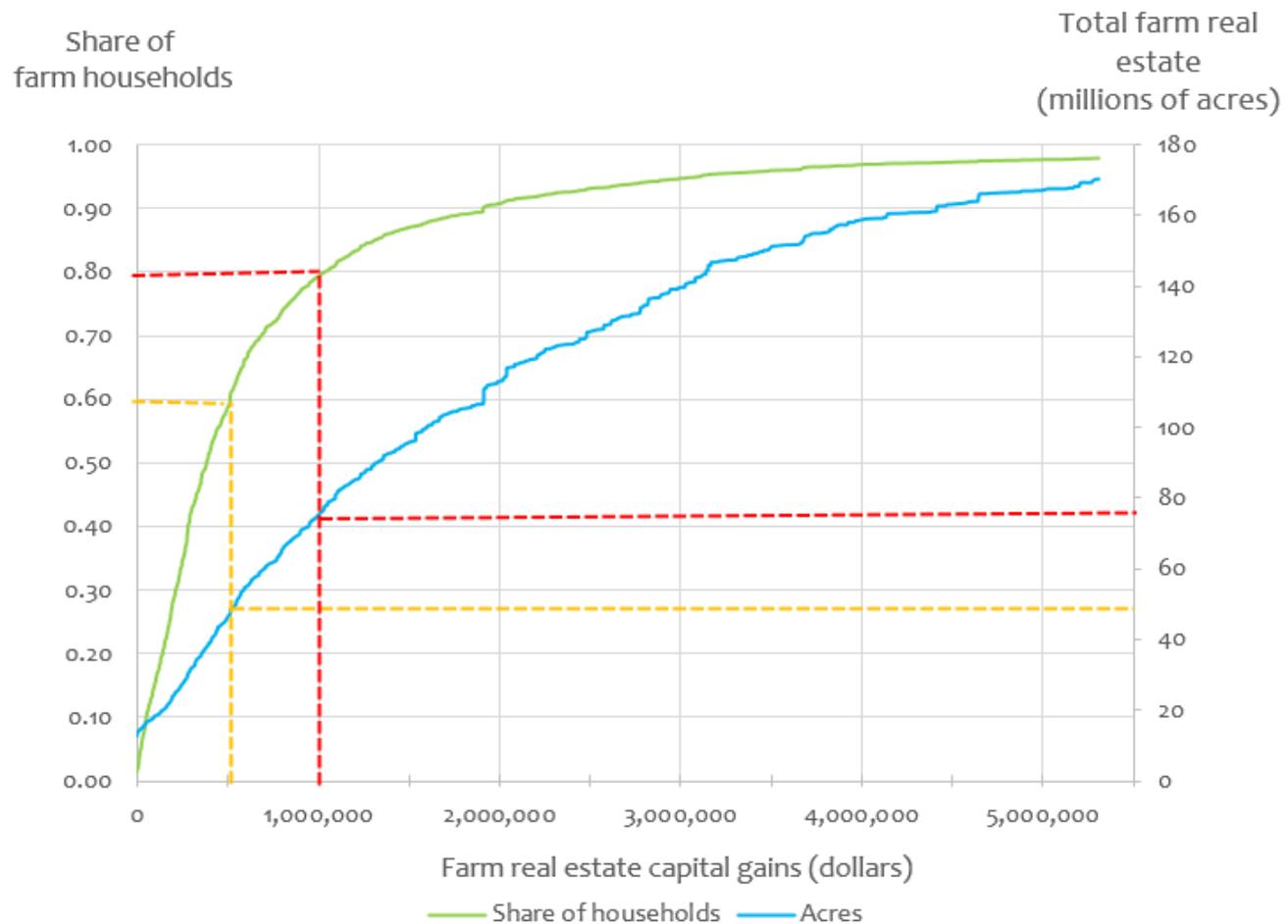
- Examined the reach of the proposal relative to estimated real estate gains for farm households
  - Using data from the Agriculture Resource Management Survey (ARMS), 2020 and ERS's Federal Income tax model
- Examined the reach of the proposal relative to current population of qualified buyers.
  - Using data from Agriculture Resource Management Survey (ARMS), 2017.
- Examined the pattern of expected land transfers
  - Using data from the Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey, 2014.



# Real estate gains



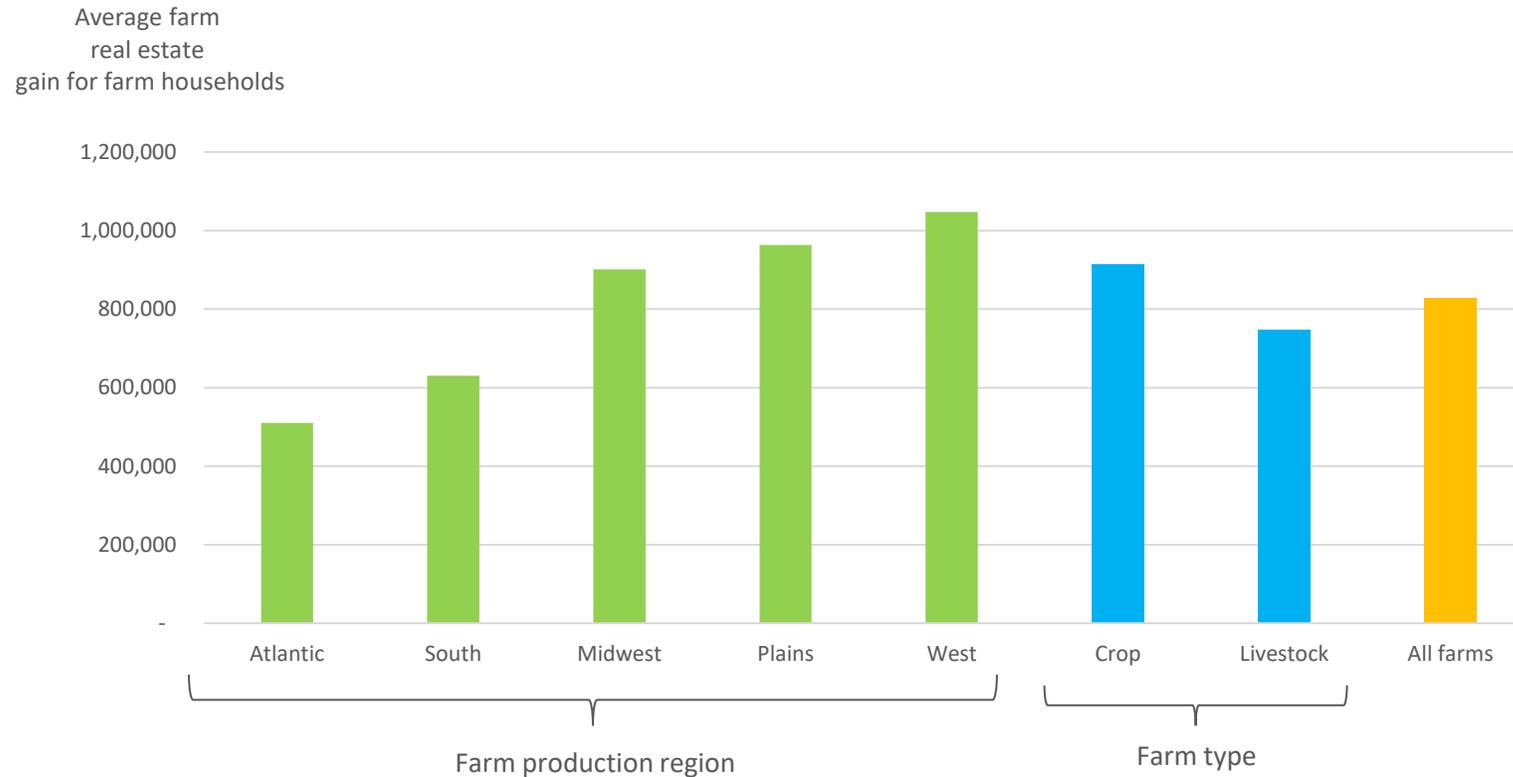
# Farm real estate gains for principal operators over 65



Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2020 Agricultural Resource Management Survey.



# Estimated farm real estate gains by region and type



Note: Farm type determined by whether the largest portion of each farm operation's total gross value of sales came from crops or livestock.

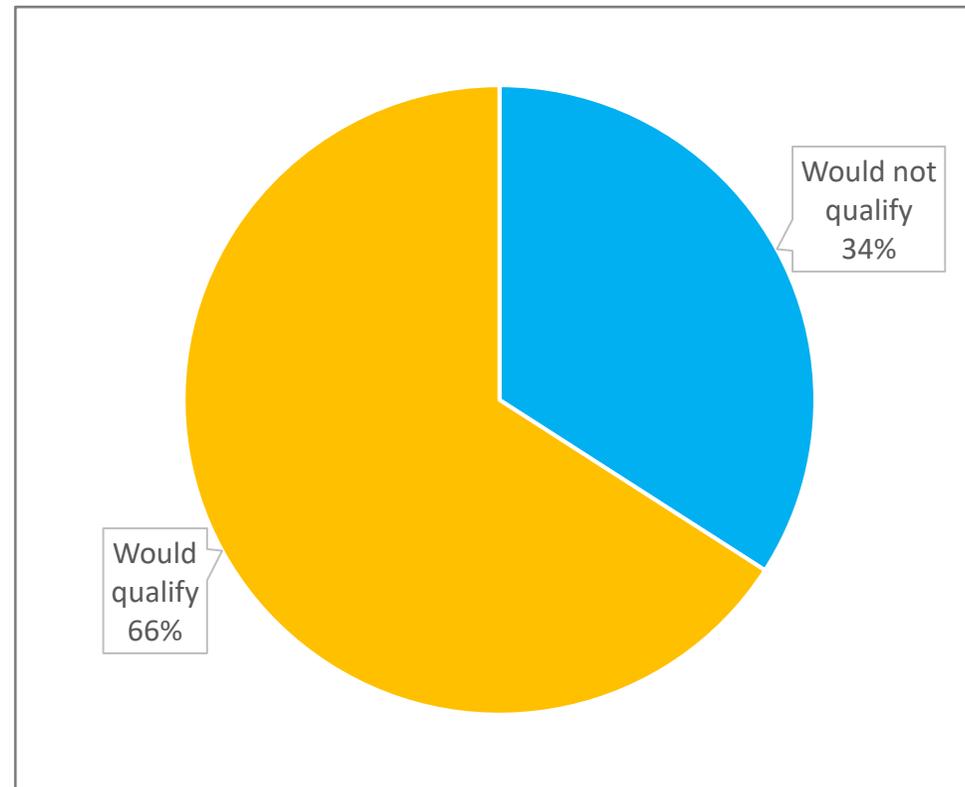
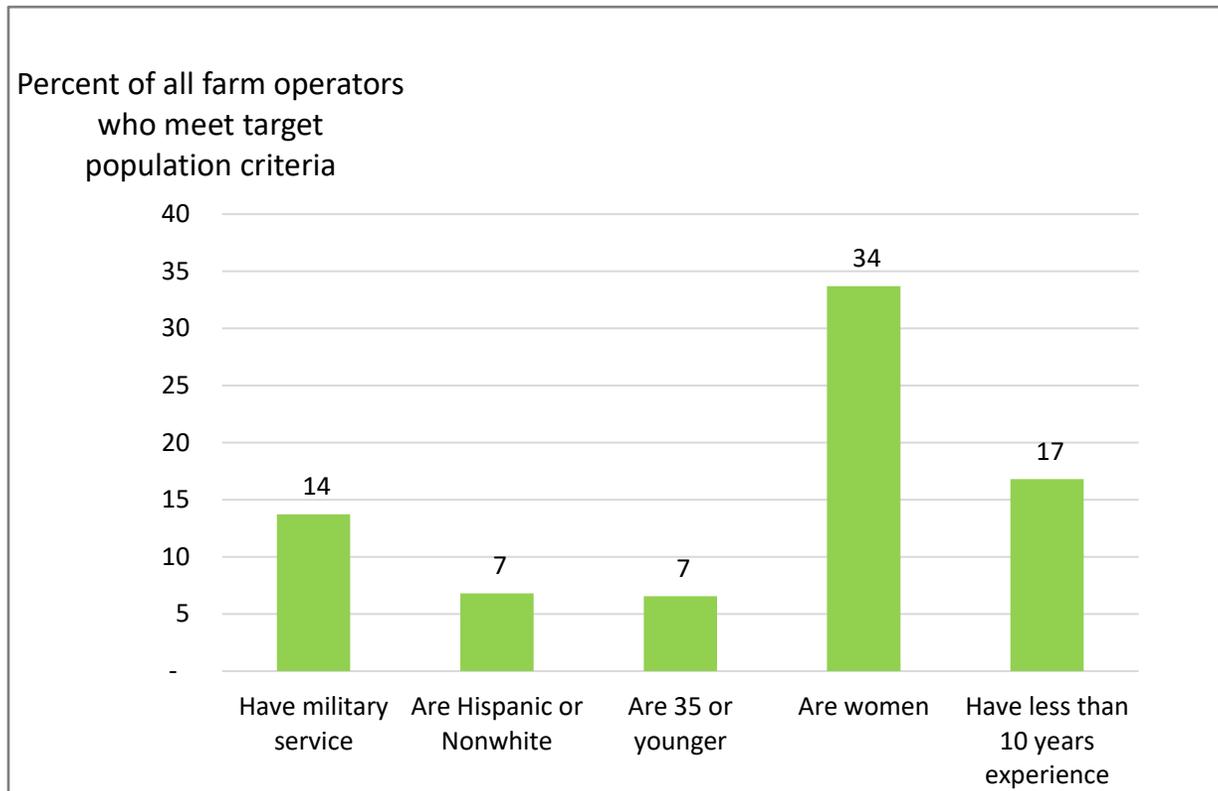
Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2020 Agricultural Resource Management Survey.



# Current population of qualified buyers



# Share of farm operators that qualify as a member of the target population



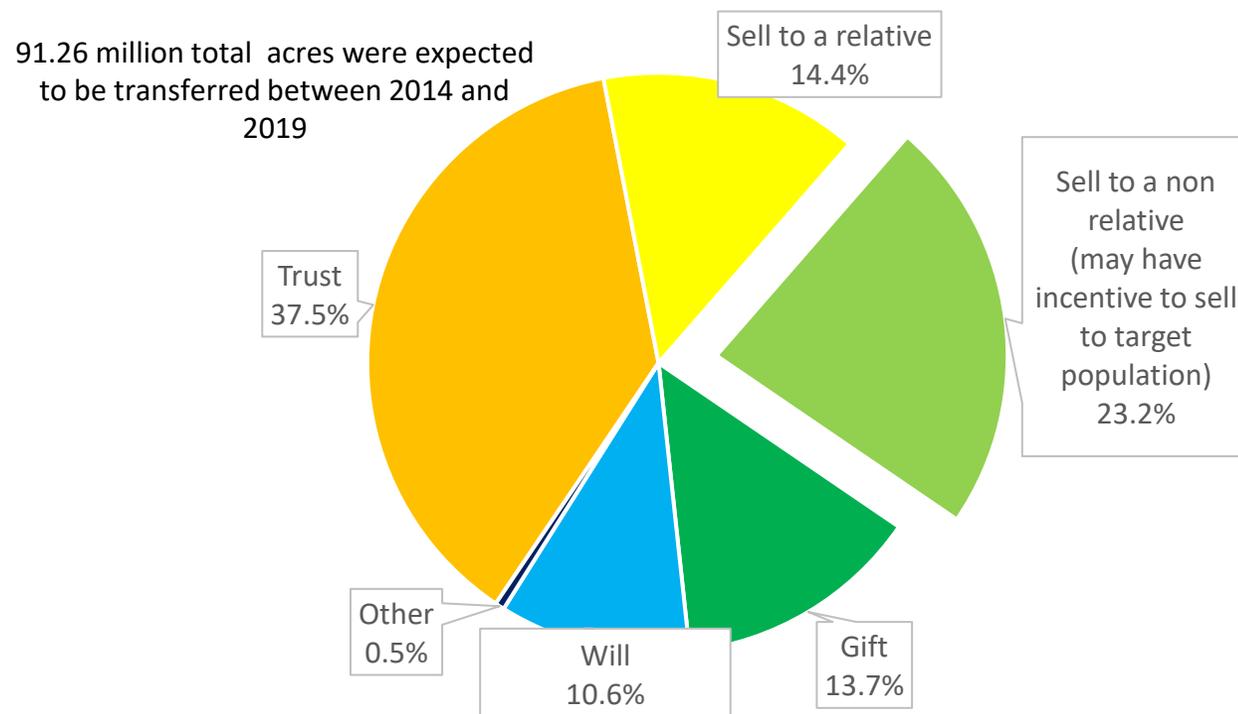
Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2017 Agricultural Resource Management Survey.



# Pattern of land transfers



# Likely impacts of changes to capital gains, given pattern of expected land transfers

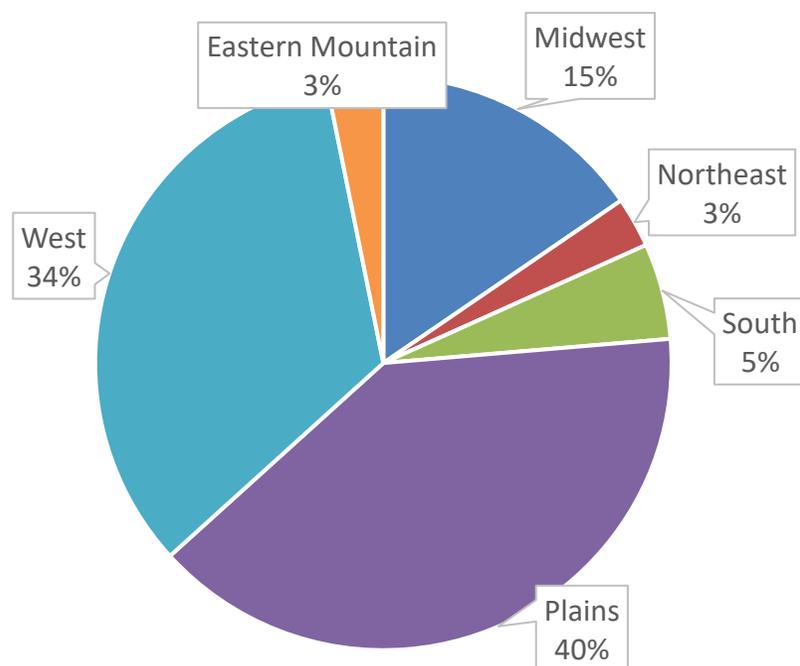


Note: Expected land transfers include land owned by operator and non-operator landlords.  
 Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey.



# Pattern of expected transfers relative to the target population

Expected land transfers (2014-2019) by region

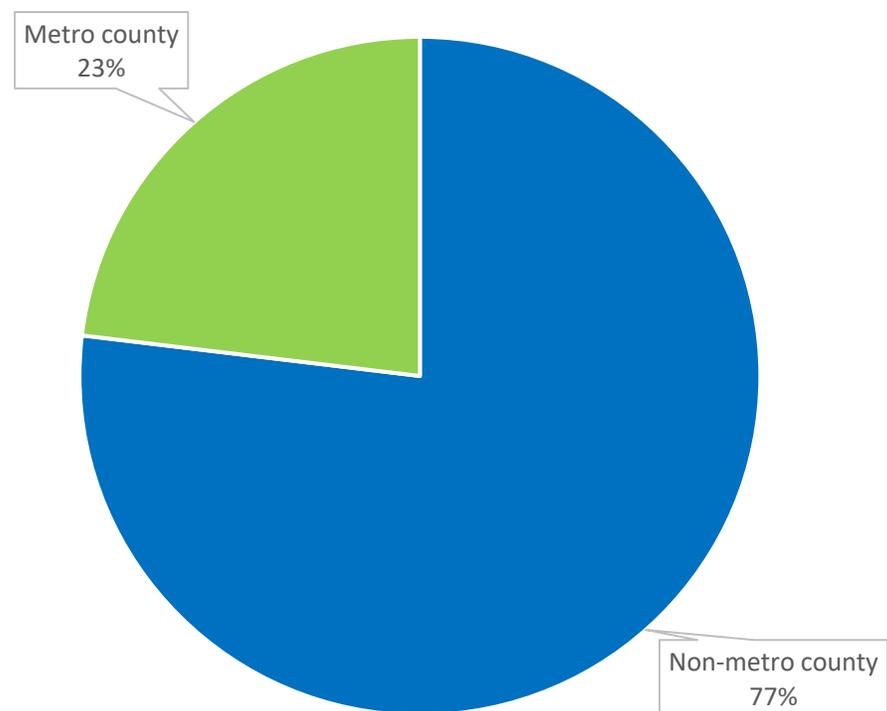


- Majority of Hispanic farm operators located in the West with second highest expected land transfers.
- African American farm operators more likely to live in South with among the lowest expected land transfers.

Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey.



# Expected land transfers relative to metro location



- Young and beginning farmers are more likely to locate in metro counties.

Note: Due to data availability, data represents expected land transfers from operator landlords and does not include data from non-operator landlords. Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) Survey.



# Summary

- Capital gains step-up in basis can provide an incentive for landowners to hold onto assets until death.
- Proposal to exempt from capital gains land sells to target population may increase land access.
- However, current pattern of land transfer implies that majority of land transfers would be unaffected.
- There are additional considerations regarding geographic distribution of target population and available land.





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# Thank you

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