

TAXES AND FINANCE

Paul Neiffer: What the “Green Book” Might Mean for You



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(Top Producer)

By **PAUL NEIFFER** July 27, 2021

Each year a president releases a budget proposal to Congress. The Section dealing with how to pay for the budget is called the “Green Book.” The Green Book that President Biden released this year has several tax provisions that may negatively affect your farm operation. Let's dive in.

Increase in Top Marginal Rates

The current top rate of 37% would increase to 39.6% and more importantly, all capital gains would be taxed at the same rate on net taxable income over \$1 million. Most farmers keep their income under these amounts; however these top rates will kick in if you:

- Sell farmland.
- Sell large numbers of raised breeding stock.
- Generate large income at retirement.

The real rate is 43.4% since President Biden would like to tax all business income at the extra 3.8% net investment income tax.

Reduce Benefit of Section 1031 Exchanges

Farmers can rollover the gain from selling farmland into new ground and defer the tax. If they continue to own the land at death, their heirs will get a step-up in basis and eliminate all of this deferred gain. The Green Book calls for limiting gain deferral under Section 1031 to \$500,000 for single taxpayers and \$1 million for married couples.

Implementing a Transfer Tax

Farmers can transfer land and other assets to their children without incurring any type of income tax (other than partnerships with negative capital). Cost basis carries over on transfers during life, however, heirs receive a step-up in basis when inheriting assets. President Biden proposes assessing a transfer tax upon these transfers. A person is allowed an exemption of \$1 million plus an extra \$250,000 for their personal residence. This means that during lifetime or at death once your total cumulative transfers exceeds these limits, a "transfer" tax will be imposed.

Many commentators have referred to this proposal as eliminating step-up. It does not do that, rather it imposes a tax to get the step-up; plus, a farm couple will owe an estate tax and transfer tax if they have a taxable estate.

The combined estate and transfer tax rate can easily exceed 75% if you live in the wrong state on farm assets with little or no cost basis such as fully depreciated equipment, grain inventories and prepaid farm expenses.

The chance of all these tax proposals being implemented are slim. However, there is a good chance that some of these proposals will happen and they may have a negative impact on your farm operation.