Conclusions

The Federal tax structure that existed at the beginning of the 1980’s is very different from the current Federal tax policies. Then, the Federal income tax system contained numerous exclusions, deductions, and credits with relatively high marginal income tax rates. Social security and self-employment taxes were still relatively low. Federal estate and gift taxes on the other hand were of major concern due to the sharp increase in the value of farm estates and the limited number of exclusions and credits available to shield farm estates from taxes.

Research evaluating the impact of these policies on the agricultural sector reached a number of conclusions. The most significant conclusions included the following:

- Individuals with substantial farm income had significantly lower Federal income tax burdens compared with all other taxpayers.
- Federal income, estate, and gift tax policies exerted upward pressure on farmland values.
- Federal income, estate, and gift tax policies helped concentrate farmland ownership with high-income farmers and nonfarmers, reducing opportunities for beginning farmers.
- Federal income tax policies stimulated capital investment and encouraged the substitution of capital for labor.
- Federal income tax policies encouraged farmers to alter management practices to maximize after-tax returns.
- Federal income tax policies contributed to increased supplies and lower prices for some farm commodities, especially livestock and orchards and vineyards.
- Federal income, estate, and gift tax policies supported growth trends in the number of very small and very large farms.
- Federal income tax policies encouraged the conversion of highly erodible and wetlands into cropland.

Although the implications of this new structure are less clear and research regarding the impact of these policies is somewhat limited, a number of implications of such policies for the agricultural sector have been established:

- The Federal income tax system has become more progressive as a result of an expanded earned income tax credit, increased marginal tax rates, and other changes, while overall progressivity continues to be reduced by Federal payroll taxes, primarily social security and self-employment taxes.
- Federal income and payroll tax policies continue to favor capital investment over labor especially for those able to currently expense a large portion of their capital investment, but the availability of investments with negative effective tax rates is limited.
- Federal tax policies affecting land use, conservation, and preservation are environmentally friendlier due to reduced tax benefits for certain harmful practices and targeted incentives in support of farmland conservation and preservation efforts.
- Federal income, estate, and gift tax policies that provide favorable treatment to farmland relative to other assets continue to reduce the supply and increase the demand for farmland, exerting upward pressure on values.
- Federal tax policies continue to result in increased resource use in agriculture contributing to greater farm output and lower prices.
- Federal income, estate, and gift tax policies continue to support trends in an increase in the number of very small and very large farms.
• Proposals to increase opportunities for beginning farmers should increase the availability of land but are not expected to have a significant effect on affordability.

• Proposals to create FARRM accounts may allow many primary occupation small farms and large farms to build a sizeable and useful self-insurance safety net over several years but are unlikely to provide a meaningful safety net for most farmers because they would not be eligible to contribute or could contribute only small amounts to such accounts.