Economic Research Service
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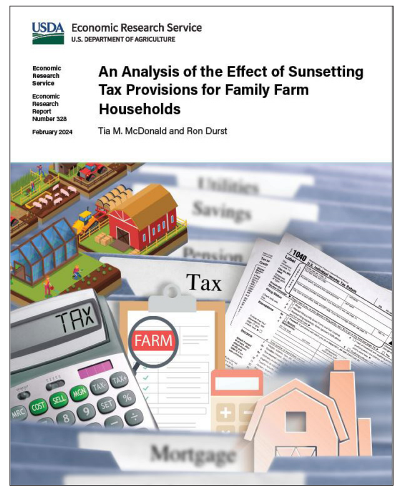
An Analysis of the Effect of Sunsetting Tax Provisions for Family Farm Households

Tia M. McDonald and Ron Durst



What Is the Issue?

The 2017 Tax Cuts and Jobs Act (TCJA) made significant changes to Federal individual income and estate tax policies, while the American Rescue Plan Act (ARPA) provided temporary increases in the child tax credit and the earned income tax credit for childless taxpayers. Since the Federal individual income tax affects most farmers and the Federal estate tax can affect the ability to transfer the farm business to the next generation, these changes are of considerable importance to the farm community. Several of the TCJA changes to Federal individual income and estate tax policies were temporary and are scheduled to expire in 2025. The ARPA changes expired at the end of 2021 but have been included in the U.S. Presidential annual budget proposal, and the empirical impact of permanent inclusion of these proposed changes in the tax code was examined in this report. This report evaluates the impact of these expired and expiring Federal income and estate tax policies on the financial well-being of farm households. This report offers analysis by farm size, as well as groups considered underserved by USDA programs—including female principal operator (PO) farms, non-White or Hispanic PO farms, beginning farms, and limited resource farms.

What Did the Study Find?

The sunsetting of ARPA and TCJA provisions would result in increased taxes for most farm households, with the impact varying by farm size.

Findings based on expiring individual income tax policies:

- The sunsetting provisions that would have the largest impact on farm households (on average) are those provisions providing reduced individual income tax rates, an increased standard deduction, a cap on State and local tax deductions, and the elimination of the personal exemption—which would result in an increase in total tax liability of $4.5 billion for all farm households. While large and very large farms would experience the largest increase in estimated income tax liability, the largest percentage increases would occur for farm households with moderate sales.

- The expiration of the expanded child tax credit provisions in both ARPA and TCJA would result in a significant increase in tax liabilities for farm households receiving the credit. In 2021, these farm households received an average child tax credit of $5,604. The expiration of the ARPA credit dropped the average tax credit to $3,770, while the sunset of the TCJA enhancements would further reduce the share receiving the credit from 35.9 to 26.8 percent and the average estimated tax credit to $1,331.
- One of the most significant TCJA changes scheduled to sunset in 2025 is the new deduction of 20 percent of qualified business income for passthrough businesses. The expiration of this provision would increase taxes for about 45 percent of all farm households with an estimated average increase in tax liability of $2,464. A much larger share of large and very large farm households would be affected, with significantly larger increases in estimated tax liability of $11,868 and $87,219, respectively. A smaller share of underserved farm households would be affected by the loss of the deduction.

Findings based on expiring estate tax policies:

- The TCJA increase in the amount of property that can be transferred to the next generation free of Federal estate tax is scheduled to sunset in 2025, returning the exempt amount to the pre-TCJA level, adjusted for inflation. As a result, the share of farm estates estimated to owe Federal estate tax would increase from 0.3 to 1.0 percent, and Federal estate taxes are expected to double from $572 million to $1.2 billion.
- While the share of retirement, off-farm occupation, low-sales, and moderate-sales farm estates expected to owe tax would remain under 2 percent, the share of large and very large farm estates subject to tax would increase to 7.3 and 8.5 percent, respectively.
- Regarding underserved farm households, the most significant impact would be for female PO households, with the share of these households estimated to owe estate tax expected to increase from 0.6 to 1.5 percent. Limited resource and beginning farmer farms would experience the smallest increase in those estimated to owe estate tax under the lower exempt amount.

How Was the Study Conducted?

This report used financial and demographic data for farms and farm households from USDA's Agricultural Resource Management Survey (ARMS) (2018–21) and data from the U.S. Internal Revenue Service. The data were used to run the USDA, Economic Research Service's (ERS) Federal income tax model to estimate family farm household adjusted gross income and tax liability if: (1) all TCJA and ARPA provisions are active and (2) each provision of the TCJA and ARPA has expired. For the Federal estate tax estimations, the ERS's estate tax model was used. This model is an actuarial model using farm financial information from ARMS (2018–21), mortality data from the U.S. Social Security Administration (2019), publicly available estate tax data from the U.S. Internal Revenue Service (2020), and average effective interest rates calculated by IRS from Farm Credit System rates (2021). This model was used to compare Federal estate tax liabilities for farm households in 2026 by applying the TCJA increased exemption levels and the exemption level that would apply if the elevated exemption amount is allowed to expire.