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## IMPACT OF TAX POLICY ON AMERICAN AGRICULTURE

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Even though the tax system in the United States has undergone dramatic and unprecedented change in the past decade, it is entirely possible to overstate the direct effects of taxation upon the structure of the agriculture sector, the nature of firms within that sector and the economic fortunes of those involved in farming and agribusiness. If the indirect effects of taxation were considered as well, the combined impacts would, however, rank among the most significant variables affecting agriculture even in these economically troubled times.

In this statement, emphasis is placed upon the direct and indirect effects of the tax system on agriculture with particular attention to four dimensions of the problem-- (1) the overarching need to restore revenue to the federal tax system or otherwise reduce the federal budget deficit, (2) the potential mischief from tax policies that appear sound on a micro basis but cause quite different effects when considered in the aggregate or on a macro basis, (3) the importance of considering the effects of the tax system on investment from outside the agricultural sector, and (4) the expected impacts on agriculture of a reduced effort to curb the concentration of wealth.

## Tax Policy and Family Farms

Before taking up the four major themes, a few words should be said about the family farm system which has characterized much of agriculture in this country since the early days of the republic. Except for Florida, Hawaii and California, large investor-owned farm and ranch operations have been and continue to be relatively rare.<sup>1</sup> With family farm and ranch units, the family provides all or nearly all of the equity or ownership capital, supplies all of the management and furnishes most of the labor for the operation. Even though more than 80 percent of the farms and

ranches are organized as sole proprietorships, a significant number function as partnerships and corporations.<sup>2</sup> Although some Congressional enactments in the last decade assume otherwise, notably special use valuation of farmland and 15-year installment payment of federal estate tax, farm businesses are typically born and die within the generation of their founding.<sup>3</sup> Land may remain within the family from generation to generation but the farm business has usually terminated at the retirement or death of the farmer or rancher.

The size of farms and ranches is heavily influenced by the relationship of cost per unit of output to scale of operation. Over the long term, the size of farms and ranches tends to reflect cost considerations. While the least cost point for production varies by type of operation, under Corn Belt conditions, research has consistently indicated that the economies of scale have been largely achieved by farms of about a section in size (640 acres).<sup>4</sup> Economies beyond that point relate to cost advantages in quantity purchasing of inputs and the price advantages from marketing larger amounts of output.

In terms of the impact of tax policy on family farms, several points merit mention.

1. Ease of entry by beginning farmers is vital to maintenance of a family farm structure. Barriers to entry may come, first, in the form of nonavailability of land and other inputs at a cost consistent with the price of agricultural products. Thus, factors--including factors relating to tax policy--that tend to drive up the cost of land and other inputs may contribute to barriers to entry. Some tax provisions tend to become capitalized into land values and may contribute to values above the level that can be paid by those without the tax advantage.

2. Another barrier to entry may come from provisions that tend to reduce the alienability or transferability of inputs, notably land. Again, special use valuation of land and 15-year installment payment of federal estate tax fall into that category. With special use valuation of land, most transfers outside the family are precluded for at least ten years after death. The low income tax basis from special use valuation discourages taxable transfers even beyond the period for federal estate tax recapture. For 15-year installment payment of federal estate tax, any transfer during the period of 177 months after death (14 years and nine months) counts against the maximum transfer allowed without termination of installment payment.<sup>5</sup> If 50 percent or more of the decedent's interest is sold, exchanged or otherwise disposed of or is withdrawn from the business, the installment payment arrangement is terminated.<sup>6</sup>

3. Another barrier to entry may come in the form of tax advantages for larger operators that would provide a systematic advantage at a point on the cost curve beyond the point of least cost per unit of output. Most of the flat tax proposals would provide such an advantage, at least relative to the income tax burden under current law.<sup>7</sup>

4. Changes in the tax structure that induce capital flows into agriculture should be evaluated with care. The presence of some non-farm investment in agriculture lowers the barriers to entry by making farmland available on a rental basis to beginning operators and others with a highly limited capital base. A policy of full ownership of land by operators would, over time, create substantial barriers to entry. A pattern of mixed ownership by bona fide farmers and those outside the agricultural sector contributes to a healthy agriculture over the long term.

Tax policies that induce sharp increases in investor capital flowing into agriculture tend to elevate the price of land, breeding stock and other inputs. The result may be higher barriers to entry by beginning farmers and those with a limited capital base.

A word of caution is in order with respect to timing in adopting changes in tax law that would discourage the flow of investment capital into farming. At a time, as now, when the market for farmland and some other inputs is indeed soft, triggering further sales by inducing the tax advantages from such investments could have a negative effect. Placing a cap on the amount of farm losses that could be deducted against non-farm income is an example of such a move that would have a substantial negative impact on non-farm investors in farmland. Ideally, changes in the direction of discouraging the flow of investor capital into agriculture should not come at the bottom side of the economic cycle for farmers.

#### Tax Policy as Barrier to Entry

In tax policy, one of the most difficult tasks for taxpayers is to evaluate the macro effects of changes in tax law that appear irresistibly attractive on a micro basis. This problem is clearly manifest (1) in understanding the effects of changes in tax law on federal revenues and the impact of revenue shortfalls on interest rates, and (2) in understanding the impacts of changes in tax law on levels of production and the long-run implications for producers and consumers. The first point is discussed in this section; the second is discussed in the next section. Without a doubt, one of the major challenges of the 1980s is for taxpayers to acquire a greater sense of understanding of the economic linkages between tax rules, fiscal policy and monetary policy.

At present, the most significant feature of federal tax policy for farmers and ranchers relates to the enormous and growing federal budget deficit.<sup>8</sup> The numbers are well known to this group and need not be repeated. What may be less well known are the ways in which agriculture is being impacted by the huge budget deficit for the current federal fiscal year and by an expectation of even larger deficits for the foreseeable future. Tax legislation now in process represents a heartening move toward closing the gap but will not, alone, be sufficient.

The current economic woes of farmers are traceable to several factors: (1) adverse weather conditions in some parts of the country during the 1982 and 1983 growing seasons, (2) real rates of interest at levels rarely encountered in the past, (3) over-expansion in the decade of the 1970s under an assumption of continued inflation, and (4) sharp drops in land values as the rate of inflation has been reduced and interest rates have remained high.<sup>9</sup> Of the four factors, the single most significant appears to be the decision by the Federal Reserve Board in 1979 to reduce the rate of inflation in the United States.<sup>10</sup> Over the following four years, that action led to conditions of tight money, high interest rates and a dramatic slowing in the rate of inflation. The result, for farmers, has been falling land values and high real rates of interest, sufficient to cause lenders to develop concerns about a substantial proportion of their farm borrowers.<sup>11</sup>

The amount of debt held by farmers has risen sharply in recent years. In 1971, total farm debt outstanding in the United States totalled slightly more than \$54 billion.<sup>12</sup> As recently as 1976, the amount of farm debt was about \$91 billion.<sup>13</sup> In the next eight years, the figure increased to \$215 billion.<sup>14</sup> As a percentage of net farm income, farm debt stood at 215 percent in 1960, rising to 334 percent of net farm income in 1975 and climbing to 795 percent of net farm income in 1981.<sup>15</sup> Unless inflation permits payment from increases in asset values, indebtedness must be paid from net income.

Farmers with high and rising debt loads,<sup>16</sup> thus are caught with the worst of all worlds, falling collateral value as farmland values have declined and high real interest rates that persist at near record levels. Had nominal interest rates declined along with the drop in the inflation rate, as would normally have occurred, farmers and other debtors would have faced substantially less economic difficulty than is now the case.

Although there is not unanimous agreement among economists, the evidence is overwhelming that large budget deficits contribute to high interest rates. Interest rates represent,

essentially, the price of credit, and heavy government borrowing plus private sector borrowing impose a heavy demand for money in times of large budget deficits and significant economic activity. Constraints on the supply of money assure that the price of credit will rise with increase in the demand for money.

High interest rates have four distinct effects on farm firms. High interest rates (1) increase the direct cost of production credit for use in the operation and raise the interest cost for land under variable rate mortgages; (2) give strength to the foreign exchange value of the dollar with the result that farm products are more expensive in export channels with a resultant drop in exports; (3) become part of the cost of production for inputs purchased by farmers and, because of the competitive structure of the input supplying sectors, tend to be passed along to farmers in the form of higher input prices (for fertilizer, chemicals, fuel, seed, repairs and other inputs); and (4) increase the cost of carrying farm products in inventory with a short-term effect not unlike an increase in supply.<sup>17</sup> The net result of high interest rates is higher operating costs, reduced farm income and depressed land prices.

In light of the economic vulnerability of a substantial segment of farmers and ranchers, the real rate of interest takes on enormous significance. The problem goes beyond production credit. One of the products of the inflationary era of the 1970s was variable rate mortgages. High interest rates impact those farmers and ranchers who have acquired land under variable rate mortgages from the Federal Land Bank and other lenders.

For many farmers and ranchers, the economic pain from continuing high interest rates dwarfs any possible combination of benefits from the tax cuts from the Economic Recovery Tax Act of 1981.<sup>18</sup> The realization is becoming clearer to taxpayers that a macro price of enormous proportions is being paid for what at first blush appear to be highly attractive benefits from a micro perspective.

As we pointed out in print in August and September of 1981, the Economic Recovery Tax Act of 1981 was the most irresponsible Congressional act of this century.<sup>19</sup> We are now inclined to reconsider that statement. We now believe it was the most irresponsible Congressional act in the history of the republic. As a matter of tax policy, nothing now ranks with restoring a sense of fiscal sanity to the economy of this country. A severely and chronically unbalanced budget is a matter of national security.

The destabilizing effect of high interest rates in the

international realm, notably in third world countries, is another deep concern of farmers, not only from the standpoint of strength of export activity in farm products but also from the standpoint of potential damage to the fabric of international lending relationships and the risk of triggering international liquidity crises. Countries with high and rising debt burdens cannot be viewed as good candidates for expanded sales of farm products from the United States.

#### Changes in Tax Structure and Cost of Production

In reviewing the macro effects of tax policy for the agricultural sector, one major area of concern is the impact of changes in the tax structure that affect the cost of production. Because of the atomistic nature of most segments of the farm sector, and the inelasticity of demand for many farm products, the usual effect of changes in technology or changes in the tax system that are cost decreasing in nature is to increase production and hence supply, drive down the price and ultimately benefit the consumer, not the farmer. It was by this very process that agriculture over the past 75 years has given up people and other resources sufficient to fuel non-farm development with food production involving fewer and fewer farmers and a diminishing proportion of the capital resources of the country. Tax breaks that reduce the farmer's cost of production are indeed consistent with a policy of cheap food and are clearly in the best interests of consumers.

As an example of the aggregate effect of what appeared to be a desirable change in tax rules for agriculture, the Congress in 1978 responded to producer requests to resolve a dispute between the Internal Revenue Service and farmers over eligibility of livestock confinement units for investment tax credit<sup>20</sup> and to make the facilities eligible for the 10 percent credit.<sup>21</sup> The effect<sup>22</sup> was to reduce the cost of eligible structures by 10 percent<sup>22</sup> and to induce construction of facilities where the appropriately amortized cost to the taxpayer of 90 percent of the full cost of the confinement unit was profitable. Although other factors were also impinging upon producer decisions during the same period, it appears that the legislation assuring the credit to confinement facilities had some impact on production and supply levels. Some taxpayers now recognize that a significant price may have been paid by producers in the aggregate for what appeared at the time to be an irresistible micro tax benefit.<sup>23</sup>

Another example of tax provisions impacting production costs and, hence, production and supply levels is the deduction for land clearing expenses.<sup>24</sup> Since 1962, expenditures made

for the clearing of land to make it suitable for use in farming have been deductible currently up to the lesser of \$5,000 or 25 percent of taxable income from farming.<sup>25</sup> Again, the probable effect has been to induce some land to be brought into production that would not have been planted to crops had the expense of land clearing been capitalized rather than deducted currently. The benefits of increased production and the resulting lower price per unit undoubtedly inured to the benefit of consumers. Moreover, during much of the 22-year period in which the land clearing expense deduction has been available, price and income support programs of the United States Department of Agriculture have been in place to idle farmland and support commodity prices above market clearing levels.

From a policy perspective, the message is reasonably clear: proposed changes in the tax system that would affect the cost of production should be evaluated in terms not only of the cost or revenue to the Treasury but also in terms of who is expected to benefit ultimately from the change and whether the change is consistent with other policies already in place. In all of the above examples, the consumer was the ultimate beneficiary of policies that appeared desirable at the micro level but resulted in increased levels of production with resultant lower prices.

#### Changed Tax Structure and Investment Capital

Another major area of impact of tax policy in agriculture is the effect of changes in the tax structure on the flow of investment capital. Tax provisions may induce or inhibit the flow of capital into agricultural assets, depending upon the configuration of the tax system.

Much of the federal income tax legislation enacted in 1969 and 1976 was designed to neutralize tax-motivated shifts of investment capital into agriculture.<sup>26</sup> The basic income tax incentives have been largely of four types: (1) the combination of the cash method of accounting and the biological processes of agriculture that permitted (and still do but to a lesser degree than before 1976) conversion of deductions from ordinary income into taxation ultimately as long-term capital gain; (2) availability of the cash method of accounting and deferral of recognition of income such that expenses are incurred in one time period with income taxed in a later period; (3) the operation of taxable entities with different rates of federal and state income tax ranging from zero to the highest marginal rate for individuals; and (4) authorization of the various tax deferral options such as the opportunity to report non-recourse Commodity Credit Corporation loans as income in the year loan proceeds are received<sup>27</sup> or



as income when the commodity is sold or forfeited to CCC.<sup>28</sup>

In recent years, legislative efforts have been made to narrow the scope of tax motivations of nonfarm investors to invest in farm property or farming operations based upon one or more of the four types of incentives outlined above. Until 1970, recapture rules did not apply to depreciable livestock. Therefore, it was possible, prior to 1970, to purchase a cow-calf herd, for example, depreciate the animals to a low level and sell the herd with long-term capital gain treatment for the resulting gain. Livestock was added to Section 1245 recapture (meaning that, essentially, gain is taxable as ordinary income to the extent of allowed or allowable depreciation) beginning in 1970.<sup>29</sup> At the same time, the holding period for cattle and horses was extended to twice the period required for other types of livestock in order to receive long-term capital gain treatment.<sup>30</sup> The same legislation, the Tax Reform Act of 1969, added a further provision for the recapture of gain on disposition of "farm recapture property" to the extent the taxpayer had a balance in the taxpayer's "excess deductions account" from net farm losses.<sup>31</sup> The 1969 changes had a significant effect on the shelter activity, especially on shelters involving cow-calf herd purchase, depreciation and sale.

The use of limited partnerships as a tax shelter (such as feedyard activity involving cattle) with prepurchased feed and other supplies and with gain recognized in a later year was curtailed by enactment in 1976 of limits on deductibility of inputs by "farming syndicates"<sup>32</sup> and by legislation imposing "at risk" rules which limit deductibility to amounts the taxpayer has at risk.<sup>33</sup> The at-risk rules, which originally applied only to partnerships, were broadened in 1978 to include all areas of investment activity in farming.<sup>34</sup>

Even though farming syndicates have been limited to current deductibility of feed and other inputs,<sup>35</sup> a substantial amount of prepurchase activity has continued by investors not falling within the farming syndicate rules. Accordingly, legislation has been proposed in 1984 to limit further the deductibility of prepurchased inputs.<sup>36</sup>

Since 1969, therefore, a concerted effort has been made to limit the benefits of the cash method of accounting to bona fide farmers.<sup>37</sup> Quite clearly, practices permitted by cash accounting have been major attractions for high tax bracket non-farm investors. The Congressional response has been to narrow the rules of eligibility for cash accounting but not to deny its use to bona fide farmers and ranchers. Apparently, farmers have paid a substantial price for continuation of eligibility for cash accounting as investment has

been attracted into some areas, most notably pistachios, cattle feeding and, at an earlier time, cow-calf operations. In recent years, some farmers have raised the question whether the advantages of cash accounting were worth the disadvantageous results from induced investment activity and higher production levels with resultant lower prices to producers. If cash accounting is permitted to remain, as a matter of policy continuing attention should be given to limiting inducements to invest because of the peculiarities in the way income and deductions are handled under the cash method of accounting.

An area of potential shelter activity meriting attention is the rapid write-off of depreciable real property under the Economic Recovery Tax Act of 1981.<sup>38</sup> The cost of much of the depreciable real property in a farm or ranch operation is recoverable over five years on an accelerated basis.<sup>39</sup> Tile lines, fences, feeding floors, paved drives, grain bins, silos, livestock confinement facilities, outside power and light systems and water distribution systems are all depreciable as five year property in addition to being eligible for 10 percent investment tax credit.<sup>40</sup> The cost of other depreciable realty is eligible for recovery over as little as 15 years. Before the Economic Recovery Tax Act of 1981 became effective, these assets were depreciated over periods of 10 to 30 years.<sup>41</sup>

The 1981 legislation represented a striking acceleration in cost recovery. Quite apart from the massive loss of revenue from ACRS, which was particularly dramatic in light of the sharp drop in capital spending for several months after the enactment of ERTA, the ACRS rules have created a tax shelter opportunity.

Example: On December 31, 1983, a high tax bracket taxpayer purchased a farm for \$800,000. Of the total purchase price, \$300,000 was allocated to four large silos, five confinement livestock units, fence line banks, fences, tile lines and four large grain bins. By using accelerated cost recovery, the taxpayer could claim \$45,000 in depreciation in 1983, \$66,000 in 1984, and \$63,000 in each of the next three years. By the end of 1987, the \$300,000 investment allocated to the depreciable items would be fully recovered, just over four years after the original purchase. If the farm were sold in 1995, the amount allocated to those depreciable assets would, of course, be taxed as ordinary income up to \$300,000.

For Section 1250 property, straight line cost recovery over 15 years may be claimed with no depreciation recapture on later sale.<sup>42</sup> With Section 1250 assets, depreciation is recaptured only to the extent depreciation claimed exceeds

straight line cost recovery.<sup>43</sup> Thus, depreciation deductions from ordinary income can readily be converted into long-term capital gain.

Example: A high tax bracket off-farm investor on January 1, 1983, purchased a heavily improved farm for \$600,000. Of the total purchase price, \$100,000 was allocated to a nearly new house on the property, \$80,000 to a large steel building built for machinery storage and farm shop and \$20,000 for a pole barn. All of the depreciable items, totalling \$200,000 in value, were placed on the depreciation schedule with straight line cost recovery claimed over 15 years. By the end of 1997, the \$200,000 amount would be depreciated to zero, having produced \$100,000 in income tax savings for the investor who is in the 50 percent federal income tax bracket (not counting the value of the deductions for state income tax purposes). If the farm were sold in 1998, with \$200,000 of the sales price allocated to the house, the steel building and the pole barn, the \$200,000 gain would be eligible for long-term capital gain treatment taxed at a maximum rate of 20 percent with \$40,000 in income tax due on the gain. Thus, at an eventual cost of \$40,000, the taxpayer obtained tax benefits of \$100,000.

A shift entirely to Section 1245 recapture and repeal of Section 1250 rules would go a long way toward limiting the attractiveness of depreciable real property as a tax shelter.

A careful look should be given to whether some assets now classified as five year recovery property would more appropriately be classed as 10 or 15 year property. Particular mention is made of tile lines, concrete drainage ditches, silos, some types of storage facilities and single purpose agricultural structures.

Agriculture may be particularly vulnerable to off-farm investor activity for the next several years. Land values have fallen sharply at a time when average personal incomes in other sectors of the economy have been rising. Farmers who have been financially weakened from high real interest rates, poor crops because of adverse weather conditions and loss of asset value are not likely to be strong bidders for farmland.

With the economic problems in much of the agricultural sector, some concern has been voiced over the heavy reliance of farm firms on debt capital and the impact of economic adversity on the equity capital base provided almost exclusively by the farm family. The suggestion is that economic incentives be created for non-farm equity capital to flow into farm firms with a consequent broadening of the

risk-bearing fund. This argument should be evaluated carefully in light of the unique features of farm firms.

First, with more than 80 percent of the farm businesses operated as sole proprietorships, there is no convenient mechanism for channeling equity capital into farm firms. Most of the equity capital that has entered agriculture has entered in the form of land purchase which is then leased to farm firms.

Even if an investment mechanism were developed, it is doubted that non-farm investors would be interested in minority equity interests in closely held farm firms without an assurance of rights to participate in management or assured income or both. Involvement by off-farm investors in management would be anathema to many farmers and the typical cash flow of farm firms might not permit a current return commensurate with alternative investment opportunities. In light of the capital needs of agriculture, it does seem vital that the agricultural sector remain linked to the major sources of capital. Moreover, an argument can be made that barriers to capital flow should be examined with care to see that capital shortages do not develop in agriculture. However, the most obvious barriers--limitations on corporate<sup>44</sup> and non-resident alien<sup>45</sup> ownership of farmland--involve equity capital rather than debt capital flows. Debt capital is relatively free to flow into agriculture in keeping with relative rates of returns and relative lending risks.

From the standpoint of tax policy, the prudent course would seem to be to seek neutrality in terms of impact on debt and equity capital flows. The family farm system of American agriculture is based upon all or most of the equity capital of the farm firm being provided by the farm family. Certainly any change in the family farm structure should come in an evolutionary manner as individual farmers consider the trade-offs between the decision making independence and the spreading of risk rather than being induced by tax-motivated incentives.

#### The Effect of Changed Estate Taxes

One of the more significant Congressional actions of the past decade with respect to tax policy was the substantial easing of the federal estate tax burden in the 1976 and 1981 legislation. Agriculture has a strong interest in tax policies designed to curb the concentration of wealth.

In reducing the federal tax liability on estates, the Congress seems to have been motivated in part by concerns that family farms and small businesses were threatened by the

levels of federal estate tax then in effect. The Congress appears to have assumed that the way to assure survival of the family farm as a concept was to work to assure the survival of family farms as economic entities.<sup>46</sup> Legislation was enacted (1)<sup>47</sup> reducing the federal estate tax burden on small estates, (2) creating a procedure for valuing land used in a farm or other business below fair market value for federal estate tax purposes under what is known as special use valuation<sup>48</sup> and (3) enacting a more attractive option for installment payment of federal estate tax if a business was involved.<sup>49</sup> These actions were apparently made under the assumption that the family farm as a production entity should continue as an economic entity through time. Both pre-death and post-death requirements for special use valuation of land and installment payment of federal estate tax assume the existence of a business. Yet most family farm businesses do not survive the generation of their founding.<sup>50</sup> Even though the land may remain within the family, the farm business rarely continues beyond the life span of the parents. An increasing number of the larger farm and ranch businesses (but still only a few in total numbers) are pursuing an objective of continuation of the farm business into the next generation. Not unexpectedly, Congressional action to ease the federal estate tax burden is of greatest value to the largest farm and ranch operations and to non-farm investors in farmland.

Especially in light of current budgetary pressures, the Congress may want to reconsider not only the reduction of the top federal estate and gift tax rates from 70 percent to 50 percent but also the scheduled increase in the federal estate and gift tax unified credit. The unified credit is at \$96,300 for 1984 (which is equivalent to a deduction of \$325,000). The credit is slated to rise to \$192,800 in 1987 (which is equivalent to a deduction of \$600,000). Again, the relevant question becomes the macro implications for what appears to taxpayers to be a highly desirable micro tax break.

Repeal of the present generation skipping tax is clearly defensible on the grounds of complexity and problems in administration of the tax. However, repeal would reopen a major planning loophole for channeling large amounts of wealth from generation to generation with no tax burden on "skipped" generations. The federal estate tax was apparently intended by the United States Congress to accomplish multiple objectives: to generate revenue, to redistribute wealth and to influence the structure of the economy. The question is whether the recent changes are consistent with those objectives.

A family-owned and -controlled agriculture is promoted by (1) a death tax structure that is as demanding of farm and ranch estates as those of any other sector, such that investment is not unduly attracted from non-farm investors, and (2) by a death tax structure that may lead to the break-up of large tracts of land. Without a doubt, entry into agriculture is inhibited if land is tied up within families for extended periods.

#### Summary

In conclusion, it seems not unreasonable for tax policy either to be neutral with respect to structure and to economic advantage or disadvantage by size and type of firm or to be consistent with other policies in terms of effect on structure and on profitability by size of firm. At a minimum, tax policy (1) should not decrease the cost of production for larger over smaller firms, (2) should not induce investment in agriculture from nonfarm investors to a greater degree than in other sectors, that is to strive for neutrality in terms of effect on capital flows, and (3) should not encourage concentration of land ownership in the hands of a "landed gentry." Even more importantly, tax policy should be expected to contribute revenue sufficient to support politically acceptable program levels such that the economy does not incur significant budgetary deficits in times of economic recovery.

## NOTES

1. For a review of the data on farm and ranch size by method of organization, see 6 Harl, Agricultural Law § 51.03(2)(c) (1983).
2. Ibid.
3. See 5 Harl, Agricultural Law § 41.02.
4. T.A. Miller, G.E. Rodewald and R.G. McElroy, "Economies of Size in U.S. Field Crop Farming," Agricultural Economics Report 472, July 1981, p. 20 (Table 6):

	Size of most efficient farm		Size of farm to provide 90-percent resource return rate		
	Gross income	Crop land	Gross income	Crop land	Income as percentage of large farm
	\$1,000	Acres	\$1,000	Acres	Percent
Corn Belt	145	639	60	299	41
Pacific Northwest	156	1,887	54	449	35
Southeast	130	399	55	143	42
Southern Plains	100	1,488	28	399	28
Texas High Plains	175	974	58	395	33
Northern Plains	105	1,476	17	232	16
Mississippi Delta	122	1,237	47	335	39
Average, seven regions	133	1,157	46	322	33

See also J.P. Madden & E.J. Partenheimer, "Evidence of Economies and Diseconomies of Farm Size," in Size, Structure and Future of Farms, pp. 91-107, A.G. Ball and E.O. Heady, Eds., Iowa State University Press, 1972. See also "Economies of Size Studies," Proceedings of Conference, Purdue University, West Lafayette, Indiana, Aug. 3-4, 1983, Center for Agricultural and Rural Development, Iowa State University, Ames, Iowa.

5. See Internal Revenue Code § 6166(g)(1)(A).
6. Ibid.

7. See D. Doye and M. Boehlje, "A Flat Rate Tax: What It Means for Farmers and Agriculture," Dept. of Economics, Iowa State University, March, 1984 (unpublished manuscript).
8. See "An Analysis of the President's Budgetary Proposals for Fiscal Year 1985," Congressional Budget Office, Feb., 1984, p. 1: "The Congressional Budget Office... estimates that the budget deficit under Administration policies would grow from \$186 billion in 1984 to \$192 billion in 1985 and \$248 billion in 1989...CBO projects that, under current spending and taxing policies, the federal budget deficit would grow from \$189 billion in 1984 to \$197 billion in 1985 and \$308 billion by 1989..."
9. See N. Harl, "A Financial Revolution in Agriculture," 60 North Dakota Law Review (1984).
10. See "Treasury and Federal Reserve Foreign Exchange Operations: Interim Report," 65 Federal Reserve Bulletin 951, 953-54 (1979).
11. See E. Melichar, "A Financial Perspective on Agriculture," 70 Federal Reserve Bulletin 1 (1984) and Iowa Farm Finance Survey, Iowa Crop and Livestock Reporting Service (1984) which reports debt as a percent of farm assets at 29.5 percent average for Iowa but about one-third of the farmers are essentially debt free. See also Agricultural Finance: Outlook and Situation, USDA Economic Research Service, p. 10 (1983) which reports that total farm debt stood at \$215 billion in 1983, up from \$54 billion in 1971 and \$91 billion in 1976.
12. Agricultural Finance: Outlook and Situation, USDA Economic Research Service, p. 10 (1983).
13. Ibid.
14. Ibid.
15. M. Boehlje, "The 1980s: New Rules Require New Management Strategies," Department of Economics, Iowa State University, Figure 7 (1984). (Unpublished manuscript).
16. See notes 12-15 above.
17. See generally N. Harl, Legal and Tax Guide for Agricultural Lenders, ch. 1 (1984).
18. Public Law 97-34, 95th Stat. 172 (1981).



19. See D. Jepson, "Jepson Backs Taking Step Leading to Gold Standard," Des Moines Register, September 29, 1981, pp. 1A, 4A: "...There is 'no hope of covering the deficit' that is being created by the Reagan tax cut...That cut will come to be viewed 'as the most irresponsible congressional action of this century.' He added, 'and I pick these words intentionally.'"
20. See cases cited in 4 Harl, Agricultural Law § 32.03(b) (1984).
21. Revenue Act of 1978, adding Internal Revenue Code § 48(a)(1)(D).
22. Ibid.
23. See B. Fleming, Opinion Page, 28 National Hog Farmer, No. 9, Sept. 15, 1983, p. 34; and B. Gnatzig, "Tax Credits: Are They Driving Expansion?" 28 National Hog Farmer, No. 8, Aug. 15, 1983, pp. 8-10.
24. Internal Revenue Code § 182.
25. Internal Revenue Code § 182(a).
26. See N. Harl, "The Future of Government Regulation of Agriculture: Implications of Tax Policy for Agriculture," 3 N. Illinois Law Review 279, 282-286 (1983).
27. Internal Revenue Code § 77(a).
28. The election available to farmers on the cash method of accounting to report inventory under installment payment rules is another unique opportunity open to farmers. See Internal Revenue Code § 453(b)(2)(B). As a practical matter, only farmers on the cash method of accounting are not required to report dispositions of personal property which are "required to be included in the inventory of the taxpayer".
29. Tax Reform Act of 1969, Public Law 91-172, Sec. 212(a)(2), 83 Stat. 571 (1969).
30. Internal Revenue Code § 1231(b)(3)(A), amended by Public Law 91-172, Sec. 212(b), 83 Stat. 506 (1969).
31. Internal Revenue Code § 1251 added by Public Law 91-172, Sec. 211(a), 83 Stat. 566 (1969). No additions have been made to excess deductions accounts since 1975. Internal Revenue Code § 1251(b)(2)(E), added by Public Law 94-455, Sec. 206(a), 90 Stat. 1535 (1976).

32. See Internal Revenue Code § 464, added by Tax Reform Act of 1976, Public Law 94-455, Sec. 207(a)(1), 90 Stat. 1536 (1976).
33. Internal Revenue Code § 704(d), added by Public Law 94-455, Sec. 213(e), 90 Stat. 1548 (1976).
34. Internal Revenue Code § 465(c)(1)(B), added by Public Law 95-600, Sec. 201, 92 Stat. 2814 (1978).
35. See Internal Revenue Code § 464.
36. House of Representatives 2163, 98th Congress, 2nd Session (1984), amending Internal Revenue Code § 464 by adding a new subsection (f).
37. Legislation was enacted in 1976 limiting farm and ranch corporations with more than \$1,000,000 of gross receipts to accrual accounting except for family corporations and S corporations. Internal Revenue Code § 447, added by Public Law 94-455, Sec. 207(c), 90 Stat. 1538 (1976), amended by Public Law 95-600, Sec. 351(a), 92 Stat. 2846 (1978). See 7 Harl, note 1 above, § 54.05(1).
38. Internal Revenue Code § 168(c). See 4 Harl, Agricultural Law § 29.05(2)(c)(iv) (1983).
39. Internal Revenue Code § 168(c)(2)(B). See 4 Harl, note 38 above, § 29.05(2)(c)(ii)(B).
40. For depreciable property placed in service after 1982, taxpayers must either (1) reduce the income tax basis for property by 50 percent of the regular investment tax credit and energy credit allowed and by 100 percent of the rehabilitation credit or (2) reduce the regular investment tax credit by two percentage points (for example from ten to eight percent) in lieu of reducing the income tax basis by 50 percent of the regular investment tax credit but with reduction by one-half of the energy credit and by 100 percent of the rehabilitation expenditure investment tax credit. Internal Revenue Code § 48(q).
41. See 4 Harl, note 38 above, § 29.05(1)(a).
42. See Internal Revenue Code § 1250.
43. See 4 Harl, note 38 above, § 31.03(2)(b) for a discussion of the application of Section 1245 recapture rules (gain is recaptured as ordinary income to the extent of depreciation claimed since 1961, 1969 for livestock) to Section 1250 assets if 15-year accelerated cost recovery is claimed.

44. See 6 Harl, note 38 above, § 51.04 regarding state law restrictions on farm and ranch corporations in North Dakota, Oklahoma, Minnesota, South Dakota, Missouri, Iowa, Nebraska, Wisconsin, Texas, West Virginia and South Carolina.
45. See 13 Harl, note 38 above, § 123.02 regarding state restrictions on foreign ownership of agricultural land.
46. See House of Representatives 94-1380, 94th Congress, 2nd Session, p. 22.
47. The major statutory change made to ease the federal estate tax burden on "small" estates was to provide for annual increases in the level of the unified estate and gift tax credit through 1987. See Internal Revenue Code §§ 2010(b) and 2505(b).
48. See Internal Revenue Code § 2032A.
49. Internal Revenue Code § 6166.
50. See 5 Harl, note 38 above, §§ 41.02 and 41.07(3).