# THE EFFECTS OF THE FEDERAL ESTATE TAX ON NONINDUSTRIAL PRIVATE LANDOWNERS*

Tamara Cushing, Steve Bullard, John Greene, and Ted Beauvais

ABSTRACT. The federal estate tax is designed to tax the accumulation and transfer of wealth. Between 1987 and 1997, the estate tax was as high as 55% of assets above $600,000. Timber and land values have increased significantly in many areas of the U.S. in recent years, and in some circumstances heirs liquidate timber, or sell or develop portions of inherited timber and agricultural lands to pay federal estate taxes. To better understand how the estate tax is affecting timberland owners, a survey was conducted of members of the Mississippi Forestry Association in 1998. Survey questions involved estate values, and estate tax liabilities that were incurred between 1987 and 1997. Respondents were asked if it was necessary to harvest timber, or to sell land to pay federal estate taxes. Responses were obtained from 1,365 people (a 65% response rate), and results indicate that the federal estate tax was a contributor to the conversion of forest and agricultural lands to other uses during this period. One hundred eighty-one of the 1,365 respondents were involved in an estate between 1987 and 1997. Forty-seven percent of the estates exceeded the $600,000 exemption; twelve percent of the estates exceeded $3 million and were taxed at the highest marginal rate. Thirty-five percent of the estates paid federal estate taxes. Approximately seven percent responded that timber was harvested or land was sold to pay federal estate taxes.

KEY WORDS. Estate, Taxes, Nonindustrial Landowners

## INTRODUCTION

There has been a lot of discussion about whether the federal estate tax has an impact on nonindustrial private landowners. Many case studies have been conducted showing the potential impact of the estate tax on a hypothetical landowner. Mississippi State University and the USDA Forest Service collaborated on a study to determine the current and potential impacts of the federal estate tax on nonindustrial private forest and agricultural lands. This study focused on whether the estate tax contributes to land-use conversion in the United States.

From 1987 to 1997 an estate could pass $600,000 tax-free through the use of the unified credit. During this time, there was no indexing for inflation. There are two different viewpoints on whether estate taxes are a problem. Advocates of the estate tax cite figures from the Internal Revenue Service that show less than 2% of adult deaths result in a taxable estate. Opponents of the estate tax point to the number of small businesses that fold each year because of the estate tax. This study was designed to evaluate the effects of the federal estate tax on forest and agricultural lands from 1987 to 1997.

* Approved as publication number FO105-1198 of the Forest and Wildlife Research Center at Mississippi State University.

## METHODS

The survey instrument was developed in the spring of 1998 with input from the USDA Forest Service, the Mississippi State University Social Science Research Center and faculty at Mississippi State University. A pilot test of the members of the Mississippi Forestry Association was conducted. The total design method (Dillman 1978) was used in all phases of survey design and implementation. The instrument contained fourteen questions focusing on the amount of the taxable estate and the methods used to pay the federal estate tax.

Surveys were mailed to 2129 members of the Mississippi Forestry Association who were classed as "individuals". A cover letter stated that the survey was confidential. Follow-up surveys were mailed in late July and mid-August. All surveys were individually coded to maintain confidentiality. Each landowner's name was cross-referenced to a code corresponding to the organization and the landowner.

Responses were entered into a spreadsheet by the number coded on the questionnaire. Responses were grouped by the answer to question number five: "*What was the value of the taxable estate?*" Descriptive statistics were calculated on the responses.

To determine if non-respondents differed from respondents, a survey of non-respondents is being conducted. A sample of members who did not respond will be contacted by phone, and asked a sample of the questions from the questionnaire.

## RESULTS AND DISCUSSION

A response rate of 65% resulted from the 2129 questionnaires that were sent to individual members of the Mississippi Forestry Association. Of the people who responded, 14% had been involved in the estate of a nonindustrial private landowner during the period of 1987-1997. Respondents that had not been involved in an estate were instructed to return the survey but not to fill out the remainder of the questionnaire. The respondent's relationship to the decedent ranged from spouse or child to the decedent's accountant, lawyer or forester.

**Value of the taxable estate.** Respondents who had been involved in an estate were asked to indicate the value of the taxable estate by choosing from ranges that corresponded to the tax brackets for the federal estate tax. Fifty-three percent of the responses (100 responses) indicated a taxable estate value less than $600,000. Because the estate had a value of less than $600,000, no federal estate tax was due. Twelve percent (23) of the respondents reported a taxable estate in excess of $3,000,000. This was the highest tax bracket (55%) for the federal estate tax during this period. The average of the responses indicates a taxable estate of close to $750,000. Figure 1 shows the number of estates in each tax bracket.

**Amount of tax paid.** Respondents were asked to indicate the amount of tax paid on the estate by choosing from ranges that corresponded to the tax brackets for the federal estate tax. Of 181 responses to this question, 35% (63 respondents) paid tax. The amount of tax paid ranged from one

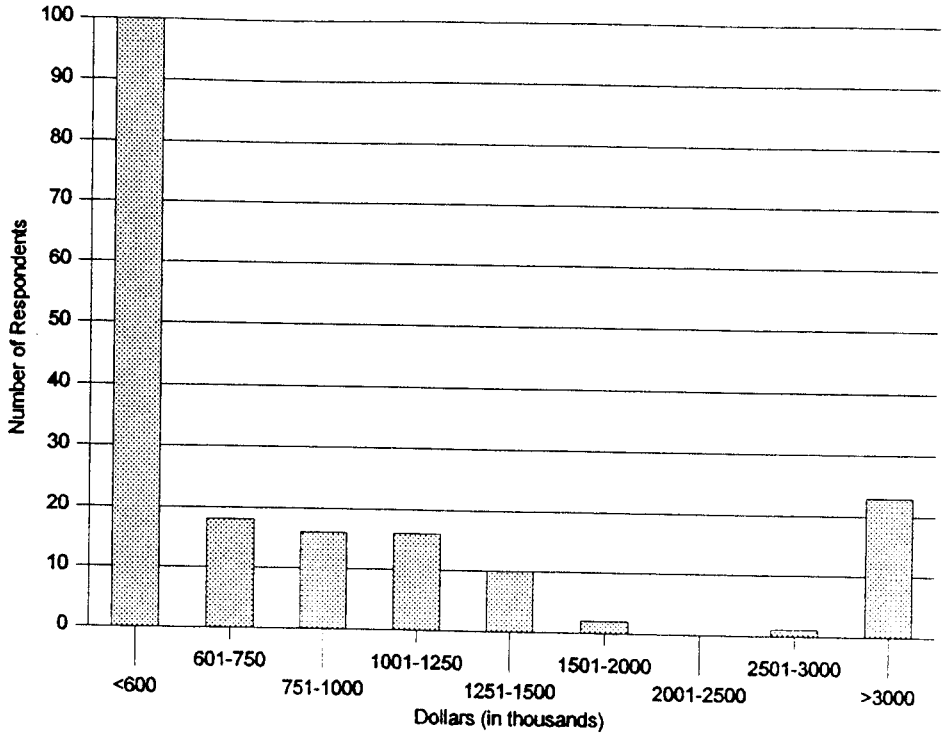


**Figure 1**. Value of the taxable estate.

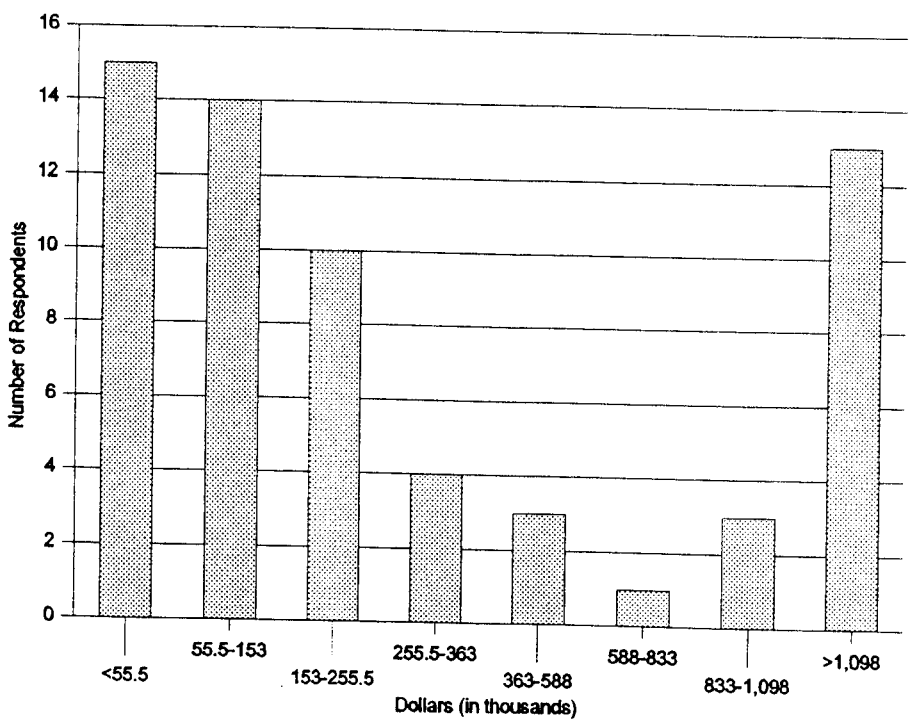


**Figure 2.** The amount of federal estate tax paid.

dollar to over $1,098,000. Figure 2 shows the number of respondents paying tax in each tax bracket. A total of 118 estates reported paying no tax. Eighteen of those estates had a taxable value of over $600,000. Of the 12% that indicated a taxable estate in excess of $3,000,000, only half paid taxes in that bracket. No explanation was provided as to how the estate reduced or avoided taxation.

**Method of payment.** Respondents who indicated that an estate tax was paid were next asked how taxes were paid. The questionnaire described five situations and the respondent was to indicate the appropriate statement(s). Of the 63 estates that paid taxes, 71% used assets other than land or timber to pay the tax. Some respondents commented that insurance proceeds or loans were used instead of harvesting timber. Fourteen percent responded that timber was harvested to pay the tax. Another 4% sold land to pay the estate tax. There were cases where the estate had used other assets and harvested timber. These situations do not necessarily indicate that the timber had to be harvested because no other assets existed, just that timber was harvested and the proceeds were used to pay the tax.

**Number of acres sold or harvested.** Respondents who indicated that timber was harvested or land was sold to pay the tax were asked to report the number of acres that were affected. Of the nine respondents who indicated that timber was harvested, five reported that timber was clearcut. The total acreage of clearcuts for the five respondents was 1,315 acres. Another four respondents replied that 1,404 acres were thinned. Three respondents indicated that land was sold to pay the tax. The total amount sold was 270 acres. A total of 223,266 acres were reported for all respondents.

**Use of professional estate planning services.** The final question asked whether the decedent had used professional estate planning services. Of the 192 responses to this question, 50% had not used professional estate planning services. Six percent (13) did not know if planning had been done. Many respondents commented that some providers of the estate planning services had either given bad advice or over-charged the client.

## THE NEXT STEPS

The information generated with this pilot study will be used to refine the survey instrument so that it may be used in a national study. The national survey will be conducted with a sample of members of the National Woodland Owners Association, American Tree Farm System and a sample of farmers and ranchers throughout the United States.

## CONCLUSION

Estate taxation is an area of concern for landowners and foresters throughout the United States. Forty-seven percent of the Mississippi Forestry Association with involvement in an estate reported estate values over the $600,000 exemption in effect from 1987 to 1997. Sixteen percent of the respondents that paid tax sold land or harvested timber. Many of the estates in our survey had not had professional estate planning. Landowners should be encouraged to have their property appraised on a periodic basis. Those landowners who are approaching the exemption amount should be

encouraged to seek professional planning help.

## LITERATURE CITED

DILLMAN, D. 1978. *Mail and Telephone Surveys: The Total Design Method.* New York: John Wiley & Sons.

## ABOUT THE AUTHORS

Tamara Cushing is a graduate research assistant with the Forest and Wildlife Research Center, College of Forest Resources, Mississippi State University, Mississippi State, MS 39762.

Steve Bullard is professor of forest economics with the Forest and Wildlife Research Center, College of Forest Resources, Mississippi State University, Mississippi State, MS 39762.

John Greene is a research economist with the Forest Resource Law and Economics Research Unit, USDA Forest Service, Southern Research Station, New Orleans, LA 70113.

Ted Beauvais is a natural resources planning specialist in cooperative forestry with the USDA Forest Service, Washington, D.C., 20090-6090.