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AN ANALYSIS OF FARM LAND USE CHANGES RELATED
TO INHERITANCE TAXES, ESTATE PLANNING, AND SALE FOR
RETIREMENT IN SELECTED UTAH COUNTIES DURING 1971-1975

by

Randall Nolan Parker

A thesis submitted in partial fulfillment
of the requirements for the degree
of
MASTER OF SCIENCE
in
Agricultural Economics

Approved:

Utah State University

Logan, Utah

1978

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Randall Nolan Parker

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ABSTRACT

An Analysis of Farm Land Use Changes Related to
Inheritance Taxes, Estate Planning, and Sale
for Retirement in Selected Utah Counties
during 1971-1975

by

Randall Nolan Parker, Master of Science
Utah State University, 1978

Major Professor: Dr. Rondo A. Christensen
Department: Agricultural Economics

Because of increasing rural land values, potential estate problems have been created for farm owners. This study was conducted to analyze land use changes when the farm owner dies. Land use changes and factors related to use change for estates subjected to probate court during 1971-1975, in the selected Utah counties, are described in this thesis.

County records were searched for information pertaining to farm estates probated in six Utah counties. Individuals handling the affairs of the estates were contacted by mail. Questionnaires returned were used in the analysis and are the basis for the conclusions of this study.

General conclusions of the study were:

1. Land transferred from agricultural to non-agricultural use most frequently when land was sold by the owner prior to death. Transfer of farm land out of agriculture occurred least often when the farm owner utilized estate planning.

2. Regression analysis of variance was used to determine effects of related factors on disposition of farm land use after the owners death. Purchaser and method of land management were determined to significantly influence estate land use.

3. The marital deduction received considerable attention in the new Federal Estate tax law. Of the study estates which paid death taxes; if the new law had been in effect and each estate had a survivor, the total death tax burden would have been lower.

(100 pages)

INTRODUCTION

The death tax's basic purpose when originated in 1942, was for redistribution of wealth and state and federal revenue collection. Heirs to the decedent's estate were considered able to pay the tax liability because of the inheritance nature of receiving property. During the first 34 years of death taxation, the only major change was addition of the marital deduction. The marital deduction was added in 1948, but did not guarantee its use to the surviving spouse. Farm widows were required to prove they had contributed to the estate, financially or in working time. This burden was not generally required of male owners. An unqualified exemption was allowed of \$60,000 for any estate probated. This was not altered during the initial 34 years of death taxation.

Rural land values have increased 188 percent during the last ten years in the State of Utah and many farms are made up of illiquid assets. Farms generally consist of land, buildings, and equipment which are hard to liquidate. If a crisis occurs, such as a death in the estate ownership, a sale may be needed.

Estate taxes may be one of the factors contributing to a transfer of farmland to non-agricultural use. If a farm owner dies and the estate needs cash to handle incurred

debts and probate settlement, many times property sales are required. Estate tax law requires payment of the liability in full within nine months, unless arrangements for an extension are made. Often in view of this time constraint, sellers receive less than the market price in forced sale.

This study was conducted to analyze differences in land use changes when land is subjected to probate proceedings, compared with when estate planning is used or land is sold by the owner prior to death. Determine the relationship between land use change and method of estate management, heirs, county, death tax liability, reason for sale, and how the tax was paid.

The Estate Tax Reform Act of 1976, increased the deductions available in settlement of the estate. The survivor in an estate is allowed a deduction of \$250,000 or half the total value without proving contribution. The reform allowed farm estates to pay the liability over 15 years if a hardship was incurred. These provisions will be analyzed to determine whether they may lessen the transfer of farmland to other use.

OBJECTIVES

The objectives of the study were:

1. To describe land use changes for the selected Utah counties for property probated, subjected to estate planning, or sold by the owner prior to death.

2. To ascertain the relationship between land use changes and alternative methods of estate management, number of heirs, method of transfer, county in which probated, reason for land sale, inheritance tax obligation, and how the tax was paid.

3. Analyze the Estate Tax Reform Act and effect this reform would have on the study estates.

LITERATURE REVIEW

The literature reviewed was useful in the organization of the research objectives and helped in the development of the mail questionnaire.

Snow (1975) researched land-use change in rural Utah counties. The objectives of the study were: The characteristics of Utah lands being transferred land-use and improvements on the land. What land-use changes have recently taken place are anticipated in the future, the improvements added, and improvements planned in the future. The motives of buyers for purchasing rural land, occupations, residence and age. The effect of location and land-use on land prices.

Information on land transfers was obtained from the Utah State Tax Commission. A 30 percent random sample of the transfers for each county was taken and the grantees were surveyed by mail questionnaire. The findings of the study indicated that increasing land prices and persons investing in rural land for non-agricultural purposes are encouraging land-use change.

The conclusions of the study were:

1. Land-use at the time of the transaction was most frequently agricultural. Larger parcels were found to be vacant or idle while lot-sized parcels were non-agricultural.

2. Following the transaction there was a tendency on the part of buyers to change agricultural and vacant or idle to a different land-use.

3. Buyer characteristics such as annual income, buyer age and residence varied among the regions of the state.

4. About 50 percent of the total dollars spent for land parcels included in the sample went for residential land. Land located near city limits, improved or unimproved, averaged the highest price.

Kent (1974) directed his research toward two main topics, the federal estate tax laws and states death tax laws. He indicated that the federal estate tax was adopted for two purposes: First, to raise revenue for the operation of government, and second, to redistribute wealth by reducing the amount passed in intergenerational transfer. The federal tax is an estate tax because it is imposed upon the privilege of transferring property. Under federal law it is the responsibility of the estate not the

beneficiary for payment of the tax. The federal law was declared constitutional by the Supreme Court in the case of New York Trust Company versus Eisner, 1920. The basis for the decision was that it is not a direct tax, but a privilege tax. The first step in levying the tax is determining what constitutes the gross estate. The following are items included in the gross estate:

1. Property owned by the decedent.
2. Retained interest.
3. Transfers at death.
4. Revocable transfers.
5. Annuities.
6. Joint interest.
7. Powers of appointment.
8. Proceeds from life insurance payable to the estate
9. Gifts in contemplation of death.

When figuring the adjusted gross estate (Taxable estate) there are deductions and exemptions available to the estate. The law allows the following deductions from the gross estate:

1. Administrative and funeral expenses.
2. Claims against the estate.
3. The marital deduction.
4. Charitable contributions.
5. An exemption (which at the time was \$60,000).

With respect to an estate which was taxed earlier when one spouse died, the government allows a credit. The credit allowed depends on the time between deaths of the individuals. If the second spouse died less than two years after the date of the first spouses death, then the estate is given 100 percent exemption. As the period between deaths lengthens, the credit lessens until at 10 years there is no credit. Payment of the tax is the responsibility of the executor or administrator, but if none is named then it is the individual in possession of the property who becomes liable. In most cases the total estate tax is due nine months after date of death, but extensions are available. In theory, the estate tax would seem to be equitable under the "ability to pay" principle because the tax is levied on windfall income not earned by the recipient.

The state death tax is different throughout the states. Some utilize the estate tax, while most impose an inheritance tax. The estate tax is imposed on the right to transfer an estate. Utah's law follows this outline. The inheritance tax levied by most states is felt to be more desirable, because it taxes in varying amounts depending on the relationship between decedent and recipient.

Larsen (1976) defined Utah's death tax as an estate tax rather than the terminology used calling it an inheritance tax. The reason being that Utah computes and levies

its tax according to the decedent's gross estate. Under Utah law an estate may consist mostly of life insurance and go completely untouched by Utah's tax, but another estate of comparable value made up of farmland will face a significant estate tax burden.

The marital deduction was not provided for under Utah law. This fact made the death tax in Utah one of the most oppressive in the United States. Property held in joint tenancy by the decedent with a survivor, or one-half of the estate not to exceed \$40,000, was excluded from the gross estate. The Utah inheritance tax allowed for an unqualified \$60,000 exemption. The tax was a percentage of the taxable estate. The first \$35,000 was taxed at 5 percent. The next \$35,000 to \$85,000 was taxed at 8 percent and the remainder over \$85,000 at 10 percent.

The federal estate tax is much like Utah's, first the gross estate is computed by summing all of the decedent's assets at his death, including, jointly held property, life insurance and general powers of appointment (life insurance and general powers of appointment are exempt under Utah law). The federal law allowed for an unqualified \$60,000 exemption, along with appropriate credits, marital deductions and other expenses at death. When the taxable estate was determined, the tax due was computed on a rising scale from 3 percent to 77 percent on taxable estates ranging from \$5,000 to over \$10,000,000.

The estate tax laws in Utah were changed in 1976. Three changes are significant to farm estates. These changes include:

1. Marital deductions are allowed for one-half of the estates value, if the estate does not exceed \$500,000.

2. The amount of gifts allowed tax-free has been raised from \$30,000 to \$100,000 lifetime exemption.

3. The new valuation system, the greenbelt valuation, is particularly significant to agriculture. Where the estate is principally a farm, it shall be valued as such and not as fair market value.

Hady (1963) initiated one of the first impact studies on federal and state death tax's effect on farmland. The study was directed at farm transfers within families from one generation to the next. Using 1961 data, the research determined death taxes were not a major factor in raising government revenues. Proficient farms are the base for the study, and the farm is considered such if it provides adequate earnings to support a family.

The study concludes, death taxes in the United States are not a major obstacle to maintaining family-sized farms intact. When one owner dies, leaving the estate to a survivor, little problem is created because half of the estate transfers tax-free. A problem arises when the survivor dies and no longer can the estate utilize the transfer of half of the estate. This creates a problem of maintaining

the farm intact because of a greater tax burden. Estate planning and legal services may help considerably in lessening the tax burden at death.

O'Byrne and Timmons (1959) personally interviewed 76 Iowa farm owners to find out whether death taxes require more cash than the estate holds. The study of the asset position verified there was a lack of liliquidity. The interviewer asked the farmers if they were to die on the day interviewed, would they have sufficient liquid assets to pay estate settlement costs and death taxes.

The results of the study revealed 91 percent of the farms would not have had sufficient liquid assets to pay the tax. With liquid assets held in joint tenancy, and life insurance payable to the survivor, still half of the farms would not have had the required cash. In 12 percent of the cases surveyed, it would have been necessary to sell farm land for cash. About 40 percent of the estates had outstanding debts, and generally those lacking liquidity were the ones with outstanding debts.

Woods (1973) states, a major reason for increasing revenues from federal estate taxes is there has been a substantial increase in the number of estates probated over the past 30 years. This is related to the increasing number of older persons in the U.S. population and growing personal wealth. An estate holder may be able to transfer by way

of gifts \$3,000 or \$6,000 for a man and wife, each year without incurring federal gift tax liability. A marital deduction is allowed usually for one-half of the estate for the surviving spouse.

Farm values have been increasing substantially since 1961, more than doubling between 1961 and 1972. If a typical Corn Belt hog-beef farm increased at this rate since the Hady study, the tax would have increased from 1.8 percent of the farm capital in 1961, to approximately 10 percent in 1972 due to the graduated tax schedule.

Farm estates usually have a higher proportion of fixed or illiquid assets than do other types of U.S. businesses. In 1970, nearly 78 percent of the total value of U.S. farm assets was real estate and equipment, items not easily liquidated in short periods of time without having disrupting effects on the farm business. The federal estate tax system recognizes this liquidity problem and allows 10 years, at low interest rates, for payment, but most states are more adamant on early collection. This study indicates that estate and inheritance taxes do create a problem for maintaining the farm business intact and proposes a potentially more serious problem in coming years.

Woods, Guither, and Kyle (1975) observed that inflation, rising prices and improved technology have pushed up

values of farm property. Farm real estate values were eleven times higher in 1975 than in 1940, and average farm size has doubled. Medium-sized farm properties that would have escaped death taxes some years ago would today incur major tax liabilities. The rapid appreciation of farm assets has led to high capital gains tax liability if the owner sells. Using a price inflator, the \$60,000 exemption established in 1942 would need to be approximately \$200,000 in 1975 to exempt the same property.

Tax revenues from the death tax are examined in this study because of an increase in estates probated. Growing estate values and higher personal wealth created the increase. With death taxation occurring only once each generation, many legal, economic, and social problems arise. The death tax was regarded as a means to prevent excessive concentration of wealth, and for wealth redistribution. Estate and inheritance taxes have been justified because:

1. Inheritance is an indication of ability to pay.
2. Inheritance represents unearned windfall income to the heirs.
3. They serve to equalize opportunity, as past unequal holdings of wealth are partially corrected.
4. They are relatively easy to assess and collect, moreover, they can reach incomes and assets that may have escaped taxation during the owners lifetime.

The tax creates a liability and financial obligation for the heirs, although technically the death tax is levied on the estate. In the farm case, the heirs must draw on other sources, including sale of land or indebtedness to pay the tax. Death taxes may have a larger potential impact upon farm estates than non-farm because more farms have single owners or partnerships.

Five problems were defined as confronting the farm estate at the owners death (Senate Joint Economic Committee, 1975). The problems stated in the report were:

1. The outdated \$60,000 exemption should be inflated to be in line with present land values, not values existing in 1942. Land owners have realized major inflation patterns, especially during the past 10 years.

2. When dealing with a farm estate it generally has only one asset, having very little liquidity and varying amounts of debt. Due to the lack of liquidity, there are only two methods available for obtaining funds to pay the death tax. One, borrow the necessary cash, or two, sell part or all of the farm asset.

3. In dealing with the farm economy, the number of farmers does not determine profits or loses. A better economic indicator is number of acres. The business sector, therefore, has no incentive to protect the number of farmers, and government all too often follows businesses' example.

4. When the husband dies, half of the estate is passed to the wife tax-free, the other half is taxed. At the death of the surviving spouse the whole estate is taxed which submits half of the estate to double taxation.

5. A problem exists unrelated to the tax, how to satisfy the other heirs who do not want to farm. Added burden is placed on the heir wishing to continue farming besides the death tax. He is compelled to borrow to pay the heirs.

Harris (1957) states that the primary consideration of family estate planning is the impact of taxes. There is an utmost need to minimize intergenerational transfer costs. Proper estate planning often can spell the difference between continuation of the estate after the owners death and property liquidation to meet taxes. The situation of most farmers operating as sole proprietor presents a problem. Generally they don't plan and the result often is liquidation after death.

There are no solutions that can be applied in all cases, as many ways of planning exist as do estates. Five basic approaches are utilized in most planning.

The first possible alternative is insurance planning, which emphasizes the availability of liquid assets. The absence of liquid assets may mean liquidation of the farm estate. Many states including Utah, do not tax proceeds from insurance programs with the survivor named beneficiary.

Second is the use of gifts. The decedent had a life-time gift tax exemption of \$30,000, in addition he may give \$3,000 to each person in each calendar year. These values double in the case of married person's estates. The specific amounts of gifts are subtracted from the final taxable estate, lowering the amount of tax liability.

Third, the marital deduction, which directly passes a portion of the estate to the survivor. In order to obtain a marital deduction, the executor must establish:

1. That the decedent was survived by his spouse.
2. That a property interest passed from the decedent to such a spouse.
3. That said interest is a deductible interest.
4. Establish the value of such interest.
5. Establish the value of the adjusted gross estate.

The maximum amount allowable as a marital deduction is 50 percent of the adjusted gross estate.

Fourth, a trust may be utilized. Trusts create a division of title, with legal title in one person and equitable interest in another. A trust exists when full legal title is in the trustees name and full equitable title is in the beneficiaries. The customary methods of establishing a trust are:

1. An inter vivos transfer to a trustee under a declaration of trust.
2. A transfer by will to a named trustee.

3. The exercise by a donee of a power of appointment, to create a trust. This is just another method of accomplishing the first two. The main motive for creating a trust is to provide for the beneficiary or beneficiaries.

Fifth, the powers of appointment, which is defined as the decedents right to designate another person the granting powers to prescribe the persons who shall receive property. The reason for using powers of appointment is for the decedent to have someone trusted run his estate.

Looney (1976) describes possible problems which face the farm estate upon owners death. Then he points out alternatives available for least cost settlement. When a farm owner dies intestate he leaves the distribution of his property to be governed by state law through probate court. All heirs are treated equally in the distribution of property, even if one was more closely tied to the land. Probate court sees that all taxes owed are paid to the proper governmental unit. When a decedent in his will names someone to act as supervisor in his estate, the person appointed is the executor. If no appointment is made by will the court appoints the individual, referred to as administrator. Both carry the same duties. Because of the legal complexities, it is wise to secure the services of an attorney.

Federal and state death taxes are the next problem encountered during settlement. Imposition of the federal

tax causes the greatest hardship since its much larger. The death tax was levied on property valued at its fair market value. Due to inflation many estates not taxable in 1942, are subject to considerable tax today. States either levy an inheritance or estate tax depending on the method of taxing. Utah imposes an inheritance tax.

When planning, the way you hold title is important. Tenancy-in-common is where two persons have undivided interest, allowing each to dispense his half as desired. Upon death no right of survivorship exists. Joint tenancy is similar, except it does allow the right of survivorship. The main advantage to co-ownership is avoidance of probate proceeding, since the property ownership transfers automatically to survivors.

The will is the heart of the estate plan because it allows the decedent a legal means to carry out his desired objectives. The first purpose of a will is toward application of state intestate succession laws. The will may be used to establish a trust for the benefit of family members. Personal representatives to oversee the settlement are designated. If an administrator is appointed by the court they are under complete control of the court.

Trusts are established easily. The decedent conveys legal title of the property to a trustee who manages the property for benefit of designated individuals. Two general types of trusts exist. The testamentary trust is created

in the will and is effective upon death. The inter vivos trust takes effect during the lifetime of the creator.

Gifts and life insurance are also alternatives in planning. The use of gifts allows the farmer up to \$3,000 per year for each person, to be given tax-free. This ultimately reduces the taxable estate and death tax upon passing. Life insurance programs provide for liquid assets to pay liabilities at death. This cash, if properly planned, is sufficient to avoid forced land sale.

Boehlje and Eisgruber (1972) studied the interrelationship between creation of the estate, and transfer of the estate between generations. Up to the time of the study, the concepts of creation and transfer of estates were readily accepted, with little empirical backing. In analysis of this problem, the problem is to determine the optimal decision function: $X_k = (U, I_k)$, where U is the level of utility and I_k is the information vector for the k period. In the analysis period a problem created is the question, whether or not the owner will die. For the study a probability is used. Determined from the owners present age.

In applying this model there are many alternative methods of creating the farm estate and later its intergenerational transfer. Boehlje and Eisgruber used a modified Monte Carlo procedure to find the optimal decision vector. By using probabilities of a farm owners death and other factors represented by the particular estate,

this analysis was able to predict the amount of tax due, and the value of the estate transferred during years 1 through n. Since death is recognized as an uncertain event, if death does not occur, then there needs to be a continuing review of transfer plans by specialists. The study concluded that outside investment is a good management strategy to facilitate implementation of transfer plans. They provide liquid assets to pay death taxes and compensate nonfarm heirs who wish to have cash. It became evident that available liquid assets can reduce the problem of farm splitting or liquidation.

METHODS OF PROCEDURE

Procedures to identify land subjected to death taxation started by consulting the Utah State Tax Commission. They were unable to provide the requested information because of the federal privacy laws. The Commission suggested investigating public records of probate proceedings located in county court houses. The years 1971 through 1975 were chosen for the study because addresses on estate records would become further outdated for estates probated in earlier years. The study years concluded with 1975, since estates probated after 1975 had not reached settlement. The counties were selected on two criteria. First, the number of farms located within the county, and second, the dollar amount of agricultural output. Accessibility of probate records was also a determinant due to the time constraint in procuring needed information. Counties included in the study were: Box Elder, Cache, Davis, Weber, Utah and Salt Lake.

A preliminary questionnaire was developed to obtain the information available in probate court records. The questions contained in the preliminary questionnaire pertained to year probated, names of heirs, execution of the estate, address of executor, amount of tax liability and acreage

probated in the estate. An introductory letter was sent to the county clerks of the study counties to introduce the researcher, explain the work being conducted and describe the information required (see Appendix A). County clerks allowed pertinent information to be copied from available probate records in the study counties, 291 preliminary questionnaires were completed. One Weber County decedent left his entire estate to the Church of Jesus Christ of Latter-day Saints and six others contained incomplete information, reducing the study population to 284. Persons named as executor, executrix, administrator, administratrix and survivor were surveyed by mail questionnaire. Six estates showed no person named in any of the above five classifications so an heir to the estate was chosen to receive the survey.

A mail questionnaire was prepared, tested for readability and continuity, then revised. The questions were formulated to obtain information about land probated, methods of estate planning, and sale prior to the owners death for retirement income. Specific questions pertained to land-use, tax liability, buyer characteristics, method of estate planning and why the land was sold. The questionnaire contained identifying information to identify for the respondent the parcel of land and the decedent (see Appendix A).

A cover letter was formulated to be mailed with the mail questionnaire to explain who was conducting the study and its purpose. The letter was dated and signed and then enclosed along with the questionnaire and a self-addressed return envelope.

The responses were recorded as they returned. Frequently letters were returned because of a wrong address. The address was checked with probate records to see if it had been typed correctly. If it was correct then it was assumed that the person had moved. A second heir was then selected from those listed in the decedent's estate. Persons not responding to the first mailing were sent a second questionnaire, return envelope and cover letter with the heading "Reminder Letter." The second mailing helped increase the total response from the study population.

A coding system was developed for the preliminary questionnaire and the mail questionnaire. Mail questionnaires with sufficient data were recorded, along with necessary preliminary data, on computer processing cards.

Objective One

The computer was used to analyze land-use changes for pertinent land classifications. Total acres in the study were divided into two basic land uses--agricultural land and non-agricultural land. Data for the objective were

taken from all three sections of the questionnaire. The three sections of the questionnaire were separated by method of estate management. Section I was land-use for parcels subjected to probate proceedings before and after probate and settlement. Section II was land-use for land for which the owner employed one or more methods of estate planning. Section III was land-use for parcels before and after sale by the owner prior to death. Land-use was summarized before and after the decedent's death by alternative estate management methods used.

Objective Two

To accomplish objective two the computer was used to analyze variables affecting the use of land. For the analysis all responses were handled in one group since county responses were too few to be significant. A step-wise regression analysis was used with the number of acres lost from agricultural uses as the dependent variable. The independent variables considered in the analysis were: county location, size of estate probated, year probated, executor of the estate, type of estate management, reason for sale, how the tax obligation was met, number of heirs, method of estate planning, amount of death tax obligation and by whom the land was bought. The analysis was initially conducted for 98 questionnaire responses having complete information, then for 108 estates by programming the

computer to properly handle responses with some unknown variables

Objective Three

To accomplish objective three the estates which incurred an inheritance tax burden were indexed to 1977 values to apply to the new tax schedule and deductions. From the survey questionnaire, the amount of tax paid by each estate was used to get a taxable estate value. The unqualified exemption under the old law was \$60,000 for each estate. By adding the taxable estate value to the unqualified exemption, a gross estate value was computed. Debts of the estate and administration costs are subtracted from the gross estate in actual tax computation. These costs to the estate are not available from the mail survey. The assumption was required that these costs incurred would be equal after applying appropriate inflation factors.

Indices were used for values of irrigated, dry land and grazing land. No index was available for the questionnaire category of "other" agricultural land. This index was computed by an average of the other three land indices. Estate values for 1977 were derived by multiplying the percent of the total farmland value in each land class by the appropriate index.

The study estates were analyzed in two ways subject to the surviving spouse status. Since data were not given in the study pertaining to estate survivor, estates were

subjected to analysis for both ways, a surviving spouse and no surviving spouse.

PRESENTATION AND ANALYSIS OF DATA

Characteristics of Estates Subjected to
Probate Court Proceedings

The objective of this section is to describe estates subjected to probate court proceedings for the study counties from 1971 through 1975.¹

The number of estates probated

County probate records were analyzed to find farmland which was subjected² to probate proceedings during 1971-1975. The distribution and number of estates probated over the study period, with the percentage of the total appears in Table 1.

Table 1. Distribution and number of estates probated over the study period

County in which probated	Number of estates probated	Percent of estates probated
Box Elder	30	10.3
Cache	58	20.0
Davis	36	12.4
Weber	44	15.2
Utah	64	22.1
Salt Lake	58	20.0
Total	290	100.0

¹The study counties include: Box Elder, Cache, Davis, Weber, Utah and Salt Lake.

²Estates subjected include all estates whether or not they incurred a tax burden.

Estates probated during the study period totaled 290. The number of estates probated each year showed an almost constant increase, with the exception of 1973, where the number declined by three. The distribution of estates probated is shown in Table 2.

Table 2. Distribution of estates probated

Year probated	Total
1971	48
1972	58
1973	55
1975	61
1975	69

A mail questionnaire was sent to the person charged with execution of the estate. There were five types of executors¹ of estates represented in the study. A small number of estates showed no person named to handle probating. Executors and executrixes² are appointed through a will by the decedent of the estate being probated. When a will is not filed by the decedent, then it is let up to the

¹Executor of the estate is not a legal term but is used in this thesis to describe the person legally representing the estate through probate proceedings.

²Executors are male representatives, and executrixes are female. They have the same responsibilities to the estate.

State of Utah to appoint someone. The most common appointments are administrator and administratrix.¹ The state also makes the appointment in the case of survivorship. The survivor is either the spouse or a child holding property with the decedent.² In six probate cases the records showed no record of a person named to handle the affairs of the estate.

Executors for the estates were appointed by the decedent in a will 56 percent of the time. The State of Utah made appointment in 41 percent of the cases. None was listed 2 percent of the time in the six counties. A decedent naming an executor to handle the estate is able to leave his life estate to those persons he chooses and can disinherit others, but if the state makes appointment all the heirs are entitled to share in the estate (Table 3).

Executors of the estates in the mail survey were representative of the study total. In the mail response 59 percent were appointed by the decedent in a will. The state made appointment in 38 percent. No person named only occurred in 3 percent of the study response (Table 3).

From the total of 290, there were six probate records which had insufficient information to send out mail

¹Administrators are the male representatives, and administratrixes are female. Both have the same responsibilities after appointment.

²In the case of a survivorship the person handling the affairs of the estate was appointed by the court. Wendell Hansen, Weber County Clerk, August 15, 1977.

Table 3. Number of estates, method of execution, for the study total and the mail response, the study counties, Utah, 1971-1975

Execution of estate	Total number of estates	Percent of total estates	Number of estates in response	Percent of estates in response
Administrator	51	17.6	16	14.8
Administratrix	31	10.7	12	11.1
Executor	118	40.7	47	43.5
Executrix	46	15.9	17	15.7
Survivor	38	13.1	13	12.1
None	6	2.0	3	2.8
Total	290	100.0	108	100.0

questionnaires. One Weber County probate case left the entire estate to the Church of Jesus Christ of Latter-day Saints. Since donations left to churches are not taxable this estate was dropped from the study. A total 284 mail questionnaires were sent out, from which 108 were returned with adequate information for analysis in this thesis.

For the 108 estates analyzed, there were 26,341 acres of land probated. Weber County accounted for the most land probated with 30.3 percent of the total. Box Elder and Utah Counties were second and third with 23.4 and 21.3 percent respectively. These three counties represented 75 percent of the land recorded in the study. Davis County had the least amount of the land subjected to probating with only 4.5 percent (Table 4).

Table 4. Usable responses to the mail survey of 284 decedent's estates, acres of land, percent of acres probated, the study counties, Utah, 1971-1975

County	Number of estates	Number of acres probated	Percent of acres probated
Box Elder	13	6,172	23.4
Cache	17	3,330	12.6
Davis	25	1,174	4.5
Weber	18	7,991	30.4
Utah	23	5,613	21.3
Salt Lake	12	2,061	7.8
Total	108	26,341	100.0

The average size of estate was 244 acres (Table 5). Both average size of estate and number of acres probated varied considerably from year to year.

Table 5. Number of acres subjected to probate by year, number of estates, average size, the study counties, Utah, 1971-1975

Year	Number of estates	Average size	Number of acres subjected to probate
1971	18	188	3,377
1972	17	517	8,786
1973	21	231	4,844
1974	26	161	4,198
1975	26	198	5,317
Total	108	244	26,341

Number of heirs

There were 670 legal heirs listed in the 108 estates analyzed. This was an average of 6.2 heirs per estate. Utah County respondents indicated the largest number of heirs per estate. There were 164 heirs named, or an average of 7.13 per estate. Davis County respondents reported 152 heirs or an average of 6.08. Cache County respondents indicated the smallest average number of heirs per estate (Table 6).

Death taxes¹ paid

Over half of the estates subjected to probate reported the payment of death taxes--64 out of 108. In addition 10 estates reported a tax liability, but did not report the amount because of personal reasons. No tax was incurred by the remaining 34 estates (Table 7).

Over the five years of the study for the six counties, a total death tax of \$895,091 was incurred. The largest total tax burden was in Davis County, where \$294,156 was paid. Davis County respondents also indicated the largest number of estates taxed. Estates in the more urban counties--Salt Lake, Davis, Utah, and Weber--paid most of the tax, approximately 90 percent. The rural counties, Cache and Box Elder, accounted for less than 10 percent of the tax and reported the fewest estates taxed.

¹Death taxes included both State Inheritance and Federal Estate taxes.

Table 6. Number of heirs, number of estates, average number of heirs per estate, the study counties Utah, 1971-1975

County	Number of estates	Number of heirs	Average number of heirs
Box Elder	13	85	6.54
Cache	17	82	4.82
Davis	25	152	6.08
Weber	18	122	6.78
Utah	23	164	7.13
Salt Lake	12	65	5.42
Total	108	670	6.20

Table 7. Amount of death taxes, number of estates taxed, average amount of tax per estate taxed, the study counties, Utah, 1971-1975

County	Number of estates	Number of estates taxed ^a	Average amount of tax	Total amount of taxes
Box Elder	13	5	\$7,137	\$35,683
Cache	17	8	4,030	32,243
Davis	25	18	16,342	294,156
Weber	18	10	14,970	149,704
Utah	23	13	8,963	116,523
Salt Lake	12	10	26,677	266,773
Total	108	64	\$13,986	\$895,091

^aTen responses were recorded which did not show death tax information, either because they did not know it or did not want to release the information. Tax data not released, by county occurred as follows: 1 in Box Elder, 3 in Cache, 2 in Davis, 1 in Weber, 2 in Utah and 1 in Salt Lake.

The average death tax for the 64 estates taxes was \$13,986. If the 10 estates that did not report their tax were taxed at the same level, the average death tax for all 108 estates would have been \$9,583 per estate.

The death tax per estate taxes was highest in Salt Lake County--\$26,677 per estate. The other counties average estate tax burden was considerably lower. The smallest average tax liability was reported by Cache County respondents.

Those replying to the questionnaire indicated that selling the decedent's property was the most widely used way of paying the death tax burden. Seventy percent of the liability was paid through liquidation of the decedents land and property. Life insurance policy payments were the second most commonly used method of paying the tax bill. Approximately 16 percent of the total tax was paid from insurance (Table 8).

The category of "other" methods of payment was generally referred to by the respondents as "cash in the estate." Respondents reported that about 11 percent of the tax was paid by this means. Loans were used to pay 2.5 percent of the tax.

Reason for sale

The reason cited most often by the respondents for selling the decedents property was the estate contained

Table 8. Method used to pay the death tax liability, the study counties, Utah, 1971-1975

County	Sale of decedents property	Loans to pay the tax obligation	Life insurance proceeds	Other methods	More than one method
Box Elder	18,483	1,200	\$ 0	16,000	0
Cache	4,752	0	18,000	6,792	0
Davis	259,472	985	9,998	22,201	0
Weber	110,315	0	20,000	19,077	0
Utah	38,078	0	62,000	5,490	8,500
Salt Lake	190,364	20,000	31,020	25,389	0
Total ^a	621,464	22,185	141,018	94,949	8,500
% of total	70.0	2.5	15.9	10.7	.9

^aThe grand total of \$888,116 does not equal the total death taxes paid because some of the respondents did not indicate how they paid the tax.

too many heirs. To satisfy each of the heirs, the land had to be sold by the estates in the mail survey, 2,333 acres or 36.9 percent were sold because of such conflicts. About 20 percent was sold because of need for cash to pay the death tax, 14.3 percent because none of the heirs wanted to farm the land, and 5.0 percent because it was wanted for personal or investment purposes. About a fourth of the land sold was sold because of a combination of two or more reasons (Table 9).

Land purchaser

A total of 7,916 acres of decedent's land was sold after probate. Most of this property was bought by family members or heirs and farmers. This land was kept in farm

Table 9. Reasons for sale of the decedent's land, number of acres sold, the study counties, Utah, 1971-1975

Reason for sale	Number of acres sold	Percent
None of the heirs wanted to farm it	907	14.3
Wanted cash value for personal use and/or investment	312	5.0
Needed cash to pay the death tax	1, 94	18.9
Too many heirs causing estate conflict	2,333	36.9
More than one reason	<u>1,561</u>	<u>24.9</u>
Total	6,317	100.0

use after the ownership transfer. Land purchased by family members or heirs totaled 4,586 acres, and farmers acquired 2,804 acres of land probated. Developers bought 359 acres and other buyers bought 167 acres (Table 10).

Methods of Estate Planning Used

There were four basic types of estate planning used by those replying to the mail survey. The four methods used were: trusts, transfers before death, gifts before death, and insurance policy proceeds. Some used more than one of the available methods.

About 9,000 acres were transferred to heirs through an estate plan. More than one method was used in

Table 10. Land buyer of the decedent's estate, number of acres purchased, the study counties, Utah, 1971-1975

Land buyer	Number of acres purchased	Percentage
Family member or heir	4,586	57.9
Farmer	2,804	35.4
Developer	359	4.6
Other buyers	167	2.1
Total	7,916 ^a	100.0

^aNo reason was given in the questionnaire response for 1,599 acres variance between acres sold in Table 9 and acres by purchaser.

transferring 4,772 acres, or 53 percent. Respondents indicated trusts, transfers before death, and insurance proceeds were used by decedents in estate planning for more than 1,000 acres each. There were only 117 acres reported given away by the owner prior to death (Table 11).

Table 11. Methods of estate planning used, number of estates using each method and acres transferred under each plan, the study counties, Utah, 1971-1975

Method of estate plan	Number of estates	Acres under estate plan
Trust	9	1,195
Transfers before death	9	1,059
Gifts before death	2	117
Insurance policy proceeds	2	1,453
Other methods	6	385
More than one method	8	4,772
Total	36	8,981

The Effect of Alternative Land Transfer¹
Methods on Changes in Land Use

The objective of this section of the thesis is to analyze changes in use of land in estates where the owner died and was probated during the years 1971-1975, for the study estates in Utah, as reported in the mail survey. Persons surveyed were asked to indicate the use or uses of particular parcels of land in decedent's estates. The land of interest was:

1. Land subjected to probate court proceedings after the owner's death.
2. Land for which the decedent utilized some method of estate planning to transfer the land to heirs.
3. Land sold by the owner before his death for retirement income.

The hypothesis of this section of the thesis is that there is a statistically significant difference among the alternative methods of land transfer used by the estates.

Distribution of land transferred
by probate

The use of land at the owner's death for the study counties included 26,037 acres in agricultural use and

¹There are three types of land transfers presented in this study; first, land which is subjected to probate; second, land for which the owner employs estate planning; and third, land which is sold by the owner prior to death for retirement income.

304 non-agricultural use. The average size of estates in the study counties was 244 acres. Nearly all acres reported in Weber and Box Elder Counties were in agricultural use. Weber respondents only reported 4 acres in non-agricultural use. Weber respondents only reported 4 acres in non-agricultural uses and Box Elder respondents showed only 7 acres. Davis County respondents indicated 88 acres of non-agricultural use.

For land transferred by probate, the number of acres in agricultural use decreased from 26,037 at the death of the decedent, to 25,425 acres after probate and settlement (Table 12). This was a decrease of 612 acres, or 2.4 percent. Decreases occurred in use of land for irrigated cropland, non-irrigated cropland, and grazing land. About 44 percent of the decrease was for irrigated cropland.

The bulk of the land which transferred from agricultural use was included in residential use or was left vacant or idle. Residential land increased by 339 acres, which was over half of the land transferred out of farming. Respondents indicated that 208 acres were left vacant or idle after the land was subjected to probate. This land could move back into agricultural use or be used for other non-agricultural purposes.

Land transferred by estate planning

When the decedent used estate planning, the fewest acres of farmland transferred to non-agricultural uses.

Table 12. Changes in use of land probated, 108 estates, the study counties, Utah, 1971-1975

Land use	Number of acres before and after probate and settlement		Change in use during the study period	Percentage change in use of land
	Before	After	Acres	Percent
Agricultural land				
Irrigated cropland	4,992	4,720	-272	-5.5
Non-irrigated cropland	4,995	4,863	-132	-2.6
Grazing land	14,981	14,773	-208	-1.4
Other agricultural land	<u>1,069</u>	<u>1,069</u>	<u>0</u>	<u>0</u>
Total	26,037	25,425	-612	-2.4
Residential land	139	478	339	243.9
Recreational land	50	50	0	0
Industrial land	0	7	7	
Commercial land	25	75	50	200.0
Vacant or idle land	90	298	208	231.1
Other land	<u>0</u>	<u>0</u>	<u>0</u>	0
Total ^a	<u>26,341</u>	<u>26,333</u>		

^aThere is a slight variation in totals due to rounding

Out of the total 108 estates in the study, 36 respondents indicated that the decedent had utilized estate planning. Only 26 acres out of 8,901 acres in the 36 estates transferred to other use. This represented less than one-half of one percent. Within the agricultural classifications, many acres change use, mainly from non-irrigated cropland to irrigated cropland (Table 13).

Land which transferred to non-agricultural use occurred mainly for vacant or idle and commercial land. Each of these categories increased by 12 and 11 acres respectively. Few acres were reported by respondents transferring into residential use.

When trusts, gifts before death, and insurance policy planning were used, no farmland transferred to non-agricultural use. Estate owners which utilized some other type of planning had 14 acres transfer from a total of 384. Respondents utilizing more than one method of estate planning reported only 11 acres transferred (Table 14).

Land transferred by sale prior to death

Respondents reported that 18 estates out of the total 108 study estates had land sold by owner prior to death. The largest transfer of agricultural land occurred for this type of land transfer. Of the 9,908 sold and in agricultural use before sale, only 758 remained in

Table 13. Changes in use of land where the owner utilized estate planning, 36 estates, the study counties, Utah, 1971-1975

Land use	Number of acres before and after land transfer to heirs		Change in use during the study period	Percentage change in use of land
	Before	After	Acres	Percent
Agricultural land				
Irrigated cropland	1,853	3,063	1,210	65.3
Non-irrigated cropland	2,600	1,287	-1,313	-50.5
Grazing land	4,447	4,224	-223	-5.0
Other agricultural land	1	301	300	300.0
Total	8,901	8,875	-26	- .3
Residential land	45	48	3	6.7
Recreational land	0	0	0	0
Industrial land	0	0	0	0
Commercial land	10	21	11	110.0
Vacant or idle land	25	37	12	48.0
Other land	0	0	0	0
Total	8,981	8,981		

Table 14. Changes in the use of land, by type of estate plan used, 36 estates, study counties, Utah, 1971-1975

Land use	Insurance policy		Other		More than one	
	Before transfer	After transfer	Before transfer	After transfer	Before transfer	After transfer
Agricultural land						
Irrigated cropland	113	113	135	135	406	1,606
Non-irrigated cropland	300	300	190	190	1,440	140
Grazing land	1,040	1,040	59	47	2,891	2,680
Other agricultural land	0	0	0	0	0	300
Total	1,453	1,453	384	370	4,737	4,726
Residential land	0	0	0	2	1	1
Recreational land	0	0	0	0	0	0
Industrial land	0	0	0	0	0	0
Commercial land	0	0	1	1	9	20
Vacant or idle land	0	0	0	12	25	25
Other land	0	0	0	0	0	0
Total	1,453	1,453	385	385	4,772	4,772

Table 14. Continued

Land use	Trust		Transfer before death		Gifts before death	
	Before transfer	After transfer	Before transfer	After transfer	Before transfer	After transfer
Agricultural land						
Irrigated cropland	357	370	793	792	49	49
Non-irrigated cropland	548	535	122	122	0	0
Grazing land	288	288	103	103	66	66
Other agricultural land	0	0	0	0	1	1
Total	1,193	1,193	1,018	1,017	116	116
Residential land	2	2	41	42	1	1
Recreational land	0	0	0	0	0	0
Industrial land	0	0	0	0	0	0
Commercial land	0	0	0	0	0	0
Vacant or idle land	0	0	0	0	0	0
Other land	0	0	0	0	0	0
Total	1,195	1,195	1,059	1,059	117	117

agricultural use after sale. Dropping from agricultural use were 9,150 acres, or 92.4 percent (Table 15).

All categories of agricultural land, where respondents reported acres, declined by over 50 percent. The sharpest declines were reported in the grazing land and non-irrigated cropland classifications, with 96 and 94 percent respectively.

The greatest loss in number of acres occurred for grazing land transferring to other use. This resulted from one estate transaction where the owners sold the land and it was later reported as forest land.

In general, all three types of land transfer showed declines in agricultural land. The degree of the decline is important in this study. By running an analysis of variance, it was determined that the difference between methods of transfer was statistically significant, supporting the hypothesis of this thesis. The difference between transfer methods was determined to be statistically significant at greater than the 0.01 level (Appendix B).

Land in agricultural uses transfers to non-agricultural use most readily when the land is sold by the owner prior to death. Land which is subjected to probate, has the second highest loss of farmland reported. Heirs of the decedents using estate planning reported the least farmland loss. These estates made provisions for the property's use,

Table 15. Changes in use of land for land sold prior to owners death, 18 estates, the study counties, Utah, 1971-1975

Land use	Number of acres before and after transfer		Change in use during the study period	Percentage change in use of land
	Before	After	Acres	Percent
Agricultural land				
Irrigated cropland	958	397	-561	-58.6
Non-irrigated cropland	535	35	-500	-93.5
Grazing land	8,415	326	-8,089	-96.1
Other agricultural land	0	0	0	0
Total	<u>9,908</u>	<u>758</u>	<u>-9,150</u>	<u>-92.3</u>
Residential land	0	69	69	
Recreational land	0	1,000	1,000	
Industrial land	0	0	0	
Commercial land	0	81	81	
Vacant and idle land	0	0	0	
Other land	<u>0</u>	<u>8,000</u>	<u>8,000</u>	
Total	<u>9,908</u>	<u>9,908</u>		

or made liquid assets available to the estate for death taxes and other financial needs of the estate.

Death Tax Changes and Implications to Agriculture

Major estate and gift tax changes resulted from the Tax Reform Act passed by Congress on September 16, 1976, and made law by President Ford, effective January 1, 1977. These changes make up the most notable revisions in the tax code since estates of decedents became taxable by law in 1942.

Under prior law, each estate was given an unqualified exemption of \$60,000 to be subtracted from the decedent's adjusted gross estate.¹ The remainder of the estate, after the exemption, was taxed on a graduated schedule. Estates under \$5,000 worth of taxable assets were taxed at 3 percent. For estates with taxable assets over \$10,000,000, the tax rate was 77 percent.

The gift tax, before the Tax Reform Act, was approximately three-fourths the rate of the death tax. Each person owning an estate was allowed a \$30,000 exemption on lifetime gifts. Estate owners are also allowed a \$3,000 yearly exemption for as many individuals as desired. If joint

¹The adjusted gross estate is the gross estate less deductions for debts, funeral and administrative costs.

gifts are made by husband and wife, the gift tax exemptions are both doubled. Those gifts made in excess of the exemption, either lifetime or yearly were subject to gift taxation.

The "unified" credit of the new tax law changes all previous exemptions. Gift and estate taxes are combined into one "unified" rate schedule. The new unified schedule limits the effectiveness of gifts as a tax savings device. Ultimately, either gifts made during the lifetime or property transferred upon owner's death are taxed at the same rate. Any gifts made during the owner's lifetime are taxed at the same rate. Any gifts made during the owner's lifetime are subtracted from the amount of exemption allowed at death. The amount of gift credit is phased in over a five year period. The credit is \$30,000 in 1977, \$34,000 in 1978, \$38,000 in 1979, \$42,500 in 1980 and \$47,000 during 1981 and after.

Gifts in contemplation of death are even more strictly enforced under the new tax law. Any gifts made within three years of death are automatically included in the decedent's gross estate. Prior law presumed contemplation of death during this period, however, heirs could argue "life motives" of the decedent and sometimes get the gift exempted from death taxation.

Under the new law, the exemption allowed the estate will be phased in over a five year period. Under the old

law the survivor was allowed an unqualified exemption of just \$60,000. During the introductory period, the exemptions will be \$120,000 in 1977, \$134,000 in 1978, \$147,000 in 1979, \$161,000 in 1980 and \$175,000 in 1981 and after.

Since the addition of the marital deduction in 1948, it has been one of the valuable tools for reducing the amount of estate taxes. Under terms of the old law, the adjusted gross estate could only be reduced by half in transfer to the surviving spouse. The new law is far more liberal with a marital deduction allowing \$250,000 or 50 percent of the entire estate, whichever is greater. This allows easier transfer to a spouse of small and moderate sized estates.

The gift tax marital deduction under new law was greatly liberalized. Gifts to a spouse before January 1, 1977 were only 50 percent deductible. The new provision allows for no tax for the first \$100,000 of lifetime gifts to a spouse. The full tax is paid on the next \$100,000 worth of gifts and 50 percent deduction is allowed on all amounts over \$300,000. A catch is added in this provision, the estate tax marital deduction is decreased by half of the amount transferred by use of the gift tax marital deduction. Assume you give your spouse \$60,000 as a gift, the \$250,000 marital deduction would be reduced by \$30,000 leaving \$220,000. Thus, either way the owner tries to convey

property, it will be subject to either estate or gift taxation. The usefulness of the gift tax marital deduction shows up for property which is likely to experience inflated values in the future.¹

Farm widows felt the greatest injustice under the old law. This was with respect to treatment of joint tenancy property with rights of survivorship. Jointly held property was included in the estate of the first to die for death taxation, unless the survivor could prove contribution toward the property in money or labor. It was relatively easy for the man to prove contribution, but the farm widow had a much harder time providing proof. Joint tenancies created after December 31, 1977, for husband and wife, subject to the new law provisions will only include one half of the estate for death tax purposes. This also takes the burden of proof off the survivor for providing consideration in the estate. The new law allows this exemption regardless of which owner in joint tenancy provided the consideration. To establish joint tenancy the property must be held by both spouses, created by one or the other and handled legally as a taxable gift. This new provision doesn't become effective automatically for all estates held jointly so it may be necessary to recreate joint tenancy.

¹Doan Agricultural Service, Inc., New Estate and Gift Tax Law, Doan's Agricultural Report 39(50) (1976):7.

Since joint tenancy creation is a complicated procedure, it may be necessary to consult an attorney.

Estate tax payment was due nine months after the owners death under the old law. An extension could be allowed of up to 10 years if the estate could establish "undue hardship." Undue hardship was difficult to show, usually the executor had to prove that estate assets would have to be sold at a revenue loss or other funds raised to pay the tax. The new law replaces "undue hardship" with "reasonable cause." Reasonable cause provides for estates where a large portion of the assets are illiquid, as in the case of farms. If 35 percent of the gross estate or 50 percent of the taxable estate are illiquid assets, the executor may elect to pay the tax liability over 10 years. The next provision is of particular interest to the farm estate. If over 65 percent of the decedents adjusted gross estate is considered illiquid assets the executor may defer tax payments for the first five years, then starting with the sixth year, pay ten annual payments. This allows a total of 15 years to pay off the tax obligation. The only payments required during the first five years is the interest premium. For the first \$1,000,000 worth of taxable assets the estate receives a special tax rate of 4 percent. The regular rate of interest (currently 7 percent) then applies to taxes on assets in excess of \$1,000,000. The executor cannot receive both

extensions simultaneously to equal 25 years, and if one-third or more of the assets are sold all deferred payments become due.

The executor in the case of farm estates should utilize the extension if the estate qualifies, since the bulk of the assets are land which is considered an illiquid asset. This does not, however, dispense with the need for liquid assets upon death since settlement expenses and probate must be paid.

The basis¹ for inherited property subject to prior law was the fair market value on the date of the decedent's death. This was referred to as the "stepped-up" basis. Property acquired under terms of the new law will have a "carry over" basis when inherited. This means it will be treated like a gift for capital gains. Property will receive a stepped-up basis up to December 31, 1976. Property received after December 31, 1976 will be treated and taxed for capital gains. The executor must use the following formula to determine the step-up basis and cannot use an appraisal even if it occurred on December 31, 1976. The value at death is determined by an appraisal after the estate owners death, not prior to death. The formula used is:

¹Basis is the purchase price plus improvements minus depreciation on improvements.

Days owned
prior to
1/1/77
Total days
owned

(Value at death--decedents actual
basis--depreciation, amortization
or depletion for days owned.)

x

(Depreciation, amortization
or depletion for days owned = Stepped-up basis
up to 1/1/77)

Assume an owner died on January 1, 1978 owning a farm valued at \$200,000 after purchasing it on January 1, 1975 for \$100,000. During this period depreciation on buildings and machinery was \$750 per year. The basis of the property transferred would be calculated as follows:

$$\frac{730}{1095} \times (\$200,000 - \$100,000 - \$2,250) + \$1,500 = \underline{\$66,667}$$

If the estate has a fair market value of \$60,000 or more, then the basis will be increased to at least the \$50,000 minimum it cannot be under.¹ In the above example the stepped-up basis is greater than \$60,000, so the minimum is disregarded.

This provision of the new law has two substantial ramifications effecting estate planning in the future for farmers. Previously, the farm estate could be passed to heirs upon death and escape considerable capital gains to heirs upon death and escap considerable capital gains taxation. To effectively utilize estate planning the farmer will want to hold appreciated properties using the

¹Ralph E. Hepp, Federal Estate and Gift Tax Changes Michigan Farm Economics (East Lansing, Michigan: Michigan State University), No. 409, p. 4.

stepped-up basis since property acquired after January 1, 1977 will be taxed for capital gains. This advantage will decline as the current generation gets older since the denominator of the stepped-up formula keeps increasing. If while estate planning, the farmer can transfer as gifts property acquired after January 1, 1977, he can escape some of the capital gains tax. The second effect will occur during probating. The executor and his attorney will have to calculate the value of each asset by using the "stepped-up" basis formula. This will increase the attorney's and executor's fees.

The generation-skipping transfer also received attention in the Tax Reform Act. Previously, the property owner could set up a generation-skipping trust and avoid tax on property during the children's lifetime. Current law imposes a tax on this type of estate arrangement. The tax that becomes due is substantially the same as the estate tax which would have been imposed if the property would have transferred outright to following generations. The new law does allow for trusts to grandchildren. A limit of \$250,000 per child on trusts to grandchildren is transferred tax free. This tax free transfer is for each child, not each grandchild. Assume a decedent had two children, he could transfer \$500,000 tax freethrough the children to the grandchildren. The income from the generation-skipping trust would go to the decedent's children for life.

The most commonly used trust by farm estates is one which will benefit the farm widow. The generation-skipping trust tax does not effect such planning since the widow is a member of the same generation.

Included in the reform act was a new provision referred to as the orphans's exclusion. If a child under 21 years of age is left with no parent and there is no surviving spouse, there is a tax deduction allowed. If this case occurs, the orphan's exclusion is equal to \$5,000, multiplied by the number of years the child is under 21. The amount of exclusion is then subtracted from the gross estate of the decedent. It applies for all minor children in the estate whether natural children or adopted.

The final modification of the estate tax law of major importance is the special estate tax valuation. This provides special valuation for farms and closely held businesses. For those farms and closely held businesses probated before January 1, 1977, there were no special exemptions, instead they were valued at fair market value. The executor now may apply for special valuation if the estate meets the following qualifications:

1. At least 50 percent of the adjusted gross estate must consist of real or personal property being used as a farm or closely held business.
2. At least 25 percent of the adjusted gross estate must be real property.

3. There must have been material participation by the decedent or his family in operation of the estate in five or more of the years prior to the owner's death.

4. The property must have been owned by the decedent or a family member for five or more years.

For purposes of determining the above criterion, the executor should test the 25 and 50 percent rules by valuation without regard to the special valuation. Material participation means that the owner would be subject to self-employment taxation.

The special valuation of farms and closely held business is determined by a capitalization average of the previous five years cash rental at the average interest rate of Federal Land Bank loans. The special valuation formula is:

(Average gross cash rental - annual state and local real estate taxes) + average annual effective interest rate for new Federal Land Bank loans.

Assume a farm's rental value is \$100 per acre annually with property taxes of \$10. The present interest rate for new Federal Land Bank Loans is 7.5 percent. The special farm land valuation would be computed as follows:

$$(\$100 - \$10) + .075 = \$1,200 \text{ per acre}$$

When there is no comparable land available to get average rental values, the executor may use one of the following alternative methods:

1. Capitalization of expected annual earnings.
2. Capitalization of a fair rental value.
3. Assessed land values if the state specifically assesses farms or closely held businesses.
4. Comparable sales of land used only for farming.
5. Any other method of fair valuation.

When the executor elects to use this special valuation, he must keep in mind that the total value of the gross estate may not be reduced more than \$500,000. Another important provision of property utilizing special valuation is its resale characteristics. A lien is placed on the property in favor of the United States for the total amount of the tax if the property had not had special treatment. If at any time during the first ten years after the owners death the land is sold or taken out of agricultural use the United States has the right to recapture all lost revenue. However, if sale takes place between the tenth and fifteenth year, the value of the lien decreases by one-sixtieth per month, or 20 percent per year. After a total of 15 years, all liens in favor of the United States are expired and the owner may handle the property as he wants. Farm property may be transferred to another legal heir, but the same liens are in effect.

The Utah State Inheritance Tax Reform Act of 1976, completely changed the law. The previous law governing decedents estates was very similar to the old federal law. After valuation of the estate at fair market value and subtraction of the exemption the taxable estate was taxed at a graduated rate. Utah law did not allow a marital deduction and only gave a \$40,000 deduction for property held in joint tenancy. The tax rate along with the limited deductions made Utah's inheritance tax one of the most oppressive in the United States. The new inheritance tax law eliminates the previous concept of Utah death taxation. The new law allows for the use of a "sponge tax" which gives the state the right to collect the minimum amount of credit¹ set by the federal government.

Analysis of the Tax Reform Act on the Study Estates

The objective of this section of the thesis was to analyze the impact the reformed tax structure would have had on the study estates. This objective was accomplished by indexing the estate values forward to 1977, by using a land value index, then applying the new tax deductions, assuming the estates were all probated in the initial year of the tax reform.

Inflated farm values

Using the prior tax schedule, taxable estate values were derived for the estates in the study incurring a tax liability. By adding the \$60,000 unqualified exemption to the taxable estate, a taxable estate value was computed. Since data were unavailable for the composition of the estate, the assumption was required that the entire estate be considered as the class of land indicated in the questionnaire, when the inflation index was applied to the value. Indices for irrigated, dryland, grazing, and other agricultural lands were used to inflate the gross estate values. The indices used are presented in Table 16.

Table 16. Inflation indices for irrigated, dryland, grazing, and other agricultural land, the study counties, Utah, 1971-1975

Year	Irrigated land	Dry-land	Grazing land	Other ag. land ^b
1967 ^a	100	100	100	100
1971	124	160	168	151
1972	131	181	192	168
1973	136	194	209	180
1974	158	218	245	207
1975	175	250	258	228
1976	209	286	284	260
1977	228	321	316	288

^aBase year = 1967

^bAn index was not available for "other agricultural land," so an average was computed between dryland, irrigated, and grazing land for the index.

Source: Farm Real Estate Market Developments, Economic Research Service, U.S. Department of Agriculture, July 1977.

The percentages of land in each category are shown in Table 17. These values were used along with the land inflation indices to compute the 1977 value of the study estates. The total value for the farm estates when probated was \$7,729,000. When given 1977 values the total was \$12,049,000, an increase in value of 36 percent (Table 18).

The values of estates incurring inheritance taxation ranged from \$66,000 to \$512,000, while the inflated estate values varied between \$89,500 and \$860,000. Under the old law, probated estates had an unqualified exemption of \$60,000 and every dollar of taxable estate in excess of this amount was subject to taxation. Under the new law in its initial year, the estate is afforded an equivalent exemption of \$120,667, with higher values subject to taxation. The marital deduction has changed the tax procedure greatly. The old law allowed an unqualified exemption to be half of the value of the property held jointly; however, the new reformed law allows a deduction of \$250,000 on the estate or half the value, whichever is greater. This provision is aimed at helping family farms with smaller estate values. Any estate under one-half million dollars can deduct \$250,000 to compute the taxable estate, whereas, in the prior law the deduction was half at all values.

Insufficient data requires another assumption be made. In the study estates, the marital status of the decedent was not given, so the estates will first be analyzed with no

Table 17. Year probated, percentage of land in each land category, gross estate values, estimated estate values for the study estates for 1977, Utah, 1971-1975

Year probated	Percent			Gross estate value, thousands of dollars		
	Irrigated land	Dryland	Grazing land	Other ag. land	Actual	Estimated 1977
73	12	88	--	--	75	124
74	88	12	--	--	140	202
74	--	65	35	--	92	129
72	100	--	--	--	140	244
72	21	79	--	--	77	136
71	a	23	77	--	101	193
75	86	14	--	--	133	173
75	81	--	19	--	72	93
73	--	--	100	--	104	157
71	--	72	28	--	83	164
71	77	23	--	--	93	175
75	--	69	31	--	76	96
75	100	--	--	--	77	100
73	24	--	76	--	147	228
73	100	--	--	--	67	113
74	--	18	82	--	240	317
73	--	--	100	--	67	101
74	100	--	--	--	168	242
72	71	--	29	--	231	396
71	100	--	--	--	77	142
71	100	--	--	--	73	134
75	49	--	51	--	74	93
73	100	--	--	--	225	378
72	100	--	--	--	79	137
71	100	--	--	--	122	224

Table 17. Continued

Year probated	Percent				Gross estate value, thousands of dollars	
	Irrigated land	Dryland	Grazing land	Other ag. land	Actual	Estimated 1977
71	29	--	69	--	122	228
72	100	--	--	--	90	157
72	100	--	--	--	66	115
71	100	--	--	--	310	570
71	41	59	--	--	198	384
74	50	50	--	--	71	103
73	55	--	45	--	67	107
75	26	--	74	--	158	198
74	76	--	24	--	112	157
75	--	--	100	--	96	119
74	75	--	25	--	105	147
74	76	24	--	--	143	207
75	24	--	76	--	239	300
74	67	--	33	--	260	362
71	59	--	41	--	72	134
74	--	100	--	--	68	100
74	10	29	07	54	129	182
74	90	10	--	--	90	130
75	14	14	72	--	76	95
71	100	--	--	--	116	213
72	100	--	--	--	81	141
72	91	--	09	--	75	130
75	74	--	26	--	257	330
72	40	--	60	--	135	228
73	100	--	--	--	163	274

Table 17. Continued

Year probated	Percent				Gross estate value, thousands of dollars	
	Irrigated land	Dryland	Grazing land	Other ag. land	Actual	Estimated 1977
73	100	--	--	--	79	133
73	100	--	--	--	71	119
73	100	--	--	--	158	265
73	100	--	--	--	512	860
73	100	--	--	--	158	265
75	--	17	83	--	75	94
75	--	--	100	--	205	254
73	100	--	--	--	93	156
75	100	--	--	--	112	146
73	100	--	--	--	152	255
<u>Total</u>					<u>7.729</u>	<u>12,049</u>

^aUnder .01 percent

Table 18. Actual inheritance tax paid, estimated 1977 values of estates incurring death taxation, estimated amount of death tax paid for estates without a surviving spouse, estimated amount of death tax paid for estates with a surviving spouse, utilizing the maximum deduction, the study counties, Utah, 1971-1975

Estimated 1977 estate value	Actual inheritance tax paid	Estimated 1977 tax for estate	
		Without surviving spouse	With surviving spouse
124,000	1,000	600	0
202,000	15,000	18,600	0
129,000	3,438	1,500	0
244,000	15,000	30,800	0
136,000	1,200	2,900	0
193,000	5,000	16,200	0
173,000	13,000	11,200	0
93,000	735	0	0
157,000	5,600	7,400	0
164,000	1,964	4,500	0
175,000	3,500	11,600	0
96,000	1,192	0	0
100,000	1,252	0	0
128,000	17,000	1,300	0
113,000	300	0	0
317,000	44,953	53,600	0
101,000	282	0	0
242,000	23,000	30,200	0
396,000	42,000	79,400	7,600
142,000	1,248	4,100	0
134,000	819	2,500	0
93,000	985	0	0
378,000	40,000	73,300	2,200
137,000	1,500	3,100	0
224,000	9,998	24,800	0
228,000	10,000	26,000	0
157,000	3,000	7,400	0
115,000	200	0	0
570,000	66,187	138,600	52,700
384,000	32,084	75,300	4,000

Table 18. Continued

Estimated 1977 estate value	Actual inheritance tax paid	Estimated 1977 tax for estate	
		Without surviving spouse	With surviving spouse
103,000	600	0	0
107,000	312	0	0
198,000	20,000	17,500	0
157,000	7,462	7,400	0
119,000	4,000	0	0
147,000	6,000	5,200	0
207,000	16,000	20,000	0
300,000	44,315	48,200	0
362,000	50,000	68,000	0
134,000	700	2,500	0
100,000	350	0	0
182,000	12,000	13,300	0
130,000	3,000	1,700	0
95,000	1,103	0	0
213,000	8,500	21,400	0
141,000	1,700	3,900	0
130,000	1,055	1,700	0
330,000	50,000	57,800	0
228,000	13,740	26,000	0
274,000	20,575	40,000	0
133,000	1,435	2,300	0
119,000	600	0	0
265,000	20,000	31,500	0
860,000	150,000	244,400	103,000
265,000	20,000	37,100	0
94,000	1,079	0	0
254,000	34,000	33,800	0
156,000	3,600	7,200	0
146,000	7,420	5,000	0
255,000	18,342	34,100	0
12,049,000	879,335	1,354,900	168,500

^a Questionnaire response to the mail survey indicated these taxes paid. There were 10 questionnaires returned which didn't reveal the amount

surviving spouse, then second, with surviving spouse. In the study, information was not available on debts and costs of administration. Since administration costs were paid when the estate was probated, the assumption will be made that these costs are comparable in the inflated value analysis. Estate debts will be handled similarly. The average values of farm estates incurring inheritance taxation when probated was \$129,117, and the average tax paid by the study group was \$14,646.¹ The average value of farm estates after application of inflation indices was \$200,800.

Estates with surviving spouse

The analysis of estate utilizing a surviving spouse showed that only five estates in the study group would have had sufficient value to be liable for inheritance taxation. The estates with a tax liability are shown in Table 19.

The total tax paid by the study estates with a surviving spouse would equal \$168,500. Estates utilizing the marital deduction and applying the unified credit to the incurred tax are not liable to pay death taxes until the gross estate reaches a value of \$370,667. The computation of this is as follows:

¹This figure varies from Table 7 due to four estates containing property other than agriculture. These estates were dropped to get the average farm estate death tax.

Table 19. Study estates incurring inheritance taxation using the marital deduction and unified credit, the study estates, Utah, 1971-1975

Estate value	Maximum marital deduction ^a	Unified credit ^b	Inheritance tax
\$396,000	\$250,000	\$30,000	\$7,600
378,000	250,000	30,000	2,200
570,000	285,000	30,000	52,700
384,000	250,000	30,000	4,000
<u>860,000</u>	<u>430,000</u>	<u>30,000</u>	<u>102,000</u>
Total			168,500

^aThe marital deduction is \$250,000 for estates under \$500,000 estates in excess of \$500,000 are allowed a deduction of half of the estate value.

^bThe unified credit is a gift allowance of the estate. A unified credit of \$30,000 in 1977 is deducted from the total death tax. This credit may vary if the decedent granted gifts during his lifetime. The unified credit is phased in over five years; 1977 the credit equals \$30,000, \$34,000 in 1978, \$38,000 in 1979, \$42,500 in 1980, and \$47,000 in 1981 and after.

Gross estate	\$370,000
Marital deduction	<u>250,000</u>
Net taxable estate	\$120,667
Federal estate tax	\$ 30,000
1977 Unified Credit	<u>(30,000)</u>
Federal estate tax payable	0

Estates without surviving spouses

The analysis of estates utilizing no surviving spouse shows that death taxation would have occurred for gross estate values in excess of \$120,667 during 1977.¹ The exemption subtracted from the gross estate is approximately equal to the unified credit if the tax is computed for an estate of the exemption value. The estates analyzed with inflated values and having no surviving spouse represented a gain in the tax burden from the realized tax paid. The sixty-four farm estates which paid taxes when probated paid a total of \$895,091 (Table 7). The inheritance taxes which would be incurred if land values were inflated to 1977 values would total \$1,354,900, an increase of 36 percent (Table 18). The percentage increase in this tax was equal to the increase realized in land values when computations were made

¹The exemption allowed each estate increases during the next five years. In the initial year, 1977, the exemption is \$120,667; then \$134,000 in 1978; \$147,333 in 1979; \$161,563 in 1980 and \$175,625 in 1981 and after.

with the inflation indices. From the sixty estates analyzed in this section, there were fourteen which did not reach an increased value high enough to be taxed. The inheritance tax values ranged from a low \$600, to a high value of \$244,400 for the largest estate in the study.

SUMMARY AND CONCLUSIONS

Because of increasing rural land values, potential tax and land transfer problems have been created for older farmers and the family farm enterprise, such as, urban encroachment and speculative buyers. The average age of Utah farmers is approaching 53 years. The study was conducted to determine whether agricultural land use changes were occurring, with relation to death taxation, estate planning, and land sale by the owner prior to death. The study counties were selected on the basis of number of farms and accessibility of records. According to the U.S. Census of Agriculture, there were 13,130 farms operating in Utah in 1976. Of the total 6,490 were located in the counties surveyed, nearly 50 percent of the total. This thesis describes land use changes and the factors related to use-age change, for estates subjected to probate after the owner's death for the years 1971-1975.

To study the problems or potential problems, permission was obtained from county clerks to use records and get information pertaining to farm estates subjected to probate proceedings. A mail questionnaire was developed to send to executors of the estate. A total of 290 estates were located containing five or more acres. From this total,

284 mail questionnaires were sent to executors, administrators, and survivors of the estates. The responses were coded and punched on data processing cards for later computer analysis. There were 108 responses recorded having useable data.

The number of estates probated during the study period showed a yearly increase and an increase each year in the number of acres involved. There were 48 estates probated in 1971, totaling 3,377 acres, which were the smallest totals for the study period. The final year had 26 estates probated and 5,317 acres.

Out of the total \$895,091 death tax obligation incurred, approximately 90 percent were reported in Weber, Salt Lake, Davis and Utah counties. In these same four counties, only about 60 percent of the estates and acres probated were reported. The converse of this situation occurs for Cache and Box Elder counties, where 40 percent of the land base and estates were probated, but under 10 percent of the tax liability was incurred. This difference also divides the study into rural and urban categories. Weber, Davis, Salt Lake and Utah counties are considered urban and metropolitan with major growth occurring, while Cache and Box Elder are classified rural with greater agricultural influence.

The main method indicated by respondents for settling the death tax burden was by sale of the decedent's property.

When land was sold after the owner's death, it usually was purchased by another farmer or an heir, and at the time of the study it was continuing in agricultural use. Money from insurance proceeds, and in decedent savings, were responsible for paying most of the balance of the total estate taxes. When those surveyed were asked what the reason was for estate sale, the principle response cited was that there were too many heirs causing conflict, therefore effecting disposition of the property. When there was a forced land sale, the bulk remained with an heir to the estate. Land purchasers were required to buy out the interest of the other heirs. Farmers not part of the estate settlement purchased the next largest number of acres. Land going to developers in estate sale represented a very small part of the total.

Out of the total study estates completing the questionnaire, only one-third utilized any form of estate planning. Trusts, transfers before death, and estates which used more than one method of planning were reported most frequently. If the population in this study is representative of the total population, where only one in three farm owners has prepared an estate plan, some type of educational program is needed.

An analysis of variance showed the difference between methods of estate management did relate to the disposition of agricultural land after owner death in the study estates.

The variation in amount of decrease was related to estate management of the owner.

The largest decline in agricultural land occurred for property which was sold by the owner prior to death. All agricultural classifications of land declined by over 50 percent when farmland was sold outright by the owner before his death. Grazing land represented both the greatest percentage and largest acreage losses. The largest portion of this change was a transaction between a farmer and the Forest Service. The Forest Service purchased 8,000 acres of this individual's grazing land along the Wasatch mountain range in Utah County.

Irrigated and non-irrigated cropland acreages declined considerably when the owner sold property prior to death. When this farmland was sold, it was converted into recreational, commercial, and residential properties, completely out of agricultural production.

Respondents reporting estates which were subjected to probate indicated the next largest loss of agricultural land. The three major categories of farmland declined in the study group. Residential land realized the largest gain, while vacant and idle and commercial also gained from the loss of farmland.

About one-third of the estates involved in probate utilized one or more methods of estate planning to minimize the tax burden and pass the property to survivors

or heirs. When decedents established a plan, very little land was transferred from agriculture to other non-agricultural uses. Agricultural producing land may have benefited in the transition. Irrigated cropland more than doubled in total acres and non-irrigated cropland was cut in half. Cultivated and irrigated land is considered desirable in agricultural output, then the transition from decedent to heir may have benefited agriculture.

The Estate Tax Reform Act became effective on January 1, 1978. Agricultural land values in Utah had increased 188 percent during the past 10 years while a death tax law, which had not been revised in 35 years, was determining policy for probating farmland. The new estate tax liberalized the exemptions given the estate during probate. The estate exemption increased from \$60,000 under the old law to \$120,000 in 1977, then yearly increases until in 1981 the exemption will be over \$175,000. The gift tax's separate schedule was terminated and the "unified credit" took its place. This gift credit starts at \$30,000 in 1977 and increases yearly until in 1981 it reaches a maximum of \$47,000, to continue thereafter.

The marital deduction received much attention in the new law. Widows were saddled with an unjust tax burden. The property held jointly was included in the estate of the first to die for death taxation, unless the survivor could prove contribution toward the farm in money or labor.

It was relatively easy for men to prove such; however, widows had a difficult time. The new law dissolves this practice by establishing a marital deduction of \$250,000 or half of the estate, whichever is greater. The estate owner was also allowed a gift to his spouse. This provision contained a catch, one-half of the value of the gift was subtracted from the marital deduction.

Estate tax liability was due nine months after the owner's death unless the survivor could prove undue hardship. The survivor was required to show that estate assets would have to be sold to pay the burden. Present provisions include reasonable cause, where the taxable estate is over 50 percent illiquid assets, such as farmland. If reasonable cause is not shown, then the tax is due in the same nine-month period. Reasonable cause gives from 10 to 15 years to pay the tax with minimal interest rates. Since farm estates are principally land, building, and equipment, which are considered illiquid, they can benefit under the new law. This provision does not minimize the need for liquid assets upon death because of funeral, administration, and debts of the estate. If forced liquidation is required for any expenses, the seller usually realizes a loss in property value.

The carry-over basis of the law enables the government to tax capital gains. The old law allowed farms to by-pass some of the inflation gains in the value. With the

cary-over basis, federal revenue may not decrease by the amount anticipated, if any. Further study is required in later years to determine whether this section of the law counterbalances the additional exemptions given by the new law.

Estate planning is still the best way to maximize the amount of property received by heirs. Insurance policies and their proceeds can help to provide the necessary cash assets in case of death. Establishment of a trust accommodating various situations can be developed through legal services. Because of the complex nature of setting up a trust, legal aid should be utilized. An often used form of planning was the generation-skipping trust. This plan held the property intact through two generations before the tax liability could be applied. Under the reformed law this device has become taxable, with a schedule basically equal to estate taxes if the property had followed through probate.

A major modification concerning agriculture is a special valuation for farms. This valuation is determined by capitalization of a rental value and interest rate. If a survivor uses the valuation, he must remember that the United States has a lien on the property equal to the amount of tax if the estate had been taxed fully.

The State of Utah virtually did away with state death taxes. The new law directs that Utah receive only the

amount of credit established in the federal law. This should ease the tax burden on estates probated in Utah, especially the family-farm. The Federal Estate Tax assessment is lowered for smaller farm units while the upper end of the schedule taxes estates heavier.

Inflated values of study estates for analysis and taxation under the new law showed vividly the importance of the marital deduction. With a surviving spouse and using the unified credit, a gross estate may be valued at up to \$370,667 during 1978 before it will incur a tax burden.

Without marital deductions or estate planning, the study group would have been taxed heavier overall than they were when originally probated. This was probably due to one-third of the study group using estate planning.

The Tax Reform Act seemed to be directed to helping the smaller farm estates which had become highly valued because of increasing land values and to help the surviving spouse maintain the farm operation. Legislation is presently proposed to study the carry-over basis of the new law. Advocates of the legislation want to change the effective date for the carry-over basis to December 31, 1979, which would put estates probated during 1978 and 1979 each on the stepped-up basis for taxation.

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APPENDIXES

Appendix A

Questionnaires and Letters

UTAH STATE UNIVERSITY · LOGAN, UTAH 84322

COLLEGE OF AGRICULTURE
COLLEGE OF BUSINESSDEPARTMENT OF
ECONOMICS
UMC 36

July 26, 1976

Clerk
Utah Counties

Dear Sir:

This letter is to introduce Randy Parker to you. He is a research graduate assistant working under my direction.

We are conducting a study of the effects of inheritance taxes and settlement of estates on the use and disposition of farm property.

We are attempting to identify farm properties for which ownership has changed in recent years through the use of probate records. We solicit your cooperation.

Our work is being done through the Utah Agricultural Experiment Station at Utah State University.

Sincerely,

Rondo A. Christensen
Professor

RAC/njj

CONFIDENTIAL

Probate Case No. _____

Schedule No. _____
 Utah State University
 Agricultural Experiment Station
 Economics Department

The Impact of Property Transfers by Inheritance on the
 Farm Sector

County:

Cache Davis Salt Lake Utah Box Elder Weber

A. Personal Data

1. Name of Deceased _____
2. Date of Death _____
3. Age _____
4. Address _____
5. Date Probate Filed _____

B. Heirs

1. Attached photocopy of heirs YES NO
 if no go to part 2

2. Heirs

NAME	ADDRESS	AGE	RELATIONSHIP

3. Estate Management: Administrator Executor

NAME	ADDRESS	AGE	RELATIONSHIP

C. Estate information

1. Tax information

a. Attached photocopy of tax computation YES NO

2. Property information

a. Attached photocopy of legal discription of farmland YES NO

b. Inventory and appraisal values

(1)

Farm Related
Values

PROPERTY	VALUES
Farm Equipment	
Livestock	
Irrigation Stock	
Farm Land	
TOTAL	

(2)

Total Estate
Values

PROPERTY	VALUES
Real Property	
Personal Property	
TOTAL	

3. Filed petition for sale of property YES NO

UTAH STATE UNIVERSITY · LOGAN, UTAH 84322

COLLEGE OF AGRICULTURE
COLLEGE OF BUSINESSDEPARTMENT OF
ECONOMICS
UMC 36

May 10, 1977

Dear _____:

The Economics Department at Utah State University is conducting an analysis of the effects of inheritance taxes, estate planning, and land sale on agricultural land in selected Utah counties. Our study is aimed at the problems associated with transferring land from one generation to another. You may have experienced some of these problems.

Public records show that you were recently involved in settling an estate which was probated within the State of Utah. Would you please complete the enclosed questionnaire having to do with the estate listed, and return it in the enclosed postage-paid envelope. It will only take a few minutes to fill out the questionnaire.

I assure you that your answers will be held strictly confidential. Information from yourself and others who were involved in administering estates will be grouped and summarized in such a way that no individual's information will be revealed. We will send you a copy of our report when the study is completed.

Sincerely,

Rondo A. Christensen
Professor, Agricultural Economics

RAC/as

P.S. It is extremely important that we receive your response since we are only analyzing a small sample of property probated in each county.

Confidential

Utah State University Economics Research Institute
 FARM LAND USE CHANGES DUE TO INHERITANCE TAXES,
 ESTATE PLANNING, AND SALE FOR RETIREMENT

Section 1 LAND PROBATED

This section pertains only to farm land which was probated. Court records show that _____ acres were probated for the estate of _____, in _____ county, Utah. You were named as _____ in the decedents estate. Please answer the following questions in Section I to the best of your knowledge on farm land probated.

A. Land Use Changes

1. Land Use At Time Of Owners Death

LAND USE	APPROX. ACRES	COUNTY LOCATION
AGRICULTURE		
irrigated cropland	_____	_____
non-irrigated cropland	_____	_____
grazing land	_____	_____
other (specify) _____	_____	_____
RESIDENTIAL	_____	_____
RECREATIONAL (cabin, etc.)	_____	_____
INDUSTRIAL	_____	_____
COMMERCIAL	_____	_____
VACANT or IDLE	_____	_____
OTHER (specify) _____	_____	_____

2. Land Use After Probate & Settlement

LAND USE	APPROX. ACRES	COUNTY LOCATION
AGRICULTURE		
irrigated cropland	_____	_____
non-irrigated cropland	_____	_____
grazing land	_____	_____
other (specify) _____	_____	_____
RESIDENTIAL	_____	_____
RECREATIONAL (cabin, etc.)	_____	_____
INDUSTRIAL	_____	_____
COMMERCIAL	_____	_____
VACANT or IDLE	_____	_____
Other (specify) _____	_____	_____

B. SALE OF LAND PROBATED

1. WAS LAND SOLD AFTER PROBATE AND SETTLEMENT? YES NO
 (If yes, please continue with the following questions; if no, go to C)

2. Who bought the land?

- | | CHECK | APPROX. ACRES BOUGHT |
|--------------------------|--------------------------|----------------------|
| a. FAMILY MEMBER or HEIR | <input type="checkbox"/> | _____ |
| b. FARMER | <input type="checkbox"/> | _____ |
| c. DEVELOPER | <input type="checkbox"/> | _____ |
| d. OTHER (specify) _____ | <input type="checkbox"/> | _____ |

3. REASONS FOR SALE OF LAND

- a. NONE OF THE HEIRS WANTED TO FARM IT
- b. HEIRS WANTED CASH VALUE FOR PERSONAL USE OR INVESTMENT
- c. HEIRS NEEDED CASH TO PAY INHERITANCE TAX LIABILITY
- d. OTHER (specify) _____

4. WHAT WAS THE APPROXIMATE DATE OF LAND SALE?

DATE: _____

C. WHAT WAS THE TOTAL INHERITANCE TAX OBLIGATION? (INHERITANCE TAX - STATE AND FEDERAL COMBINED)

\$ _____

1. HOW WAS THE OBLIGATION MET?

- a. SALE OF DECEDENTS PROPERTY
- b. LOANS TO PAY LIABILITY
- c. INSURANCE PREMIUM
- d. OTHER (specify) _____

Section II ESTATE PLANNING

Estate planning is used frequently to lessen the inheritance tax burden to keep property intact and in the family. This section deals with farm land transferred in whole or in part by the decedent and/or spouse to children or other heirs by some form of estate planning prior to the decedents death. Do not include in this section land probated and included in Section I. Please answer the following questions to your best knowledge. (If no estate planning was used by the decedent or spouse, go on to Section III.)

A. Property Involved in Estate Planning

1. Which of the following methods was used in estate planning?

- a. Trust
- b. Property transfer before death
- c. Gifts before
- d. Family corporation
- e. Insurance policy for tax payment
- f. Other (specify) _____

2. To whom was the estate transferred?

- a. Family member
- b. Relative
- c. Business associate
- d. Other (specify) _____

B. LAND USE CHANGES

1. Land use before transfer to family by parents.

<u>LAND USE</u>	<u>Approx.</u> <u>Acres</u>	<u>County</u> <u>Location</u>
AGRICULTURE		
irrigated cropland	_____	_____
non-irrigated cropland	_____	_____
grazing land	_____	_____
other (specify) _____	_____	_____
RESIDENTIAL	_____	_____
RECREATIONAL (cabin, etc.)	_____	_____
INDUSTRIAL	_____	_____
COMMERCIAL	_____	_____
VACANT or IDLE	_____	_____
Other (specify) _____	_____	_____

2. Land use after transfer to family by parents.

<u>LAND USE</u>	<u>Approx.</u> <u>Acres</u>	<u>County</u> <u>Location</u>
AGRICULTURE		
irrigated cropland	_____	_____
non-irrigated cropland	_____	_____
grazing land	_____	_____
other (specify) _____	_____	_____
RESIDENTIAL	_____	_____
RECREATIONAL	_____	_____
INDUSTRIAL	_____	_____
COMMERCIAL	_____	_____
VACANT or IDLE	_____	_____
Other (specify) _____	_____	_____

3. WAS THE LAND RECEIVED BY THE HEIR(S) LATER ON RESOLD? YES NO

4. IF RESOLD, GIVE PRESENT LAND USE TO THE BEST OF YOUR KNOWLEDGE.

<u>LAND USE</u>	<u>Approx. Acres</u>	<u>County Location</u>
AGRICULTURE		
irrigated cropland	_____	_____
non-irrigated cropland	_____	_____
grazing land	_____	_____
other (specify) _____	_____	_____
RESIDENTIAL		
RECREATIONAL (cabin, etc.)		
INDUSTRIAL		
COMMERCIAL		
VACANT or IDLE		
Other (specify) _____	_____	_____

Section III FARMLAND SOLD OUTRIGHT

Persons who have acquired land during their lifetime and need a retirement income, may sell all or part of their land for an income. This section includes land the owner may have sold during the 10 years prior to death. Please answer the questions in Section III to the best of your knowledge on property sold outright.

A. Information on Land Sold Prior to Death.

<u>Parcel 1</u>	<u>Parcel 2</u>
Date Sold _____	Date Sold _____
Approximate Acres _____	Approximate Acres _____

BUYER INFORMATION

- a. Family member of heir
- b. Farmer
- c. Developer
- d. Other (specify) _____

BUYER INFORMATION

- a. Family member heir
- b. Farmer
- c. Developer
- d. Other (specify) _____

B. LAND USE CHANGES

1. Land Use Before Sale

LAND USE	Approx. Acres	County	Location
AGRICULTURE	_____	_____	_____
irrigated cropland	_____	_____	_____
non-irrigated cropland	_____	_____	_____
grazing land	_____	_____	_____
other (specify) _____	_____	_____	_____
RESIDENTIAL	_____	_____	_____
RECREATIONAL	_____	_____	_____
INDUSTRIAL	_____	_____	_____
COMMERCIAL	_____	_____	_____
VACANT or IDLE	_____	_____	_____
Other (specify) _____	_____	_____	_____

2. Present Land Use

LAND USE	Approx. Acres	County	Location
AGRICULTURE	_____	_____	_____
irrigated cropland	_____	_____	_____
non-irrigated cropland	_____	_____	_____
grazing land	_____	_____	_____
other (specify) _____	_____	_____	_____
RESIDENTIAL	_____	_____	_____
RECREATIONAL	_____	_____	_____
INDUSTRIAL	_____	_____	_____
COMMERCIAL	_____	_____	_____
VACANT or IDLE	_____	_____	_____
Other (specify) _____	_____	_____	_____

When completed, please return this questionnaire in the enclosed self addressed envelope, to:

Dr. Rondo A. Christensen
 UMC 35
 Utah State University
 Logan, Utah 84322

Appendix B

Regression Analysis of Variance for
Variables Related to Land Use

Table 20. Regression analysis of variance for variables related to land use after the owners death, the study counties, Utah, 1971-1975

Variable	Degrees of freedom	Mean square ^a	F statistic	B coefficient
Year probated	1	1,622.08	1.99	-5.70
Executer	1	533.97	.66	+3.45
County probated in	1	893.98	1.10	-6.10
Size of estate	1	1,004.76	1.24	+8.83
Management method ^b	1	7,760.49	8.41*	-13.89

*The only F statistic significant at the 0.01 or 0.05 levels--F.01 = 6.96; F.05 = 3.94.

^aMean square of error = 922.84 with 103 degrees of freedom.

^bManagement method included disposition of land by purchaser.

VITA

Randall Nolan Parker

Candidate for the Degree of

Master of Science

Thesis: An Analysis of Farm Land Use Changes Related to Inheritance Taxes, Estate Planning, and Sale for Retirement in Selected Utah Counties during 1971-1975

Major Field: Agricultural Economics

Biographical Information:

Personal Data: Born in Richfield, Utah, March 22, 1953, son of Harvey J. and Mary Lee Parker, married Nikki Riddle, February 15, 1976.

Education: Attended elementary school in Pleasant Grove, Utah; graduated from Pleasant Grove High School in 1971; received the Bachelor of Science degree in Agri. Business, with a minor in Business Administration, from Utah State University, Logan, Utah, in 1976; completed requirements for a Master of Science degree at Utah State University in 1978.

Professional Experience: Graduate research assistant at Utah State University, 1976-1978.