

**BEFORE THE  
HOUSE FINANCE COMMITTEE**

October 26, 1989

**TESTIMONY OF PENNSYLVANIA FARMERS' ASSOCIATION  
Regarding House Bill No. 921**

Mr. Chairman, the Pennsylvania Farmers' Association appreciates the opportunity to testify before the House Finance Committee to express our feelings on the necessity of a spousal exemption in the Inheritance Tax law. H.B. No. 921 will have a favorable impact on Pennsylvania farmers.

My name is Richard E. Denison. I am General Manager of PFA Members' Service Corporation of the Pennsylvania Farmers' Association. I am a professional agricultural consultant who specializes in farm financial planning. The Pennsylvania Farmers' Association is the largest general farm organization in the Commonwealth with a membership of over 23,000 farm families.

We believe that the present Inheritance Tax structure places an unnecessary burden on the transfer of a family farm to a surviving spouse. While the health of Pennsylvania agriculture has improved in recent years, farmers continue to face low profit margins and encroachment by suburban developers. Between 1975 and 1985, approximately 95,000 acres of land each were removed from cultivation in Pennsylvania. Subjecting transfers of farm property to a surviving spouse imposes a substantial toll on the continued

operation of a farm and inevitably contributes to the further loss of agricultural land in the state.

The farm is usually the principal asset of a married couple, and, generally, the only source of revenue. The imposition of Inheritance Tax on the transfer of farm property to a surviving spouse who has worked decades on the farm imposes a difficult tax burden at a most vulnerable time. When one spouse dies, a death tax of this nature requires, in effect, the survivor to "buy back" the family farm from the state.

Admittedly, the transfer of farm property held in joint ownership is not subject to tax, but such ownership is not always possible or practical. Certainly, not all of Pennsylvania's 55,000 farmers are knowledgeable of potential Inheritance Tax problems as they conduct routine farm matters, such as financing a tractor or registering livestock. In many other situations, joint ownership of farm property may be impractical or undesirable. The inevitable result is that, all too often, Inheritance Tax is imposed on many transfers to a surviving spouse, usually to the wife who has, in most cases, worked the family farm herself for many years.

I recall one situation in Centre County where a farmer inherited the family farm before he was married, and therefore it was deeded only in his name. He subsequently married and purchased a second smaller farm, which was titled in the names of both the husband and wife. Although, for a small fee, the deed on the family farm could have been changed to joint ownership of the

husband and wife, this never occurred. When the husband died, the wife experienced a most traumatic and difficult time when she was required to buy back the family farm from the state through payment of the 6% Inheritance Tax.

While real property is often titled in joint ownership, farm equipment and especially livestock frequently are not. For financing and other reasons, farm equipment is usually owned by the husband. Likewise, cows and other farm animals are routinely registered only in his name. This frequently causes expensive Inheritance Tax consequences when the husband dies first. While the wife might get the farm tax-free, she may be required to pay the 6% Inheritance Tax on the cows and equipment needed to operate the farm.

I remember a situation in Berks County involving the untimely death of a farmer who died without a will. The wife not only had to deal with the trauma of the tragic death of her husband, but had to face the difficulty of establishing, to the tax collector's satisfaction, joint ownership in the \$250,000 worth of machinery and the 150 head of cattle.

In summary, we believe that H.B. No. 921 is good for Pennsylvania farmers. In some situations, the 6% Inheritance Tax can be avoided by sophisticated farmers with skilled tax planners, but all too often, the tax falls on unsuspecting survivors. Frequently, a wife is required to buy back the farm, the tractor or the cows, and is faced with severe financial difficulties during

the most traumatic time in her life. For these reasons, we believe the spousal exemption is necessary and appropriate for Pennsylvania farmers. Therefore, the Pennsylvania Farmers' Association supports H.B. No. 921.

This concludes my formal remarks, but I will be happy to answer questions of the Committee.