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Denver News

Colorado Ranchers Pray For Death Of 'Death' Tax

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DENVER -- For Dale Allee, a second-generation cattle rancher in southern Colorado, the idiom that nothing is certain but death and taxes is now a reality.

"I just turned 80 last week. You know what that means? That means I'm not going to be around here very long, and somebody's going to have to pay those taxes," said Allee, who fears federal estate taxes will thwart his plans to pass his 4,200-acre Pueblo County ranch to his children.

Land-rich but cash poor, Western ranchers are lobbying Washington to exempt them from the estate tax, which can force heirs to sell their inheritance -- often to real estate developers -- to pay the duty within a nine-month deadline.

"I don't like subdivisions and I don't like development," Allee said. "There's a lot of us around here that have got that feeling. We just don't want to see houses built all over our land."

Washington might be listening, according to the Colorado Cattlemen's Association, which represents 12,000 beef producers in an industry that generates \$16 billion a year, making it the state's third largest. "The current administration is lending a favorable ear toward agriculture on this issue," insists executive director Terry Fankhauser.

In 2009, the federal government requires heirs of an estate worth more than \$3.5 million -- if owned by an individual -- and \$7 million, if owned by a couple, to pay a tax on up to 45 percent of the estate's appraised value.

Fankhauser said an average ranch operation with 200 to 300 head of cattle would easily break through that \$3.5 million threshold.

"Look at the need for food production in this country. The only way we can meet that growing demand is to keep these farms and ranches in agriculture and incentivize that by getting rid of the estate tax," he said.

The tax is set to disappear in 2010, but in 2011, any estate worth more than \$1 million will be taxed up to a maximum of 50 percent. Ranchers hope President Barack Obama's administration will reinstate the tax exemption for ranches worth less than \$3.5 million.

As a U.S. senator from Colorado, Ken Salazar, now Obama's interior secretary, introduced legislation to exempt ranches like the one he grew up on in Colorado's San Luis Valley. Salazar's brother, U.S. Rep. John Salazar, has introduced a bill for the third time to eliminate the tax for working farms and ranches.

"As one of the only farmers or ranchers in Congress, I understand the bitter reality of the estate tax," John Salazar said in a statement. "I believe Congress should work to keep family farms and ranches in the family and not force family members to sell off their land when a loved one dies."

The bill has been referred to the House Ways and Means Committee.

Ron Durst, senior economist for the Department of Agriculture Economic Research Service, argues that farmers can use various financial instruments to reduce the value of their assets.

Special use valuations can reduce an estate's value by up to 50 percent, but not in excess of \$1 million, if heirs agree to use the land for agriculture and don't sell it for 10 years after an owner's death, Durst said.

Farmers also can use conservation easements. They donate land to a qualifying tax-exempt or governmental organization and agree to keep it as open space or use it for agriculture, said Durst.

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Adding up all exemptions, Durst projects that less than 1 percent of farms will be subject to the estate tax in 2009.

In 2000, farms made up 6 percent of all estates qualifying for the tax. Of those, about 8 percent didn't have enough cash to pay it, compared to 5 percent for all estates, according to the Department of Agriculture.

The IRS reports that the estate tax generated about \$23 billion in 2007, with a \$2 million estate exemption. If Congress locks in 2009's \$3.5 million exemption, government revenues will decline \$609 billion over 10 years, predicts Lee Farris, a policy coordinator with the Boston-based nonprofit United for a Fair Economy, which supports progressive taxation.

Allee, the rancher, said estate tax issues complicate the life of a simple man.

"I'm not an educated man and I'm not a moneyed man," he said. "I'm just a cowboy... an 80-year-old cowboy now."

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