

Life Advanced
Markets

TARGET MARKETING:

Agriculture Industry

2021: 3Q - 4Q

AGRICULTURE

Industry The Agricultural sector consists of establishments primarily engaged in growing crops, raising animals, harvesting timber, and/or harvesting fish and other animals from a farm, ranch, or their natural habitats.¹

At the end of 2020, the Bureau of Labor Statistics reported nearly 300 million employed in the agricultural sector, including more than 235 million farmworkers and laborers, 12.6 million operation supervisors/managers, and nearly 52 million equipment operators and drivers.

Trends and concerns for agricultural companies also affect companies in related industries such as equipment manufacturers, retailers, and agricultural input suppliers.

Trends The American Rescue Plan – signed into law on March 11 – contains approximately \$23 billion in food and agriculture spending as well as funding for rural health care and supply chain resiliency.²

Farmers and ranchers have a great deal of interest in commodity prices, which can vary greatly even within a single year based on numerous factors which are outside of their control or influence. Corn, soybeans, and wheat are all at their highest prices in more than seven years due to increased foreign demand after China and Brazil experienced disappointing yields.

Federal Estate Taxes currently pose little concern for farm and ranch owners. The USDA Economic Research Service estimates only 50 farm/ranch estates owed federal estate taxes in 2020.³

Concerns Because they commonly inherit their land and depreciate their equipment, farmers and ranchers tend to have a lot of low- and zero-basis assets. Basis management is a more pressing concern than estate tax, and a **proposed loss of the basis step-up** would have a significant impact on the agricultural sector.

Many farm and ranch operations have remained in the control of the same family for several generations. “Bloodline” planning, which **keeps control in the same family**, remains a common goal for most owners who have an emotional attachment to their land and view their situation very differently than non-agriculture business owners.

The greatest obstacle for keeping family farms within families is not tax issues – though it could be in the future. It is the **lack of interest** of many in the next generation to continue farming.



¹ North American Industry Classification System.

² U.S. Department of Agriculture, Fact Sheet: United States Department of Agriculture Provisions in H.R. 1319, the American Rescue Plan.

³ USDA Economic Research Service, <https://www.ers.usda.gov/topics/farm-economy/federal-tax-issues/>.

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ISSUE	OPPORTUNITY
<p>Interest in planning to keep the family farm in the family</p>	<p>Life insurance trusts: A trust can be specifically designed to own farmland and allow family members continued control of the operation. Life insurance's death benefit, which is generally income-tax-free, can provide liquidity for taxes as well as a cash source for maintaining operations.</p>
<p>Next generation is losing interest in taking over family farms</p>	<p>Pass farm to interested children: A life insurance death benefit can be used to equalize inheritance to children who will not be involved.</p> <p>Buy-out agreement: Children remaining involved can buy out those who are not. Set a price and terms ahead of time to avoid family discord, and use the life insurance death benefit to meet purchase obligations created under the agreement.</p>
<p>Farmers and ranchers have an emotional attachment to their land; it's not just any other asset.</p>	<p>Parcel the land: Pass on parcels of equal value to children. Children who wish to continue farming will have first right to a lease agreement. Farm children get operation income; non-farm children receive lease income.</p>
<p>Business success is variable and based on often uncontrollable factors (e.g., weather, commodity prices, international demand, etc.).</p>	<p>Flexible estate planning: Strategies like the Spousal Lifetime Access Trust provide the needed death benefit protection while retaining access to the policy's available accumulation values (indirectly through the spouse).</p>

ADDITIONAL TALKING POINTS:

- **Financial professionals working with agricultural businesses should be familiar with IRC Sec. 2032A** (special use valuation), which allows agricultural landowners to determine the value of their property based on how the land is used rather than the potential development value for estate and gift tax purposes.
- **Conservation easements are a popular topic for farm owners who own substantial land.** By donating a conservation easement to a charitable land trust, the owner may realize a substantial income tax deduction. This may be an appropriate point of conversation if they are expecting to realize a substantial income tax event in a given year (e.g., Roth conversion, selling farm to children, etc.).
- **A current talking point among farmers is the tax credits and depreciation available for installing solar collection equipment.** In 2021 there is a 26% tax credit.

In addition, the Rural Energy for America Program (REAP) provides guaranteed loan financing and grant funding to agricultural producers and rural small businesses for renewable energy systems or to make energy efficiency improvements.

- **Deferring taxes on the sale of land is a big topic for those in agriculture.** There are strategies from the simple to the complex, from the well-established to those the IRS will question. These include installment sales, 1031 exchanges, Delaware Statutory Trusts, self-cancelling installment sales, private annuities, deferred sales trusts, and monetized installment sales. Although we do not provide tax advice, gaining familiarity with each may be worth the effort if you intend on working in this market. Conversations regarding these strategies may be part of a wider business succession discussion which will present life insurance opportunities.

RESOURCES: Click these links to learn more.

- U.S Department of Agriculture
- American Farm Bureau (the news section under the "Latest" tab is a good resource for current issues and opportunities in agriculture)
- IRS Publication 225, Farmer's Tax Guide
- Trends in price of corn, Macrotrends Data
- Trends in price of wheat, Macrotrends Data
- Trends in price of cattle/beef – U.S. Department of Agriculture



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