

Good morning! Chairman Waugh, Vice-Chairman Wenger, and members of the Senate Agriculture and Rural Affairs Committee, on behalf of the Pennsylvania Farm Bureau as the organization's State Governmental Relations Director, I am pleased to be here today to present comment on several initiatives the committee is focusing on at this hearing

I will just start off by again reaffirming Pennsylvania Farm Bureau's strong support for the state's Farmland Preservation Program and our appreciation to you for your leadership over the years in maintaining substantial funding for the program. While Pennsylvania Farm Bureau does not have a clear policy position in support of all the initiatives under consideration today, we are certainly generally supportive of any sound approach to strengthening the program.

Senate Bill 252 proposes to amend the Tax Reform Code by reducing the valuation of farmland upon which an easement has been placed through the Agricultural Security Law to \$1.00 per acre for inheritance tax purposes. Pennsylvania Farm Bureau has sought total elimination of the state inheritance tax for many years. In the absence of total elimination, the proposed reforms in S.B. 252 would certainly significantly reduce the burden of the state inheritance tax for farm families who have made the commitment to preserve their farm in perpetuity.

Unlike the Federal Estate Tax, Pennsylvania's state inheritance tax does not provide for a tax credit or exclusion of any sizeable portion of an estate that passes to surviving family members (other than the surviving spouse). Pennsylvania's families pay inheritance taxes on the first dollar of value of the decedent's taxable estate.

In 2000, the Pennsylvania General Assembly reduced the rate of inheritance tax to 4 1/2 percent for assets passing to children and 12 percent for assets passing to brothers and sisters. Even at the reduced tax rates, inheritance taxes will still seriously hamper the financial ability of farm families to pass farm businesses between generations. Children who receive a \$500,000 farm through death of the parent will still be required to pay \$22,500 in inheritance taxes. A family member receiving a \$500,000 farm through the death of a brother or sister would be required to pay \$60,000 in inheritance taxes. Payment of the tax is required to be made in cash. If the farm business does not have available cash, the farm family will need to sell off farm assets to pay the tax, with no guarantees that the money the family will receive from the sales of assets will bring what these assets are truly worth. If land needs to be sold to pay for the tax, succeeding generations will receive farms that are less productive and are less likely to be viable in the future.

This proposal would no doubt provide further incentive for farm families to participate in the preservation program, which in turn preserves a land base for production agriculture to remain viable in the state. Again, while Pennsylvania Farm Bureau is generally supportive of such an incentive to strengthen the preservation program, we believe all farm families should be relieved of the burden of the inheritance tax, which in itself would help provide a better opportunity for future generations to continue to farm.

In regards to H.B. 629, Pennsylvania Farm Bureau actively supports final passage of this legislation and urges the Senate Agriculture and Rural Affairs Committee to move this legislation forward as soon as possible. This bill will amend the Agricultural Area Security Law to allow farmland tracts that are a minimum of 25 acres to qualify for consideration for agricultural conservation easement purchase in the state farmland preservation program.

While passage of H.B. 629 certainly will not mandate state and county preservation boards to preserve smaller tracts of land, the bill's expanded eligibility allowance will provide preservation boards with greater flexibility to tailor planned preservation efforts. A number of important farm areas of the Commonwealth are comprised of either a mixture of large and small tracts or a number of small tracts. Yet preservation of these areas is still important to the local community and local agricultural economy. H.B. 629's expanded eligibility allowance will provide a greater opportunity for use of the farmland preservation program to protect the overall integrity of farm areas for future agricultural use.

As you know, the Senate has already passed S.B. 723, which amends the Agricultural Area Security Law to encourage financial partnerships between nonprofit agricultural land preservation organizations and local governments, counties and/or the Commonwealth to purchase agricultural conservation easements in the state's Farmland Preservation Program. Therefore, we would ask that our comments regarding this legislation be forwarded to the House Agriculture Committee for their consideration. Giving counties the option of permitting participation by nonprofits and describing the requirements for such participation does raise some level of concern to Farm Bureau. The concern centers on the level of assurance that the qualified non-profit organizations will have the best interests in mind related to preserving working farms rather than just preserving open space.

Pennsylvania Farm Bureau recognizes attempts are made in the legislation to address our concern by providing four criteria for an "eligible nonprofit entity" definition. However, some questions that remain are the following: How much should the qualifying organization be engaged in the purpose of farmland preservation? Should that be the organization's sole purpose? Are there adequate safeguards to protect the integrity of the program with this proposed change? Will the State Farmland Preservation Board's approval of county program amendments provide adequate protection against misuse of the program? While I raise these questions of concern, Pennsylvania Farm Bureau has not taken a position on this legislation either in support or opposition at this point in time. Most farmers are not aware, or have only recently become aware of this legislative initiative, and it remains to be seen if our members will provide policy direction related to this issue at our upcoming delegate session this November.

The final proposal being considered here today is the concept of using the Realty Transfer Tax paid on the sale of farmland as a source of funding for the farmland preservation program. Farm Bureau supports using one half of one percent of the state's portion of the realty transfer tax to assist in financing the program. The proposed

program directs funds that would be collected to the counties in which they originated through the sale of agricultural lands. This approach appears to be a sound in that the more activity there is in the county regarding the sale of farmland the greater the dollars that will be generated to preserve farmland in that county.

While Farm Bureau supports the proposed concept, some questions that come to mind include the following: How will “agricultural lands” be identified and defined under this proposal? Will all sales of such lands qualify to fund the farmland preservation program, or just the sale of such lands for development? If only sales for development qualify, how would development be defined?

Thank you for the opportunity to address the committee today on these initiatives designed to help preserve two of Pennsylvania’s most threatened resources, which is prime farmland and the next generation of farmers needed to keep the state’s agricultural industry strong.

PENNSYLVANIA FARM BUREAU

TESTIMONY BEFORE THE

PENNSYLVANIA SENATE

AGRICULTURE AND RURAL

AFFAIRS COMMITTEE

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