

Valuing Farm Chattels and Marketing Rights of Farmers

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Overview

When a farmer or rancher dies, often left behind are assets that are unique to agriculture. For tax purposes, these assets present unique valuation issues. For practitioners handling ag estates, it's important to get values correct for federal estate tax purposes and/or a county inheritance tax worksheet. What are the basics tenets of valuing these unique farm and ranch items? This was an issue that Don Kelley, who I started out my practice career out with in North Platte, NE, wrote about in his two-volume treatise, Estate Planning for Farmers and Ranchers, and his other two-volume set, Farm Business Organizations. Don recently turned over the editorship of those treatises to me. In working on updating those volumes recently, I thought it would be a useful topic for today's article.

Valuing farm chattels and marketing rights of a farmer at death – it's the topic of today's post

Valuing Chattels

There is no specific Treasury Regulation that addresses the valuation of tangible chattel property (personal property) beyond Treas. Reg. §20.2031-6 (addressing household goods/personal effects) and Treas. Reg. §20.2031-1 which addresses general valuation concepts.

Treas. Reg. §20.2031-1(b) states:

“Livestock, farm machinery, harvested and growing crops must generally be itemized and the value of each item separately returned. Property shall not be returned at the value at which it is assessed for local property tax purposes unless that value represents the fair market value as of the applicable valuation date. All relevant facts and elements of value as of the applicable valuation date shall be considered in every case.”

It's often easier to value chattels and inventory than it is to value farm/ranch real estate. Most farm machinery has an established market. As a result, appraisals of farm machinery and equipment usually are not controversial. If there is an established retail market for chattel property, it is to be valued at retail. *Treas. Reg. §20.2031-1(b)*. As the regulation states, “For example, the fair market value of an automobile (an article generally obtained by the public in the retail market) includible in the decedent's gross estate is the price for which an automobile of the same or approximately the same description, make, model, age, condition, etc., could be purchased by a member of the general public and not the price for which the particular automobile of the decedent would be purchased by a dealer in used automobiles. Examples of items of property which are generally sold to the public at retail may be found in §§ 20.2031-6 and 20.2031-8.” *Id.*

This same approach is to be used with respect to farm machinery and equipment and also farm vehicles. For example, in *Estate of Love v. Comr., T.C. Memo. 1989-470*, the decedent was in the business of breeding and racing thoroughbred horses and died 11 days after a brood mare mated. It was not possible as of the date of the decedent's death (the valuation date) to determine whether the mare was pregnant at the time the decedent died, but the IRS went ahead and assumed that the mare was pregnant on the date of the decedent's death for valuation purposes. Doing so greatly increased the value of the mare. The Tax Court determined that that post-death pregnancy of the mare was not to be taken into account when valuing



the mare for estate tax purposes. There was no way that a hypothetical willing buyer would have known that the mare was pregnant, and the Tax Court determined that the assumption by the IRS of the mare's pregnancy was not in accord with Treas. Reg. §20.2031-1(b). The Tax Court also excluded post-death sales of horses in the determination of the mare's value and relied on comparable sales of horses near the date of the decedent's death. The Tax Court's opinion was upheld on appeal. [923 F.2d 335 \(4th Cir. 1991\)](#).

Valuating Fixtures

Farm buildings, fences, water wells and similar items are customarily appraised as part of the farm real estate. But, if a fixture (and associated chattel equipment) is linked with crop production, valuation is more problematic. An example of such an item would be an irrigation well used to pump water for crop irrigation. At least in the areas of the Great Plains and the western Midwest, IRS offices have historically valued detachable chattel items as farm machinery. Such items of property include aboveground pivot irrigation systems, motors and pumps. The associated land on which the irrigated crops are grown is typically appraised along with any immovable fixtures (i.e., wells; well casings; pivot stanchions) in place.

Inventory

Harvested grain in inventory of a farmer usually doesn't present a valuation issue. The grain is valued in accordance with trading exchanges for the type of crop involved as of the date of death. For example, in [Willging v. United States, 474 F.2d 12 \(9th Cir. 1973\)](#), the plaintiff was a wheat farmer that reported income on the accrual basis. The value of the 1966 opening grain inventory increased by over \$36,000 from January 1, 1966 until the date of the farmer's death in November. The estate claimed that the increase in the inventory values escaped taxation because of the basis step-up rule of [I.R.C. §1014](#). The appellate court disagreed, reversing the trial court. The court noted that the farmer determined income annually by adding to the sales price of products sold during the year the value of his closing inventory, and then subtracting from that amount the value of the opening inventory. Inventories were valued under the "farm price" method (market price less direct costs of disposition). The farmer deducted expenses in the year incurred. Because the farmer elected to be taxed under the accrual method, the court noted that the value of the grain was realized when it increased the inventory value. It wasn't realized when it was later sold. Thus, his death didn't have the effect of accruing items which would not otherwise have been accrued, but his death closed the tax year for his last tax year for the income he had received that year.

Marketing Rights

Many farmers are members of agricultural cooperatives and may hold cooperative marketing rights as of the time of death. This is particularly true with respect to dairy farmers and is also common among beekeepers. How are such rights valued? In [Cordeiro's Estate v. Comr., 51 T.C. 195 \(1968\)](#), the petitioner acquired a herd of dairy cows from the decedent. The decedent was a member of a cooperative marketing association and had been required to market all of his milk from the herd through the cooperative. The decedent had been allocated "base" as a measure of his share in the proceeds of the cooperative's milk sales. The decedent's membership and base expired upon the decedent's death and the petitioner succeeded to it and membership in the cooperative. The Tax Court determined that the base was separate from the dairy herd and that the petitioner's cost basis in the dairy cows was to be determined without any value attributed to the base. A milk base is an intangible right to sell a certain amount of milk at a particular price. See, [Priv. Ltr. Rul. 7818002 \(Jan. 6, 1978\)](#). See also, [Vander Hoek v. Comr., 51 T.C. 203 \(1968\)](#), [acq., 1969 A.O.C. LEXIS 210 \(May 9, 1969\)](#).

Similarly, a rice allotment has been held to be a right this is devisable, descendible, transferable and salable. [First Victoria National Bank v. United States, 620 F.2d 1096 \(5th Cir. 1980\)](#). The court said that the



allotment was similar to business goodwill. That reasoning could support an IRS argument that other USDA program benefits that a decedent had applied for have value for tax purposes associated with death.

Conclusion

Valuation issues for farmers and ranchers can be unique. When particular items of chattel property are involved, specific valuation guidance is often lacking, and the existing guidance is dated. While the courts have addressed some of the issues, the general advice of not being greedy holds true. If a valuation amount looks reasonable to an IRS examining agent, chances are IRS won't push the issue.

This is just one of the issues that will be addressed at the 2020 Farm & Ranch Income Tax/Estate and Business Planning national conference in Deadwood, South Dakota on July 20-21. You may attend either in-person or online. For more information on the conference and how to registration information click here: <https://washburnlaw.edu/employers/cle/deadwoodcle.html>

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