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Land rich, cash poor and taxes

Land Rich, Cash Poor and Death Taxes – Part 2

WARNING: DO NOT READ THIS ARTICLE WHILE OPERATING HEAVY MACHINERY!

The first part of this article focused on how to improve your cash position before your death by increasing liquid asset-holdings, giving assets away, or looking into the use of insurance trusts. This part concerns opportunities that may be available to your estate – when you're not around and your estate is *still* land rich and cash poor.

It is not as bleak as it first appears when you have death taxes to pay but not enough cash to cover the payment, which is generally due nine months after the date of death.

Value Reducers — For farmers and other closely held business owners, both the IRS and the Oregon Department of Revenue allow your estate to elect to lower your real property value for death tax purposes. On the federal level, the maximum reduction can be as much as $1.02 million this year. Qualifications for these exclusions are detailed and many. Much of your estate must consist of the real property, you or another family member must have been personally involved in its use for some years before death, and certain "qualified heirs" must be using the property after death. Making these elections involves other considerations, but they can result in substantial death tax savings.

Oregon also has a "natural resource" (for farmers, ranchers and timber operators) and "commercial fishing" credit that can provide a dollar for dollar reduction of taxes for a qualifying estate. The credit can be quite substantial. Among other conditions needed to qualify, the value of your business operations must be a large percentage of your estate, and family participation in the business is required before and after death.

Installment Payment Options — If, after taking advantage of the above value reducers, your estate is still short of cash to pay death taxes, some fairly favorable installment payment options may be available.

If you conducted active business operations, and the value of the operations is roughly 35% of the value of your estate, then it can defer the federal and Oregon tax caused by the value of those operations over a 14-year period, with interest only for the first four years, at very low rates.

Even if the estate does not qualify for the technical requirements of the 14-year payout, it may be eligible for a federal 10-year payout by demonstrating "reasonable cause," which generally means your estate is having a tough time raising the money through no fault of its own. Oregon has an alternate installment election as well.

With a $5 million, per person, tax exemption, federal death taxes will not concern many of you who are still awake after reading this far. Oregon taxes, with only a $1 million exemption per person, may reach more of you, so be aware of the above provisions that might ease your tax, and your tax payment, burdens.

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