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are eligible for a deduction if the qualified family-owned business interests "...are acquired by any qualified heir from, or passed to any qualified heir from, the decedent...." That statement is conditioned by the qualifying requirement that the passage must be within the meaning of I.R.C. § 2032A(e)(9). That is the passage, added in 1981, that allowed property to pass from the estate to qualified heirs by purchase from the estate for purposes of special use valuation. That assures that property can pass by purchase and not lose eligibility for purposes of the family-owned business deduction if the purchase transaction meets any one of the three tests applicable to special use valuation purchases from the estate.

What about the income tax basis?

I.R.C. § 1040, enacted to solve problems of income tax basis where land is purchased from the estate, assures that the only gain recognized to an estate in the event of a sale or taxable exchange by the estate is the difference between the fair market value on disposition and the federal estate tax value. That provision was needed for special use valuation because, otherwise, the difference between the special use

value and the value on disposition would be taxable gain to the estate.

In the case of the family-owned business deduction, a basis is assured for the assets comprising the qualified family-owned business interest (or for the entity holding those assets) equal to the fair market value at death or the alternate valuation date. Therefore, the gain recognized on sale of qualified family-owned business interests is the difference between the federal estate tax value (fair market value at death or the alternate valuation date) and the value on sale or taxable exchange. If the purchase of assets from the estate is at the federal estate tax value (and fair market value on purchase is no greater than the federal estate tax value), there should be no gain on sale by the estate to a qualified heir or heirs.

Repeal of the family-owned business deduction

The family-owned business deduction does not apply to estates of decedents dying after December 31, 2003. Thus, it appears that the provision will remain in effect for purposes of recapture for estates of decedents dying before January 1, 2004, if an election was made under I.R.C. § 2057.

Income-rich Saudi Arabia Prefers Grow-Their-Own Food Security *

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Food security is a policy goal of many nations. One obvious reason a country might adopt food security as a national policy goal is to protect it against the possibility of the loss of the ability to obtain imports due to an embargo, poor crops in exporting nations and events such as war which might cut off or delay needed food imports. In addition, countries may opt for domestic food production as a means of improving their balance of payments by reducing the amount of imported food or as a means of providing employment for a portion of the population.

Given the fact that one-third if its area is the world's largest sand desert and average rainfall is four inches, one of the places one would least expect to adopt a grow-your-own food security goal is Saudi Arabia. Unlike some less developed nations, with its position over some of the world's largest oil reserves, Saudi Arabia has sufficient income to import as much food as it needs.

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Nevertheless, beginning in the early 1970s, Saudi Arabia adopted a policy with the goal of developing an agricultural sector capable of achieving food self-sufficiency. While still importing food and feed products from barley and rice to apples and bananas, Saudi agriculture has made great strides over the last 30-40 years.

Supported by policies that provide up to 1,000 acres of free land as well as machinery and equipment discounts of up to 50 percent, Saudi farmers have increased agriculture's share of GDP from 1.3 percent in 1970 to more than 7 percent in 2002. The area under cultivation has increased from under 400,000 acres in 1976 to more than 9 million acres today. Agriculture also supplies significant employment opportunities. Today 12 percent of the Saudi workforce is employed in the agricultural sector.

In addition to help with land and equipment, the Saudi government has embarked on water impoundment projects to make sure that they get full use of the four inches of rainfall they receive. Water is also obtained from deep wells and large desalinization projects. The goal of these water projects is to provide sufficient

water for human as well as agricultural and industrial uses. Treated wastewater is used for industrial and agricultural purposes. As a result of these water projects, large tracts of desert have been transformed into fertile farmland.

The Saudi government has also established agricultural research stations as well as an extension service to help farmers figure out how to adapt their farming methods to the harsh desert climate. While Saudi Arabia once imported large amounts of wheat, today the country is nearly self-sufficient in wheat production, importing specialty flours and exporting surplus production. In comparison to the U.S. average wheat yield of 40 bu./ac., Saudi farmers reap 70 bu./ac. Of course, the larger yields do not necessarily mean that it wouldn't be cheaper overall to import the wheat. But, food security is a part of national security.

Saudi agriculture faces a number of challenges. One of the most serious challenges is the issue of water. The underground aquifers are being drawn down faster than the recharge rate. As a result, the rapidly growing population may end up competing with agriculture for scarce water resources.



When Are Livestock Exchanges "Like-Kind"?

by Neil Harl, Charles F. Curtiss Professor in Agriculture, professor of economics, 515-294-6354, harl@iastate.edu

Although less common than like-kind exchanges of real estate or machinery, exchanges of livestock appear to be occurring more frequently in recent years. Except for the statutory bar for exchanges of livestock of different sexes, the rules governing livestock exchanges are less well known. The regulations adopted in 1991 have provided more definitive guidelines for like-kind exchanges of livestock (and other assets) than were available previously.

Regulation guidance

The regulations specify that depreciable tangible personal property can satisfy the like-kind requirement in two ways—(1) by showing that the property in question is exchanged for property that is of a *like class* or (2) by showing that the property in question is exchanged for property of a *like-kind*.

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