NATIONAL CATTLEMEN'S BEEF ASSOCIATION
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March 18, 2015

The Honorable Dave Reichert (R-WA, 8th)
Chairman
Committee on Ways and Means,
Subcommittee on Select Revenue Measures
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard E. Neal (D-MA, 1st)
Ranking Member
Committee on Ways and Means,
Subcommittee on Select Revenue Measures
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 201515

Dear Chairman Reichert and Ranking Member Neal:

My name is Bobby McKnight and I am a seventh-generation cattleman from Fort Davis, Texas. It is my privilege to appear before this committee today and speak on behalf of cattlemen and women across America and discuss an uncomfortable issue that too many of us have faced—the death tax. I am here to share my story so that you can have a better understanding of the personal impact the death tax has on hard-working American families like mine. Having dealt with the death tax on multiple occasions, I can assure you that it's not easy to have the burden of settling the estate of a loved one while coping with the loss of that loved one. To add insult to injury, it is even more stressful when you discover that the estate you are trying to settle is subject to the federal death tax. How will I pay the estate tax? Will I have to sell off part of my business or take out a loan to pay this tax? Will I be forced to lay off employees? These are all questions that I have had to face on multiple occasions. My story, unfortunately, is not that uncommon among the cattle families of this great nation.

As a cattleman, the most important part of my family's livelihood is the health and safety of my cattle. Every day, I get up and work along-side my employees because every hand in the operation has the responsibility to look after the cattle and put the needs of the cattle above our own. I worry about if they are getting enough food and water. I look after them and fight off predators and keep disease away from the herd. Cattle don't take a day off, so neither can I. I am financially and emotionally invested in the success of the herd. It is my duty to take care of these animals and the people who work for me.

My ranch is a family-owned small business. Sometimes I need up to seven employees to help me run my operation efficiently. Over the years I have invested a lot of time, resources, and sweat equity in developing my employees. We work along-side each other taking care of the livestock and hoping for a good year where we will all reap the benefits of hard work. When times have been lean I have had to make sacrifices to keep my business above water and to keep my employees on the ranch. I make it a priority to put our people first because I don't want to let them go. But sometimes you run out of places to cut and you have to make the uncomfortable decision to cut seasoned employees. That is what happened to my family during hard times brought on by the estate tax. At one time I had to cut my staff by sixty-five percent. I had to let go of seasoned employees that had families of their own and they were forced to find work elsewhere. The skill set needed to work cattle is a special skill set that takes years to learn, and I would give anything to have that skilled labor back working for me once more.

Like other small businesses I have to worry about making payroll, complying with numerous federal and state regulations, and paying bills, loans, and taxes in full and on time. I face the same stresses that other small business owner's face, all the while praying that the drought will end and I won't face another summer of devastating wildfires. My cattle need good pasture and plenty of water to thrive, but the wildfires and drought have been a heavy burden on ranchers like me all across the Southwestern United States. Many of my neighbors worry about whether they can make it through another dry year without being forced to sell their herds and their businesses. That is a lot of stress for any business owner to handle. Now add to that the onerous compliance of the death tax.

I am a member of the National Cattlemen's Beef Association (NCBA), the largest and oldest national association of cattle producers. NCBA has represented America's cattlemen and women since 1898, preserving the heritage and strength of the cattle industry through education and public policy. As the largest and oldest national association of cattle producers, NCBA represents a very diverse beef industry that strives to meet demand in emerging markets and increase demand for beef. Repealing the death tax is a top priority for NCBA, and without question, we offer our utmost support in repealing the death tax.

When most people think of the cattle industry, they think of my home state of Texas. While Texas is one of the largest beef-producing states, the U.S. beef industry is very diverse with production in all fifty states including Alaska and Hawaii. One common fear facing America's beef-producing families is the uncertainty of and compliance with the death tax. In fact, the death tax is considered one of the leading causes of the breakup of multi-generation family farms and ranches.

As you probably know, many farm and ranch families are asset-rich and cash-poor, with most of the value of their estate attributed to the value of the land they use to raise cattle and grow food and fiber for consumers around the world. The agriculture industry has enjoyed a successful run over the past few years with strong foreign demand for U.S. agricultural goods. Strong export demand has been one of the driving forces in the increase in value of crop land and pasture land in almost every state. Not to mention the pressure from commercial developers who also want to purchase the land. Combined together, the increase in value of farmland has many farm and ranch families concerned that they may trigger the estate tax simply through increasing land values.

Some people make the mistake in thinking that livestock operations that own a lot of land must be wealthy and can afford to pay more in taxes. Keep in mind that beef production in the United States varies from state to state. For instance, in the Southeastern United States most herds are smaller and need fewer acres to be successful because they have good pastures that receive a lot of rain. On the other hand, where I live the annual rainfall average is less than eighteen inches so we need more acres to support the same number of cattle. Likewise, some people make the mistake of equating large herds with large profits. Cows need plenty of food and water to grow to the desired adult weight. The more cows you have, the higher your input costs will be. And given the market volatility in the price of cattle feed, hay, water and fuel, profit margins can be small for large herds and they face a greater risk of loss. Plus, not all animals will receive the same price when harvested. The price received for each cow depends on the quality of the product, not the quantity. When it comes down to it, the pain is felt by all operations no matter the herd size. Simply put, in an industry as diverse as ours it is easy to mistake size of the operation with the success of the operation.

The uncertainty of the tax code has made it difficult for many farmers and ranchers to establish long-term business plans. This is especially frustrating when your business already faces unpredictable factors like the price of inputs and the weather. The truth is it is very hard to predict whether or not an operation will be successful this year or the next. The market value of cattle fluctuates, as do the costs of inputs like feed, water, and fuel, plus the fact that the cattle industry is not subsidized by the federal government.

At the end of 2012, Congress passed the American Taxpayer Relief Act (ATRA) narrowly avoiding a return to a $1 million estate tax exemption with a 55 percent tax rate by setting the estate tax exemption level at $5 million per individual ($10 million per couple) and the top tax rate to 40 percent. ATRA also maintained the spousal transfer, the step-up in basis and indexes the estate tax for inflation. While not perfect, ATRA provided relief for some producers but unfortunately the estate tax still impacts family farmers and ranchers across the United States and it must be repealed.

Even with ATRA, many farm and ranch families must still invest time and resources into planning and complying with the estate tax. For those of us who put together an estate plan, we must continue to spend money on lawyers and accountants to make sure that plan is compliant with the law. But what about those who do not have an estate plan? What if the death in the family was sudden and unexpected and they could not have planned for it? How much will they have to spend on lawyers and accountants? Unfortunately, all too often at the time of death, farming and ranching families are forced to lay off employees, sell off land, farm equipment, parts of the operation or the entire ranch to pay off tax liabilities. Even with an estate plan it can take years to transfer assets which will incur unanticipated costs to the family—implementing asset transfer it is not free. In most cases, these assets have already been taxed at the federal, state, and local levels many times over the course of a lifetime.

As someone who has been on the negative end of the death tax, I would like to know what, if any, are the positive benefits of the death tax? When faced with the death tax I am no longer thinking about how I can grow my business and hire more employees. No, I am focused on whether I need to liquidate assets to control loss. I would rather focus on expanding my herd and re-investing in my community by creating jobs. I would like to know if the Government of the United States is more interested in farmers and ranchers spending time and money on complying with the death tax or creating more jobs.

Some in Washington may see the death tax as a minor inconvenience for the wealthy, something that does not deserve attention. The truth is, when the death tax lands on your doorstep, it is a very big deal. The death tax impacts more than just the family, it affects the employees of the impacted business and the other local businesses who are losing customers. The death tax has a ripple effect that impacts local economies for many years and many times the damage cannot be undone. This is not a tax on the wealthy elite in America. It’s a death warrant for far too many family businesses.

For decades, NCBA has fought for full and permanent repeal of the estate tax and we will continue to do so until permanent repeal is achieved. NCBA strongly supports the *Death Tax Repeal Act of 2015* and we urge all Members of Congress to support the full and final repeal of the death tax. I thank you for this opportunity and hope my comments have shed light on the truth about the death tax.

Sincerely,

Robert E. McKnight
Fort Davis, Texas