

# **FAMILY FARMS EXEMPTED FROM INHERITANCE TAX**

Pennsylvania Inheritance Tax has been a burden on families owning farms for decades. In the past, when a family member died and the farm was distributed to the Decedent's children via a Last Will and Testament, the Decedent's children had to pay Inheritance Tax. With respect to cases involving the farm passing to the children, the Inheritance Tax was 4.5% of the value of the farm.

On July 2, 2012, Governor Tom Corbett signed into law legislation which exempts working farms from Pennsylvania Inheritance Tax if the following conditions are met:

1. The real estate must continue to be devoted to agriculture for a period of seven (7) years;
2. The real estate must derive a gross yearly income of at least \$2,000.00; and
3. The real estate must be inherited by members of the same family, which is broadly defined to include the Decedent and his/her parents, lineal descendants, such as children and grandchildren, brothers and sisters, aunts and uncles, some cousins, and the spouses and Estates of any of these individuals. Further, individuals related by the half blood or legal adoption are treated as if they were related by the whole blood.

However, if the farm is not devoted to the business of agriculture for a period of seven (7) years from the Decedent's date of death, then the farm is subject to Inheritance Tax in the amount that would have been paid or payable on the value of the farm if it had not been treated as exempt from Inheritance Tax upon the Decedent's death, plus interest thereon accruing as of the Decedent's date of death.

In order to determine whether the farm is still exempt from Inheritance Tax, the law provides that the owner of real estate under this exemption shall certify to the Department of Revenue, on an annual basis, that the land qualifies for this exemption. In addition, the landowner must

inform the Department of Revenue within thirty days of any transaction or occurrence causing the real estate to fail to qualify for this exemption.

Prior to this law, when a family member died, the heirs were forced to sell all or part of the farm to pay the Inheritance Tax due on the farm. As a result, these families were left with less productive farms. This law provides farmers the opportunity to save thousands of dollars in Inheritance Tax, thereby allowing them to invest these funds into the farm. In addition, this law enables farmers to pass the farms on to future generations.

With proper Estate and Tax Planning, this law will provide many Pennsylvania farmers with significant tax savings. When exploring these tax savings, you should consult a local attorney who is experienced in Estate Planning.

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