

not be misinterpreted. The significance of corporation farming is not measured by the relative number of incorporated farms, but by trends in growth of this form of farm enterprise. There is no doubt that there has been a significant increase in corporation farms in recent years.

A principal motive for farm incorporation by farm families has been to facilitate the transfer of land to the next generation. But there are other motives that arise out of a desire to avoid taxes on farm income, and on capital gains.

In many cases, and particularly for non-farm investors, tax considerations are dominant. The land owner with a large annual income generally finds it attractive to convert as much of his land income as possible into business expenses, in order to convert annual income into asset values, which may ultimately be taxed at capital gains tax rates. This is an especially attractive opportunity to avoid taxation on current income for individuals whose annual taxable income is in the range from \$50,000 to \$100,000 and higher. For these individuals, annual income from farming is not necessary for living expenses, whereas investment of annual income in farm improvements can enhance the value of their assets and offer the prospect of ultimate taxation at capital gains rates if the property is subsequently sold. Alternatively, the appreciated property can be passed on to heirs through the inheritance process without incurring any tax on capital gain. For the very wealthy individual, the purchase of farmland and its incorporation as a farm offers a tax advantage that accounts for some of the more recent interest in farm corporations.

This possibility is facilitated by the opportunity in many farming situations to improve buildings, fencing, and water systems, and to spend heavily on soil conserving and land improving practices. If these can be treated as business expenses, annual income can be converted into capital gain.

It is not necessary to incorporate a farm in order to participate in capital gains. But for the man of wealth there are advantages in incorporating if he is interested in the speculative purchase of farm land. The primary advantage lies in the separation of his farming assets from his other investments, with a consequent opportunity to reduce his exposure to liability as a result of his farming ventures. Incorporation facilitates the transfer of shares in his farming enterprise to heirs, and can be used to attract additional capital to the firm.

Preliminary data suggest that a part of the interest in farm incorporation arises from a desire to buy land as a speculative investment. State-wide, farm land values in Minnesota doubled from 1951 to 1967 (from \$99 to \$194 per acre). This has undoubtedly attracted some capital investments in farm land on the part of buyers interested in capital appreciation. The more sophisticated investor buyers (or owners) find incorporation a desirable step, for reasons summarized above.

PERCENT OF SALES MADE TO 3 TYPES OF BUYERS, MINNESOTA, 1958-67

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Investor buyer.....	17	15	12	13	10	13	13	16	17	11
Expansion buyer.....	33	32	41	37	41	44	45	55	54	57
Operating farmer.....	50	53	47	50	49	43	42	29	29	32

Note: Compiled from the Minnesota Rural Real Estate Market Surveys for 1963, 1966, and 1967.

ARE "INVESTOR BUYERS" ALSO "EXPANSION BUYERS"?

(Supplemental Data to Table 12, page 17. *The Minnesota Rural Real Estate Market, 1967*, Department of Agricultural Economics, University of Minnesota, February 1968)

In the following table the buyers of land for farming purposes have been grouped into two classes: "operating farmer", or "investor buyer". The class of "expansion buyers" from Table 12, p. 17, of *The Minnesota Rural Real Estate Market, 1967* has been distributed between these two classes, on the assumption that "expansion buyers" are either operating farmers or investors. The table also shows the magnitude of a third class of buyers of rural farm land, whose purchases are for non-farm purposes. These averaged 5 per cent of all purchases, in 1967, and were significant only in one district, The East Central, where they accounted for 15 per cent of the number of sales.