December 1, 2016

Good morning,

My name is Kevin Kester and I am a rancher from Parkfield, California. On behalf of the National Cattlemen's Beef Association, thank you for your interest in my comments regarding the IRS proposed rule to restrict the valuation of interests in family-owned businesses for estate, gift, and generation-skipping transfer tax purposes. I appreciate the opportunity to share with you NCBA's position on the estate tax and the detrimental impact the proposed regulations will have on family ranches and farms like my own.

We are a multi-generational family ranching operation. My family has ranched in California since 1864 and I represent the fifth generation of California ranchers in my family. I have an 18 month old granddaughter that is the first of my family's seventh generation. I am here today to help future generations have the best opportunity to stay in business.

Having dealt with the estate tax, I can assure you that it's not easy to settle the estate of a loved one while coping with the question of how to pay the estate tax, trying to determine will we have to sell off parts of the ranch, farm, or business? Will we be forced to take out a loan to pay the tax, even if we could get one? Will we be forced to lay off employees? These are tough questions that I have been through and that many, many livestock producers have to answer when confronted with estate tax.

In its present form, the estate tax is a primary obstacle to keeping family-owned ranches and farms intact and viable during generational transfers. Ranching is a debt intensive business. Beef producers largely operate a land-rich, cash-poor business model. A rancher and farmer's biggest asset typically is the land, making U.S. agriculture, specifically ranchers, especially vulnerable to the estate tax. As a result, many families are unable to keep their estates intact.

Our ranch is like most other family-owned small business. It can be challenging to make payroll, complying with numerous federal and state regulations, and paying bills, loans, and taxes.

When my grandfather passed away, we struggled. Struggled to keep the ranch intact. Struggled for more than 10 years to pay off the estate tax debt. Employees were let go, we did not make investments into the business, and deferred maintenance was excessive. We needed to hire folks, but could not. The debt hanging over our heads for 10 years cost us dearly. Besides the stresses on our family, we could not grow our business.

To create an economically viable operation, we try to do all the right things. I have invested to grow the family business and have worked to increase the value of our operation through improvements that allow us to contribute to our local economy. As cattlemen, we are caretakers. The most important part of my family's livelihood is the health and safety of our cattle, along with the well-being of our employees and the land on which we work and live. Every day, my family works along-side employees because every hand in the operation has a shared responsibility to look after not only our animals, but the natural resources so critical to our industry and our country.

We have increased the value of our ranching operation through a range of improvements from genetics to conservation efforts. Significant investments in environmental stewardship projects have improved our water quality, wildlife habitat, and range management.

Estate planning is an expense producers are forced to utilize to preserve the economic viability of their ranching or farming operations. Producers like myself are utilizing legitimate valuation discounts as a means of maintaining family ownership. The great benefit of these discounts, which accurately reflect the actual market value of minority ownerships in closely-held businesses, is that they reduce the tax burden at death, allowing agricultural operations to maintain family ownership from one generation of producers to the next.

Should the lack of marketability and lack of control discounts be eliminated, a significant number of ranchers and farmers will face an even greater tax burden during the difficult task of transferring minority interests to the next generation. Having dealt with the estate tax, which is not so fondly referred to in my family as the death tax, there is no doubt, in my opinion, the proposed rules will upend succession plans, halt planned expansion and growth, and result in a great many agricultural operations liquidating assets in order to simply survive from one generation to the next.

In fact, I am in the process of succession planning with our next generation and these proposed regulations would have a hugely detrimental impact on our plans. The proposed regulations under Section 2704 will have a profoundly negative effect on the business climate for ranchers and farmers, ultimately dis-incentivizing a new generation of producers from carrying on family businesses. As such, NCBA respectfully requests that the IRS formally withdraw the proposed rule.

Thank you for the opportunity to speak with you today. I am happy to answer any questions.