

TESTIMONY OF NEVADA STATE SENATOR DEAN RHOADS  
BEFORE THE UNITED STATES SENATE  
COMMITTEE ON FINANCE

NOVEMBER 14, 2007

Good morning, my name is Dean Rhoads. I am a rancher from Tuscarora, Nevada, which is 60 miles northeast of Elko, Nevada. I have been involved in livestock industry activities my whole career as a rancher.

I have also been a state senator since 1984. My state senate district is the largest in the United States outside of Alaska and stretches over 73,000 square miles. My district is larger than 34 states and accounts for over two-thirds of the land area of Nevada. Prior to serving as a state senator, I served three terms in the Nevada State Assembly.

I am the past Chairman of the Public Lands Council, an affiliate of the National Cattlemen's Beef Association, and also the past Chairman of their Public Lands Committee.

Today I am here on behalf of all the ranches, farms and small businesses in my district, as well as those throughout the State of Nevada. Although I am going to tell you the story of my family, there are many others like me who have been greatly impacted by the estate tax.

Since shortly after my wife, Sharon, and I graduated from college, we have lived on the ranch that was established by her parents in 1943. We now own the ranch.

Our daughter, her husband, and our two teenage grandsons all work on the ranch. We also have a 9-month old grandson who lives on the ranch. Our other daughter, her husband, and our granddaughter live on a ranch in southern Oregon.

My father-in-law came to Elko County in the 1930s when he was 15 years old. He worked as a cowboy and a ranch hand, saved his money, and eventually bought his first property over 60 years ago.

My father-in-law became a good friend of Bing Crosby when he owned ranches in Elko County, including one adjacent to my father-in-law's ranch that we purchased in 1966. My wife and family lived there for 18 years.

We operate on a combination of private and public land, which is common for Western ranches of our type and size. The capacity of our ranch is approximately 10,000 Animal Unit Months or AUMs, which is how ranches in our part of the West are measured and valued.

I believe, if we had a willing buyer, our ranch would be valued at about \$2.5 million in today's market, assuming it was not broken up or sold for water.

My mother-in-law died in 1976. My father-in-law paid a total estate tax of over \$300,000. To do this he could not afford to keep the ranch where my wife and I and our two daughters lived—the old Bing Crosby ranch.

Losing this ranch and our home was not only a personal blow, but it was devastating to our operation. This was our primary hay ranch, and at 6,000 feet in elevation we need every bale of hay we can produce. Losing this ranch meant we were forced to buy hay almost every year since 1985.

When my father-in-law died in 1995, there was no more land left to sell if we wanted to survive in the ranching business. Based on the ranch's value, the tax we now owed, with interest added, was over \$340,000.

Therefore we have been paying \$18,000 in estate taxes, plus interest, every year; which we are continuing to pay. We have had to borrow money to make these payments. We pay this money back through the revenues produced by our ranching business.

Because of this, I can say without a doubt that we have not made very many capital improvements to our ranch nor have we been able to take advantage of some expansion opportunities to plan for the future when our grandchildren might want to continue the tradition started by my wife's parents 66 years ago.

The other thing we have not been able to do is put aside any extra money to build up a fund to help our daughters with their own estate tax burden when my wife and I pass on.

I appreciate the Senate Finance Committee holding this hearing to investigate problems caused by the uncertainty of current law. But my family is a good example of what happens when the law does not offer solutions. Hopefully any future solutions will provide my family and other families like us, some relief down the road.

A current estimate of the value of our cattle would be about \$1,100 to \$1,300 per mature pregnant cow with a calf at her side. Understanding that the cattle market is not constant, we own about \$2 million worth of production units in our ranching business, in addition to our yearlings, a horse herd and the land value.

Let me illustrate the uncertainties of planning. Under current law, if my wife and I were killed in a common accident in December of 2009, our family ranch would be valued at around \$7 million, counting all the land and all the animals. Because my wife and I have tried to do some estate planning to divide our ranch assets between us, my daughters should have a \$3.5 million exemption on my estate and a \$3.5 million exemption on their mother's estate. They would not have to sell any land or cattle to pay the federal government, assuming the ranch does not continue to increase in value and also assuming that the ranch was not broken up for its water rights.

But, if they were faced with dealing with our estates in January of 2011, they would owe nearly \$2.5 million within 9 months of our death. That would be

in addition to the over \$640,000 we have already paid in estate taxes to the federal government.

So, how do we plan without some certainty? Let me tell you, that potential tax bill represents a whole lot of pregnant cows at \$1300 a pair.

Everyone in my family wants to continue our ranching business. Ranching is a tough way to make a living, but we can do it and make a profit over time.

It is difficult, but we can deal with the variables of weather, drought, labor shortage, market conditions, and day-by-day business expenses such as the increasing price of fuel. But, if you continue to add the specter of the burden of this unfair tax -- if we have to pay this much a third time as a family for one ranch -- I do not have much optimism for our future.

In closing, I urge the Committee to pass legislation reforming the estate tax by either eliminating or reducing the burden this tax places on families, ranches, farms, and small businesses in Nevada and throughout the United States.

Whether the solution is to eliminate the estate tax altogether or to increase the marital exclusion and lower the tax rate I leave up to the wisdom of Congress. But whatever you decide, I hope you will take action to help my family and others like us.

Thank you for the opportunity to testify before you today.