



AGRICULTURE AND TAX REFORM

Issue:

Farm Bureau supports replacing the current federal income tax with a fair and equitable tax system that encourages success, savings, investment and entrepreneurship. We believe that the new code should be simple, transparent, revenue-neutral and fair to farmers and ranchers.

Background:

Agriculture operates in a world of uncertainty. From unpredictable commodity and product markets to fluctuating input prices, from uncertain weather to insect or disease outbreaks, running a farm or ranch business is challenging under the best of circumstances. Farmers and ranchers need a tax code that recognizes the financial challenges faced by agricultural producers.

More than 96 percent of farms and 75 percent of farm sales are taxed under IRS provisions affecting individual taxpayers. Any tax reform proposal that fails to include the individual tax code will not help, and could even hurt, the bulk of agricultural producers who operate outside of the corporate tax code.

AFBF Policy:

Tax reform should embrace the following overarching principals:

- Comprehensive: Tax reform should help all farm and ranch businesses: sole-proprietors, partnerships, sub-S and C corporations.
- Effective Tax Rate: Tax reform should reduce rates low enough to account for any deductions/credits lost due to base broadening.
- Estate Taxes: Tax reform should repeal estate taxes. Stepped-up basis should continue.
- Capital Gains Taxes: Tax reform should lower taxes on capital investments. Capital gains taxes should not be levied on transfers at death.
- Cost Recovery: Tax reform should allow businesses to deduct expenses when incurred. Cash accounting should continue.
- Simplification: Tax reform should simplify the tax code to reduce the tax compliance burden.

Farm Bureau filed comments with four Senate Finance Committee Tax Reform Working Groups. A synopsis follows.

WORKING GROUP ON BUSINESS INCOME TAX

Pass-through Businesses: Any tax reform proposal considered by Congress must be comprehensive and include individual as well as corporate tax reform.

Effective Rates: Any tax reform plan that lowers rates by expanding the base should not increase the tax burden of farm and ranch businesses.

Cash Accounting: Cash accounting is the preferred method of accounting for farmers and ranchers because it provides the flexibility needed to optimize cash flow for business success, plan for business purchases and manage taxes.

Accelerated Cost Recovery: Because production agriculture has high input costs, farmers and ranchers place a high value on immediate expensing of equipment, production supplies and preproductive costs. This includes fertilizer and soil conditioners, soil and water conservation expenditures, the cost of raising dairy and breeding cattle, the cost of raising timber, endangered species recovery expenditures and reforestation expenses. Farm Bureau also places a priority on Sect. 179 small business expensing and supports bonus depreciation, shorted depreciation schedules, and the carry forward and back of unused deductions and credits.

Other Provisions: Farmers and ranchers support the continuation of Section 1031 like kind exchanges, the Domestic Production Activities Deduction (Sect. 199), farm and ranch income averaging, installment land sales, elimination of the UNICAP rules for plants, and the tax deduction for donated food and donated conservation easements.

WORKING GROUP ON INDIVIDUAL INCOME TAXATION

Estate Taxes: Farm Bureau supports permanent repeal of federal estate taxes. Until permanent repeal is achieved, the exemption should be increased, indexed for inflation and continue to provide for portability between spouses. Full unlimited stepped-up basis at death must be included in any estate tax reform. Farmland owners should have the option of unlimited current use valuation for estate tax purposes.

WORKING GROUP ON SAVINGS AND INVESTMENT

Capital Gains Taxes: Farm Bureau supports eliminating the capital gains tax. Until this is possible, the tax rate should be reduced and assets should be indexed for inflation. In addition, there should be an exclusion for agricultural land that remains in production, for transfers of farm business assets between family members, for farmland preservation easements and development rights, and for land taken by eminent domain. Taxes should be deferred when the proceeds are deposited into a retirement account. Farm Bureau supports the continuation of stepped-up basis.

Other Provisions that are Important to Farmers and Ranchers: Farmers and ranchers support the continuation of Section 1031 like kind exchanges, the Domestic Production Activities Deduction (Sect. 199), farm and ranch income averaging, installment land sales, elimination of the UNICAP Rules for plants, and the tax deduction for donated food and donated conservation easements.

WORKING GROUP ON COMMUNITY DEVELOPMENT AND INFRASTRUCTURE

Renewable Energy: Farm Bureau supports tax incentives to expand the production and distribution of renewable fuel and power.

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