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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.

Tax reform should embrace the following overarching principles:

- Comprehensive: Tax reform should help all farm and ranch businesses, including sole-proprietors, partnerships and sub-S and C corporations.
- Effective Tax Rate: Tax reform should reduce combined income and self-employment tax rates to be low enough to account for any deductions/credits lost due to base broadening.
- Cost Recovery: Tax reform should allow businesses to deduct expenses when incurred, including business interest expense. Cash accounting should continue. Sect. 1031 Like-Kind Exchanges should continue.
- 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.
- Simplification: Tax reform should simplify the tax code to reduce the tax compliance burden.

Pass-through Businesses: Any tax reform proposal considered by Congress must be comprehensive and include individual as well as corporate tax reform. More than 94 percent of farms are taxed under IRS provisions affecting individual taxpayers. Any tax reform proposal that fails to treat those taxed under the individual and corporate tax codes fairly will not help, and could even hurt, the bulk of agricultural producers who operate outside of the corporate tax code.

Effective Rates: Any tax reform plan that lowers rates by expanding the base should not increase the overall tax burden (combined income and self-employment taxes) of farm and ranch businesses. Because profit margins in farming and ranching are tight, farm and ranch businesses are more likely to fall into lower tax brackets. Tax reform plans that fail to factor in the impact of lost deductions for all rate brackets could result in a tax increase for agriculture.

Cost Recovery: Because production agriculture has high input costs, farmers and ranchers place a high value on immediate expensing of equipment, production supplies and pre-productive costs. Business deductions that allow farms to recover cost more quickly reduce net business income, effectively reducing taxable income and creating funds for increased business investments.

Interest Deduction: Also of critical importance is the deductibility of business interest expenses for interest paid on mortgages for land and buildings, operating loans, and vehicles and equipment purchases. Almost all farm and ranch investments are debt financed. The denial of the interest deduction will create an immediate increase in the cost of capital, especially for new and beginning farmers who tend to be more highly leveraged.

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.

Like-Kind Exchanges: Farm Bureau supports the continuation of Sect. 1031 Like-Kind Exchanges for real property such as land and buildings; personal property, which includes equipment and vehicles; and breeding and production livestock.

Estate Taxes: Farm Bureau supports permanent repeal of federal estate taxes. Until permanent repeal is achieved, the exemption should be increased, be 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. Capital gains taxes should not be imposed on transfers at death.

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.

Other Provisions Important to Farmers and Ranchers: Farmers and ranchers support tax incentives for renewable fuel and energy, 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.

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