AMERICAN FARM BUREAU FEDERATION®
600 Maryland Ave. SW | Suite 1000W | Washington, DC 20024

ph. 202.406.3600
f. 202.406.3602
www.fb.org

TAXES-DEDUCTION FOR INTEREST EXPENSE

Issue:

The business of farming and ranching is almost completely debt financed with little to no access to investment capital to finance the purchase of land. In 2015, all but 5 percent of farm sector debt was held by banks, life insurance companies and government agencies. Loss of the interest deduction will harm farmers' and ranchers' liquidity, make it harder for them to purchase land and production inputs and could lead to stagnation in the agriculture sector.

Background:

Farmers and ranchers, especially beginning farmers, have little to no interest income against which to claim a deduction for interest expense. Income generated from operations is devoted to living expenses and the repayment of debt. The denial of the interest deduction will create an immediate increase in cost to an already debt-burdened sector. The blueprint proposal to allow immediate expensing for all depreciable asset purchases will not offset the loss of the tax deduction for interest expense.

Debt service is an ongoing and significant cost of doing business for farms and ranches. In today's challenging farm environment, one in which farm income has declined 46 percent since 2013 as a result of relatively low prices and net return, careful consideration of any decision that may have an impact on a farm's liquidity is critical. Most farms maintain a working capital to value of farm production ratio below one, making access to debt critical. The importance of access to debt is even more important during difficult financial times.

Land has always been farmers' greatest assets, with real estate accounting for 79 percent of total farm assets in 2015. Without the tax deduction for interest expense, very few if any farmers or ranchers will be able to afford to purchase farmland without access to outside capital. Since almost all land purchases require debt financing, the loss of the deduction for mortgage interest will make it more difficult to cash-flow loan payments and could even make it impossible for some to secure financing at all.

Beginning and expanding farmers will be hurt the most by the loss of the business interest deduction because they are more highly leveraged and they need to buy land to start and expand their businesses. A 2015 survey of participants in Farm Bureau's Young Farmers and Ranchers program ranked finding and securing adequate land on which to grow crops as their top challenge. The elimination of the interest deduction will increase the cost of acquiring land, an asset already nearly prohibitively expensive due to the beginning farmer's lack of access to affordable credit. Beginning farmers will also be impacted by the loss of the interest deduction for debt financed equipment purchases because they are more likely to have to borrow money to buy equipment.

The full and immediate expensing of business investments is currently available to small businesses under Sect. 179, which allows up to $500,000 of expenses to be written off immediately. For farmers already able to expense all of their purchases (i.e., who don't acquire more than $500,000 of equipment) there is no added benefit to the expansion of the deduction, and the loss of the interest deduction would result in a tax increase.

Legislative Status:

The House Republican tax reform blueprint proposes limiting the deduction for interest expense to the amount of interest income. Providing a deduction against current and future interest income equates to eliminating the business interest tax deduction for farmers and ranchers since it is rare for a farm or ranch business to have interest income.

AFBF Policy:

Farm Bureau supports the continuation of the deduction for business income expense.

Contact: Pat Wolff, 202-406-3670, patw@fb.org