April 15, 2015

The Honorable Chuck Grassley
Co-Chair, *Individual Income Tax*
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

The Honorable John Thune
Co-Chair, *Business Income Tax*
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

The Honorable Mike Crapo
Co-Chair, *Savings & Investment*
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

The Honorable Debbie Stabenow
Co-Chair, Individual Income Tax
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

The Honorable Benjamin Cardin
Co-Chair, Business Income Tax
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

The Honorable Sherrod Brown
Co-Chair, Savings & Investment
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Senators Grassley, Thune, Crapo, Stabenow, Cardin, and Brown:

We commend the Senate Finance Committee for embarking on its thoughtful approach to tax reform and want to participate by offering comments on several items of particular interest to farmers, ranchers, and the agriculture industry. While it is not our intent to represent a comprehensive statement on tax reform, we offer you a common sense way to protect more farms and ranches from the detrimental impact of the estate tax as well as provide insight on the impact of previously proposed changes to the tax code.

<u>Cash Accounting</u>
Previous tax reform proposals have recommended harmonizing farm and ranch cash accounting rules with other businesses resulting in the termination of cash accounting for family farm operations with average gross receipts over $10 million. Due to uncertain and fluctuating income that results from weather-induced production variations and unpredictable markets that create price uncertainty for the products they produce, we need a tax code that allows farmers and ranchers to manage the risks associated with agriculture while complying with tax liabilities. Cash accounting combined with the ability to accelerate expenses and defer income gives farmers and ranchers the flexibility they need to manage their businesses and their tax burden. For these reasons, we warn against reducing the number of farms and ranches eligible to use cash accounting.

Section 179 Small Business Expensing

As you may know, agriculture requires large investments in machinery, equipment and other depreciable assets and because of this farmers and ranchers place great value on tax code provisions such as Section 179 small business expensing. Section 179 allows producers to write off capital expenditures in the year that purchases are made rather than depreciate them over time. The ability to immediately expense capital purchases also provides an incentive for farmers and ranchers to invest in their businesses and offers the benefit of reducing the record keeping burden associated with the depreciation.

Section 179 small business expensing provides agricultural producers with a way to maximize business purchases in years when they have positive cash flow. Under the expired law the maximum amount that a small business can immediately expense when purchasing business assets instead of depreciating them over time is $25,000 adjusted for inflation. We strongly encourage you to restore the maximum amount of expensing under Section 179 to $500,000 indexed for inflation as it was previously set for 2014. We are concerned that the failure to make permanent Section 179 expensing will place additional burdens on farm and ranch businesses who operate with tight profit margins and already face an unpredictable tax code.

Section 2032(A) Special Use Valuation

Farmers and ranchers are very appreciative of the significant and permanent estate tax relief that was passed as part of the American Taxpayer Relief Act of 2012, including continuation of stepped-up basis. As you may know, most farmers and ranchers are asset-rich and cash-poor, with most of their wealth tied up in the ever-increasing value of the land they use to grow food and fiber for consumers around the world. Unfortunately, the appraised value of rural land is inflated when compared to its agricultural value—and short of full repeal of the estate tax, Congress should maximize relief efforts for farmers and ranchers through expanding thresholds in sections of the tax code. Even though Section 2032A special use valuation can be used by some agricultural operations to protect them from the devastating impact of estate taxes, an expansion of Section 2032A special use valuation beyond its current $1 million limitation would expand the exemption to cover more farm and ranch families who are willing to make a long-term commitment to their businesses. We recommend that there be no limitation on the amount that property values can be reduced to reflect use valuation for estate tax purposes under Section 2032A.

Capital Gains

The impact of capital gains taxes on farms and ranches is significant because production agriculture requires large investments in land and buildings that are held over very long periods of time and appreciate significantly. Capital gains taxes are also applied to the sale of timber as well as livestock used for breeding, dairy, and draft purposes. Unfortunately, farmers and ranchers often pay the top rate (which is assessed on high-income tax payers) because their capital gains can be realized in a single year (for example, when a farm is sold) even though the average income does not exceed the thresholds that would trigger the top rate. An unfortunate effect of capital gains taxes is their influence on the price and availability of farmland. Higher capital gains rates discourage the sale of property and ultimately increase the sale price for land—making it difficult for new farmers and ranchers to acquire land and for existing producers to expand their operations. We strongly discourage any increase to the capital gains rates and encourage you to consider other options that do not discourage agricultural production and growth.

Section 1031 Like-Kind Exchange
Capital gains and in some cases, ordinary income tax, on the sale of business property can be deferred if a farmer or rancher purchases replacement property of a like-kind, also known as 1031 Like-Kind Exchanges. Reasons for using a 1031 exchange include: trading farmland for farmland, trading in older equipment for new and more efficient equipment, relocating livestock operations, etc. Without a 1031 exchange some producers would need to incur debt or delay necessary improvements in order to maintain their operations. Previous tax reform discussions called for the elimination of 1031 Like-Kind Exchanges and this something we strongly oppose.

As organizations representing small businesses, we are encouraged that Senate Finance Committee members are working to develop a comprehensive tax plan that addresses the needs of a twenty-first century economy and we look forward to working with you to provide insight and direction. Thank you for your consideration.

Sincerely,

Agricultural & Food Transporters Conference
Agricultural Retailers Association
American Farm Bureau Federation
American Farmland Trust
American Mushroom Institute
American Sheep Industry Association
American Soybean Association
American Sugarbeet Growers Association
Livestock Marketing Association
National All-Jersey Inc.
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Beef Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Milk Producers Federation
National Peach Council
National Pork Producers Council
National Potato Council
National Renderers Association
National Sorghum Producers
National Sunflower Association
National Turkey Federation
Professional Rodeo Cowboys Association
Public Lands Council

Southwest Council of Agribusiness
United Egg Producers
United Fresh Produce Association
United Producers, Inc.
U.S. Apple Association
U.S. Canola Association
U.S. Sweet Potato Council
USA Rice Federation
Western Growers Association