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

ph. 202.406.3600
f. 202.406.3606
www.fb.org

November 7, 2017

The Honorable Kevin Brady
Chairman, House Committee on Ways and Means
United States House of Representatives
Longworth House Office Building
Washington, DC 20515

Dear Chairman Brady:

Farm Bureau commends the Ways and Means Committee for advancing a bold proposal to reform our nation's tax code with the goal of promoting economic growth. We write to offer comment on provisions of H.R. 1, the Tax Cut and Jobs Act, that will help farmers and ranchers, as well as those issues that raise concerns.

Lower individual tax rates and the new business tax rate hold the potential to reduce income taxes paid by farmers and ranchers. But for the promise of lower taxes to hold true for low-margin businesses like farms and ranches, the tax rates for business income must match the graduated rates for personal income for those taxpayers below the 25 percent bracket. In addition, Farm Bureau will evaluate H.R. 1 and other tax reform packages by whether there is a reduction in the combined impact of income taxes and self-employment taxes.

Because farmers and ranchers operate low-margin businesses with unpredictable income streams, it is important to continue accounting measures that are essential to help them manage their cash flow and tax liabilities. Farm Bureau appreciates that H.R. 1 recognizes the value of cash accounting and does not limit its use. Continuation of like-kind exchanges for buildings and land also is important. The loss of like-kind exchanges for livestock and equipment is less of a concern if it is offset by permanent, expanded expensing.

A tax system that is fair to small business must allow for the deduction of all legitimate business expenses. Expanding Sect. 179 small business expensing and granting unlimited immediate expensing will provide a benefit to larger operations that exceed current limitations. In addition, the bill allows farmers and ranchers to continue deducting normal and customary business expenses including but not limited to feed, seed, fertilizer, chemicals and fuel. The business deduction for state and local taxes paid should continue without limitation. While Farm Bureau supports continuation of the complete deduction for business interest expense, the bill as written will not limit the deduction for most agricultural producers.

The temporary nature of the bill's expensing provisions is causing some anxiety for farmers and ranchers. Temporary tax provisions create uncertainty and make farm and ranch business management more difficult. Of particular concern is the expiration of expanded Sect. 179 small business expensing. Making this higher deduction level permanent would improve the bill. Lack of permanence is also concerning because the loss of like-kind exchanges for equipment and livestock is permanent while expensing provisions that negate the tax consequences expire after 2022.

Again, while H.R. 1 holds the potential to reduce income taxes paid by farmers and ranchers, there is concern that increases in self-employment taxes could cancel out these benefits and, worse yet, could even increase the total tax liability for some farmers and ranchers. It is important that the bill does not begin taxing income that is not currently subject to self-employment taxes. For example, some tax professionals believe that the bill will begin to impose SE taxes on farmland rental income. Assurances that passive income and income that is a return on investment will not be subject to SE taxes would alieve anxieties in farm country.

Finally, Farm Bureau is extremely complimentary of the permanent repeal of estate taxes and the continuation of step-up in basis contained in H.R. 1. While we would prefer immediate repeal, the doubling of the estate tax exemption indexed for inflation with continuation of the spousal transfer is a positive intermediate step that will ease the burden for the vast majority of farmers and ranchers.

Sincerely,

Zippy Duvall
President