



Statement of the American Farm Bureau Federation

**TO THE HOUSE COMMITTEE ON WAYS AND MEANS
HEARING ON FRAMEWORK FOR EVALUATING CERTAIN EXPIRING
TAX PROVISIONS**

June 8, 2012

The American Farm Bureau Federation welcomes this hearing providing an examination of the framework Congress should use to evaluate the extension of expired and expiring tax provisions. Farm Bureau believes the tax system plays an important role in determining the economic well-being of farms, ranches and other businesses involved in the production of food, fiber and energy. For this reason, Farm Bureau strongly supports a seamless extension of key expired and expiring tax provisions affecting the agriculture industry, but most importantly because Farm Bureau farm and ranch members need certainty in order to engage in sound business planning.

Before discussing specific provisions, Farm Bureau would like to emphasize the importance of extending the current estate tax exemption. This is and has been at or near the top of legislative priorities for over a decade. Establishing clear, reasonable rules for estate taxes would probably be the most effective action Congress could take to help in inter-generational transfer and establishment of young farmers. When estate taxes on an agricultural business exceed cash and other liquid assets, surviving family partners may be forced to sell land, buildings or equipment needed to keep their businesses operating. This not only can cripple a farm or ranch operation, but also hurts the rural communities and businesses that agriculture supports. Other important issues include maintaining capital gains tax rates, individual income tax rates and holding the Alternative Minimum Tax harmless.

Incentives for Renewable Energy

Clean, renewable, domestic energy will help America achieve long-term economic growth, create a cleaner environment and shield the economy from unreliable foreign energy sources. American farmers and ranchers are playing a bigger role in supplying the nation with the energy it needs through the production of agricultural-based, renewable energy resources. Long-term extensions of renewable energy tax incentives are needed to boost renewable technologies and support development of the market infrastructure necessary to make these technologies more competitive. In addition, the long-term extension of renewable energy incentives will ensure industry stability along with attracting the capital necessary to realize the benefits of long-term planning. Renewable energy tax incentives that should be extended include:

- Biodiesel and renewable biodiesel tax incentives;
- Small biodiesel producer tax credit;
- Tax incentives for diesel fuel created from biomass;
- Tax incentives for alternative energy refueling property;
- Cellulosic biofuels producer tax credit;
- Production tax credit for power from wind; and
- Production tax credit for power from biomass.

Deduction for Self-Employed Deduction against Self-Employment Taxes

With health insurance premiums on the rise and benefits on the decline, self-employed individuals, including most farmers and ranchers, continue to find it difficult to obtain and afford health insurance coverage. Congress recognized the need to make coverage more affordable by permanently allowing a deduction for health insurance premiums against income taxes. With many producers paying as much or more in self-employment taxes as income taxes, it is important to reinstate and extend the deduction for health insurance premiums against self-employment taxes.

Section 179 Small Business Expensing and Bonus Depreciation

The ability to deduct expenses immediately instead of having to depreciate them over time improves cash flow and allows farm and ranch businesses to better match income and expenses. Section 179 allows small businesses to expense the cost of qualified property in the year purchased in lieu of depreciation. Bonus depreciation gives businesses a way to write off additional expenses. Enhanced Section 179 small business expensing is especially important to farm and ranch businesses and should be extended. Bonus depreciation is also valuable in instances involving the purchase of new equipment.

Five Year Depreciation of Farm Equipment

Agriculture is an equipment-intensive industry with nearly \$130 billion of stock in use during any given year. Ideally, the allowed number of years to depreciate a piece of business machinery or equipment should match the period of debt service so that the tax benefits can be used to finance payments. Surveys from the Department of Agriculture's Farm Service Agency show, on average, farmers and ranchers finance business equipment and machinery for five years. Five-year depreciation of farm equipment should be reinstated and extended.

Modification of the Tax Treatment of Certain Payments to Controlling Exempt Organizations

Interest, rents, royalties and annuities (*i.e.*, payments of passive income) are generally received free of tax by exempt organizations. Under Internal Revenue Code Section 512(b)(13), however, these payments are subject to tax if they are received from a "controlled" organization (*e.g.*, a subsidiary). Fair market provisions provide a reasonable and fair way to determine when Unrelated Business Income Tax (UBIT) is owed, and should be reinstated, extended and amended to cover new contracts between tax-exempt parent organizations and their controlled subsidiary organizations.

Elimination of Tax on Awards under the National Health Service Corps Scholarship Program

Individuals living in rural and isolated areas face special challenges in receiving timely, quality healthcare. These areas often suffer from shortages of physicians and other healthcare providers, and the costs of providing quality healthcare in a rural health infrastructure can extend beyond available resources. The tax-free treatment of scholarships awarded to healthcare providers who agree to practice in underserved areas should be extended.

Enhanced Charitable Deduction for Contributions of Food Inventory

Some farmers and ranchers already donate gleaned food to charitable organizations that feed the hungry. Many more would do so if they are able to take a tax deduction that would help them to cover the expense of harvesting, processing and transportation. The enhanced charitable deduction for donated food for non-C corporations should be reinstated, extended and expanded so that cash method farmers (who do not use accrual accounting) can take advantage of tax incentives for donating food.

Contributions of Capital Gains Real Property Made for Conservation Purposes

Easements are an important tool for conserving our nation's resources and safeguarding farmland. When farmers and ranchers voluntarily donate conservation easements they preserve farmland for future generations by giving up development rights while retaining ownership and management of the land. The enhanced deduction for donated conservation easements should be reinstated and extended to give farmers and ranchers an incentive to preserve farmland and in recognition of the reduced value of protected farmland.

Railroad Track Maintenance Credit

Short line railroads are a feeder system for large Class I railroads, picking up or delivering one out of every four rail cars moving on the national rail network. They offer agricultural producers moving commodities to market an alternative to truck transport and allow producers to reach markets far beyond that in which trucks can reach in an economic manner. The tax credit for track maintenance should be reinstated and extended.