

**AMENDMENT IN THE NATURE OF A SUBSTITUTE  
TO H.R. 519  
OFFERED BY MR. BRADY OF TEXAS**

Strike all after the enacting clause and insert the following:

**1 SECTION 1. SHORT TITLE.**

2       This Act may be cited as the “Water and Agriculture  
3 Tax Reform Act of 2018”.

**4 SEC. 2. FACILITATE WATER LEASING AND WATER TRANS-  
5                   FERS TO PROMOTE CONSERVATION AND EF-  
6                   FICIENCY.**

7       (a) IN GENERAL.—Paragraph (12) of section 501(c)  
8 of the Internal Revenue Code of 1986 is amended by add-  
9 ing at the end the following new subparagraph:

10                   “(J) TREATMENT OF MUTUAL DITCH IRRI-  
11                   GATION COMPANIES.—

12                   “(i) IN GENERAL.—In the case of a  
13                   mutual ditch or irrigation company or of a  
14                   like organization to a mutual ditch or irri-  
15                   gation company, subparagraph (A) shall be  
16                   applied without taking into account any in-  
17                   come received or accrued—

1                   “(I) from the sale, lease, or ex-  
2                   change of fee or other interests in real  
3                   and personal property, including inter-  
4                   ests in water,

5                   “(II) from the sale or exchange  
6                   of stock in a mutual ditch or irriga-  
7                   tion company (or in a like organiza-  
8                   tion to a mutual ditch or irrigation  
9                   company) or contract rights for the  
10                  delivery or use of water, or

11                  “(III) from the investment of  
12                  proceeds from sales, leases, or ex-  
13                  changes under subclauses (I) and (II),  
14                  except that any income received under sub-  
15                  clause (I), (II), or (III) which is distrib-  
16                  uted or expended for expenses (other than  
17                  for operations, maintenance, and capital  
18                  improvements) of the mutual ditch or irri-  
19                  gation company or of the like organization  
20                  to a mutual ditch or irrigation company  
21                  (as the case may be) shall be treated as  
22                  nonmember income in the year in which it  
23                  is distributed or expended. For purposes of  
24                  the preceding sentence, expenses (other  
25                  than for operations, maintenance, and cap-

1           ital improvements) include expenses for the  
2           construction of conveyances designed to de-  
3           liver water outside of the system of the  
4           mutual ditch or irrigation company or of  
5           the like organization.

6           “(ii) TREATMENT OF ORGANIZA-  
7           TIONAL GOVERNANCE.—In the case of a  
8           mutual ditch or irrigation company or of a  
9           like organization to a mutual ditch or irri-  
10          gation company, where State law provides  
11          that such a company or organization may  
12          be organized in a manner that permits vot-  
13          ing on a basis which is pro rata to share  
14          ownership on corporate governance mat-  
15          ters, subparagraph (A) shall be applied  
16          without taking into account whether its  
17          member shareholders have one vote on cor-  
18          porate governance matters per share held  
19          in the corporation. Nothing in this clause  
20          shall be construed to create any inference  
21          about the requirements of this subsection  
22          for companies or organizations not in-  
23          cluded in this clause.”.

1           (b) EFFECTIVE DATE.—The amendment made by  
2 subsection (a) shall apply to taxable years beginning after  
3 December 31, 2018.

