

# Federal Tax Policy

## Key Takeaways

- Farm Bureau works to enact tax policies to benefit farmers and promote private initiative, domestic economic growth, equity, and simplicity.
- There are discussions by policymakers in Washington DC about changing tax law.
- It is vital for Farm Bureau leaders to engage their US Congressman and Senators about how potential tax changes could impact their farming operation.

## Questions

1. How has your tax burden been impacted by the Tax Cuts and Jobs Act of 2017?
2. What should Farm Bureau's priorities be pertaining to federal tax law?

## Current Status

The Tax Cuts and Jobs Act of 2017 is benefiting most farm businesses. Important provisions include reduced tax rates, the new small business income deduction (Section 199A), provisions to allow the matching of income and expenses, immediate cost recovery and an increase in the estate tax exemption. USDA's Economic Research Service documented the expected benefits of the tax reform in its publication "Estimated Effects of the Tax Cuts and Jobs Act on Farms and Farm Households."

**Many of the pass-through business provisions of the Tax Cuts and Jobs Act are temporary and should be made permanent.** More than 98% of farms operate as pass-through businesses – sole proprietorships, partnerships and Sub S corporations. Failure to extend important pass-through provisions will result in a tax increase for farmers and leave them without ways to deal with the cyclical and unpredictable nature of their businesses.

**The Tax Cuts and Jobs Act left in place many tax provisions important to farmers.**

- Stepped-up Basis for Inherited Property (more information on this topic can be found on page 23)
- Cash Accounting
- Deduction for Business Interest Expense (limited when gross receipts exceed \$25 million)
- Continue Like-Kind Exchange for Land and Buildings (ends for equipment and livestock)
- Business Deduction for Real Estate and Personal Property Taxes

**The Tax Cuts and Jobs Act contains many permanent provisions designed to help farmers.**

- Section 179 Small Business Expensing Increased to \$1 million
- Indefinite Carry Forward of Deductions Indexed for Inflation
- Depreciation for Farm Equipment Shortened from 7 to 5 years
- New Flat 21 Percent Corporate Tax Rate
- Repeal of the Corporate Alternative Minimum Tax (AMT)

**However, many of the provisions which help pass-through business are temporary and should be made permanent.**

Many of the pass-through business provisions of the Tax Cuts and Jobs Act are temporary and should be made permanent.

In spite of the much-appreciated relief provided by the Tax Cuts and Jobs Act, the temporary nature of the estate tax exemption continues to put farms at risk from estate taxes.

- **Reduced Pass-Through Tax Rates and Expanded Brackets:** If not extended, the result will be a tax increase on the majority of farm businesses. (Expires 12/31/25)
- **New Section 199A 20 percent Business Income Deduction (phase-out starts when taxable income exceeds \$315,000/joint):** Repealing the business income deduction would expand the tax base of pass-through businesses, erasing much of the benefit of tax reform legislation. (Expires 12/31/25)
- **Unlimited Bonus Depreciation (Expensing):** If not continued, farmers will be unable to offset income with deductions for their business expenses. This is especially critical because like-kind exchanges for equipment and livestock are repealed. (Phase out starts 2023)
- **Doubled Estate Tax Exemption to \$11 million person/\$22 million couple indexed for inflation (with inflation in 2021, \$11.7 million person/\$23.4 million couple):** If the exemption is allowed to revert back more farms will be subject to estate taxes. And, as long as the exemption level is temporary money must be spent on estate tax planning rather than on growing farm businesses. (Expires 12/31/25)
- **Increased Alternative Minimum Tax Threshold for Individuals:** Rollback of the higher AMT threshold will cancel out important deductions and credits put in place by tax reform. (Expires 12/31/25)

#### **Legislative Initiatives**

#### **Farm Bureau supports the following bills to extend or make permanent Tax Cuts and Jobs Act temporary tax incentives:**

- H.R. 1381 / S. 480 — Main Street Tax Certainty Act to make the Section 199A 20 percent business income deduction permanent. Introduced in the House by Reps. Jason Smith (R-MO) and Henry Cuellar (D-TX). Introduced in the Senate by Sen. Steve Daines (R-MT).
- H.R. 2558 / S. 1166 — the ALIGN Act, to make full and immediate expensing permanent. Introduced in the House by Rep. Jodey Arrington (R-TX.). Introduced in the Senate by Sen. Patrick Toomey (R-PA).

#### **In spite of the much-appreciated relief provided by the Tax Cuts and Jobs Act, the temporary nature of the estate tax exemption continues to put farms at risk from estate taxes. Farm Bureau supports:**

- H.R. 1712 / S. 617 – Death Tax Repeal Act to repeal the estate tax. Introduced in the House by Reps. Jason Smith (R-MO) and Sanford Bishop (D-GA) and introduced in the Senate by Sen. John Thune (R-SD).
- H.R. 2370 – The Preserving Family Farms Act of 2021, to allow more farmland to be valued at agricultural value rather than development value under Section 2032A Special Use Valuation. Introduced in the House by Reps. Jimmy Panetta (D-CA) and Jackie Walorski (R-IN).

#### **Policy**

##### ***Federal Income Tax***

Due to the importance of agriculture and small businesses to our economy, our tax structure should include income averaging, investment tax credits, rapid depreciation of buildings and equipment, and special treatment of long-term capital gains.

We applaud Congress for allowing states such as Tennessee that do not have a state income tax, to give individuals the option to deduct sales taxes paid from their federal income tax.

***Federal Income Tax (continued)***

The Alternative Minimum Tax (AMT) should be repealed. Until repealed, the threshold and deductions allowed should be increased. The Tax Cuts and Jobs Act passed December 2017 substantially decreased the number of taxpayers subject to AMT by increasing the exemption and making other adjustments reducing the impact on lower and middle income taxpayers.

Tax reform must not be used as a tool to increase taxes. We oppose all efforts to raise tax rates. Our taxing system must provide farmers with the tools to manage through the volatilities of unpredictable weather and markets. The cash accounting method is used by most farmers because it allows for a simplified record keeping system and provides the flexibility to manage their tax burden by reporting income when products are actually sold and expenses when paid. The use of cash accounting should continue to be allowed for all farmers. We encourage farmers to thoroughly study new tax proposals, including the Fair Tax, and encourage Farm Bureau staff to thoroughly investigate and educate our membership on these proposals.

We support continuation of the deduction of business interest. Growth in most farming operations require the use of debt to be able to purchase land and equipment. Also, many farmers annually depend on credit for operating costs. Business interest tax deductions are an important tool for farmers and should be maintained.

Self-employed individuals should not be denied the deduction for health insurance premiums in cases where the individual or the spouse is eligible to participate in an employer's subsidized plan and they elect not to participate in the employer's plan.