50 F Street, NW Suite 900
Washington, DC 20001
Tel: 202-626-8700
www.ncfc.org

Statement for the Record

Submitted by
The National Council of Farmer Cooperatives

To the
Committee on Small Business
U.S. House of Representatives

And

Committee on Small Business and Entrepreneurship
United States Senate

Regarding the Joint Hearing Entitled
Prosperity on Main Street: Keeping Taxes Low for Small Businesses

Submitted to:
Colin Hall, Clerk,
Committee on Small Business
U.S. House of Representatives
colin.hall@mail.house.gov

April 10, 2025

Chairman Williams, Chair Ernst, and members of both committees, the National Council of Farmer Cooperatives (NCFC) appreciates the opportunity to provide a statement for the record in response to the April 8, 2025, hearing entitled, "Prosperity on Main Street: Keeping Taxes Low for Small Businesses."

Since 1929, NCFC has been the voice of America's farmer cooperatives. Our members are regional and national farmer cooperatives, which are in turn comprised of 1,600 local farmer cooperatives across the country. NCFC members also include 26 state and regional councils of cooperatives.

Today, farmer co-ops across the country have over $300 billion in annual sales. They represent 1.8 million farmer members and provide over 200,000 jobs with a payroll of over $12 billion. Farmer co-ops are important members of their communities, doing everything from sponsoring the local Little League team to helping rebuild after natural disasters.

What is a farmer cooperative?

The simple definition of a farmer cooperative is a business owned by farmers, controlled by farmer-elected boards, and existing for the benefit of its farmer members. Yet, that single sentence does not fully capture how integral a cooperative is to its members' farming operations, which are millions of small businesses across rural America.

America's farmer-owned cooperatives provide a comprehensive array of services for their members. These diverse organizations handle, process, and market virtually every agricultural commodity. They also provide farmers with access to the infrastructure necessary to manufacture, distribute, and sell a variety of farm inputs. Additionally, they provide credit and related financial services, including export financing.

Co-ops act as bargaining agents, provide market intelligence, and help farmer members engage in value-added processing. For example, co-ops are often formed to extend the business operations of their farmer-owners into areas that would be difficult for individuals to carry out alone — activities like building and operating processing plants, establishing and marketing well-known consumer brands, and purchasing supplies in quantities large enough to obtain significant volume discounts. They provide their farmer-members with all the tools necessary to run a successful farming operation – including credit, financing, feed, seed, fertilizer, fuel, and other crop production products. They also process their patrons' commodities into consumer products (milk into butter, fruit into juice, soybeans into biodiesel, etc.).

There are different types of co-ops serving different purposes—supply co-ops, marketing co-ops, bargaining co-ops, and the farm credit system. A marketing cooperative, for example, can command a better market price for the bulk sale of all its patrons' produce than each individual farmer could command alone. A supply cooperative guarantees its members a source of needed agricultural inputs and can reduce the input costs of farm supplies for its patrons by buying or producing in bulk. In fact, farmers who belong to a supply co-op on average earn approximately $5500 more per year than those who do not.

A farmer may have 40 acres of oranges or 4,000 acres of soybeans, but as a member of a cooperative, they can accomplish things that no individual farmer could do on their own. Co-ops allow individual farmers to truly participate in the food and fiber system, all the way from the farm to retail. Some of the most innovative products and recognizable brands on grocery store shelves are co-op creations.

The benefits of farmer co-ops go well beyond the farm gate, directly supporting rural America. The profits of the co-op are returned to the farmer members, in the form of a patronage dividend, in proportion to the amount that each farmer has transacted with the cooperative. This contrasts with other forms of business, in which profits are returned in proportion to equity ownership interests.

Total profits for farmer cooperatives in 2022 were $12.5 billion; this money was either returned to farmer members or reinvested into the co-op, benefiting the co-op members, and further bolstering local communities.

Taxation of Cooperatives

A farmer co-op is a corporation subject to the corporate tax on its income. In computing its taxable income, a cooperative is allowed a deduction for amounts distributed to its members in the form of patronage. The farmer then includes this as ordinary income subject to the normal individual tax rates (i.e., the reduced rates applicable to dividends and capital gains do not apply).

Simply put, patronage income is taxed once. The income is either retained and taxed at the cooperative at regular corporate rates or is distributed to the patrons and taxed at their individual rates. This system of taxation is contained in subchapter T of the Internal Revenue Code and was first codified in 1962 to reflect the practices that had existed since the beginning of the federal income tax.

Section 199A

Section 199A was passed to put co-ops and small businesses on an even footing with big corporations which saw a significant decrease in their tax rate in 2017. The purpose of the co-op provisions contained within Section 199A(g) is to provide a replacement for prior-law Section 199 for cooperatives and their members. In enacting Section 199A(g), Congress made clear its intent that it should operate in the same manner as former Section 199.

The calculation is the same as it was under prior law Section 199 – it is 9% of the co-op's qualified production activities income (QPAI). The deduction is limited to 50% of the co-op's wages for the year and may not exceed the co-op's taxable income for the year. This is an important point, as an individual farmer may not have the wages to calculate much of a deduction. Through the co-op, they can better take advantage of the deduction.

The co-op may choose to keep all or part of the deduction at the co-op level to offset tax liabilities, or it may be passed through to their members.

Co-ops pass 95% back to farmers, who reinvest it into their operations, benefiting the economy through job creation, increased spending on ag production, and investment in rural communities. Among NCFC members alone, $2 billion was returned to farmers in 2022. Additional information by state is available on our website.

Section 199A, including provisions related to farmer co-ops, expires at the end of 2025. The reduced corporate tax rate reduction was made permanent in 2017.

The Section 199A deduction should be made permanent to keep the competitive balance between corporate and noncorporate businesses. We are asking Congress to save the Section 199A deduction because America's farm families are counting on it.

Again, thank you for this opportunity to provide a statement for the record. We stand ready to serve as a resource to you as the tax debate gets underway and are available to answer any questions.