Statement of the
American Farm Bureau Federation

TO THE HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS

REGARDING TAX REFORM AND THE BENEFITS OF PERMANENT TAX POLICY FOR AMERICA'S JOB CREATORS

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AFBF is the unified national voice of agriculture working through our grassroots organizations to enhance and strengthen the lives of rural Americans and to build strong, prosperous agricultural communities.

Farm Bureau represents more than 6,000,000 member families across the nation and Puerto Rico with organizations in approximately 2,500 counties.

Farm Bureau is an independent, non-governmental, voluntary organization of families united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity and social advancement and, thereby, to promote the national well-being.

Farm Bureau is local, county, state, national and international in its scope and influence and works with both major political parties to achieve the policy objectives outlined by its members.

Farm Bureau is people in action. Its activities are based on policies decided by voting delegates at the county, state and national levels. The American Farm Bureau Federation policies are decided each year by voting delegates at an annual meeting in January.

The American Farm Bureau Federation believes that tax policy should encourage private initiative, domestic economic growth, equity and simplicity. We commend the Ways and Means Committee for holding this hearing to hear firsthand how permanent tax policy can promote certainty for American businesses and generate additional economic growth. While the focus of this testimony is Section 179 small business expensing, we support the extension of other tax provisions. A fact sheet with a brief overview of these provisions is attached.

One of the major goals of tax reform should be to provide stable, predictable rules for businesses so that they can grow and create jobs. Farm Bureau believes that Congress should end its practice of extending important business tax provisions for one or two years at a time. This practice makes it very difficult for farmers and ranchers to plan and adds immense confusion and complexity. Long-standing tax provisions, like Section 179 small business expensing which help farm and ranch businesses cash flow, should be made permanent at the 2013 level.

Section 179 allows a taxpayer to deduct all or part of the cost of new or used business property rather than depreciating the cost over a longer period of time. Qualifying property must be used in an active trade or business which in the case of agriculture means by a taxpayer who cultivates, operates or manages a farm for gain or profit or a taxpayer who receives a rental payment based on farm production. Farmers can use Section 179 for single-purpose livestock or horticultural structures, petroleum storage facilities, property contained in or attached to a building such as milk tanks, automatic feeders, or barn cleaners; facilities used for storage of bulk commodities like grain bins; livestock including horses, cattle, hogs, sheep, goats and fur-bearing animals and for machinery and equipment. For 2013, the maximum deduction was temporarily $500,000 of purchased property reduced dollar for dollar when investments exceeded $2 million.

The list of Section 179 eligible purchases illustrates that farming and ranching is a capital intensive business. In order to remain profitable and be competitive, farm equipment, buildings, and storage facilities must be continually upgraded and replaced. Upgraded equipment and facilities allow farmers and ranchers to reduce maintenance costs, take advantage of labor-saving advances, become more energy efficient and adopt technology that is environmentally friendly. Smart business planning that anticipates and budgets for annual capital improvement proves challenging for farmers and ranchers because they operate on tight profit margins. While farm and ranch expenses continue from year to year with some variation, this is not true for farm income. Whether caused by unpredictable weather that affects crop yields or uncontrollable markets that set the price of goods sold, it is not uncommon for farmers and ranchers to have years with little or no taxable income. The immediate expensing provided by Section 179 allows farmers and ranchers to cash flow purchases that otherwise would be impossible or that would require them to incur debt expense when purchases cannot be delayed.

Uncontrollable weather and unpredictable markets create huge fluctuations in farm profitability. When farmers and ranchers have good years, Section 179 helps them to maximize their income to invest for a higher level of equipment replacement. This averages out against the poor years when cash flow isn't available to invest, making their businesses more efficient and sustainable in the long term. This has occurred over the past three years when farmers benefited from relatively high commodity prices and many farm businesses had the receipts to make a major purchase, for example, a combine for $350,000 or a tractor for $200,000. But during this same time period, crop input costs and machinery costs also increased. Now crop prices have dropped significantly while the costs of production and machinery remains relatively high with profit margins predicted to be much tighter in the future. The upgrades and improvements that farmers were able to make using $500,000 Section 179 deduction will help provide some input cost certainty during a period of unpredictable profitability.

Finally, under a progressive tax rate system, farmers and ranchers with incomes that fluctuate widely from year to year will pay more total taxes over a period of time than taxpayers with more stable incomes. The use of management tools like Section 179, which allows farmers and ranchers to target an optimum level of taxable income, not only allows agriculture producers to manage their tax liability but inserts fairness into the tax code.

In conclusion, Section 179 small business expensing provides many benefits to small businesses including farming and ranching but they are erased when Congress allows the expanded deduction to lapse even for short periods for time. Farm and ranch business planning, which is already difficult, becomes nearly impossible with a temporary and uncertain tax code. For these reasons, Farm Bureaus supports a permanent Section 179 small business deduction with a maximum deduction of at least $500,000 reduced dollar for dollar when investments exceed $2 million.

TAXES – EXPIRING TAX PROVISIONS SUPPORTED BY AFBF

Background:

The start of 2014 brought with it the expiration of many temporary tax provisions important to farmers and ranchers. Prompt congressional action is needed to reinstate and make permanent these policies that improve the economic viability and stability of food, fiber and fuel production.

Issues:

Section 179 Small Business Expensing
- The maximum amount that a small business can immediately expense when purchasing business assets instead of depreciating them over time is $25,000. Last year the maximum amount was $500,000 reduced dollar for dollar when expenditures exceed $2 million.

Bonus Depreciation
- An additional 50 percent bonus depreciation for the purchase of new capital assets, including agricultural equipment.

Cellulosic Biofuel Producer Tax Credit
- The $1.01 per gallon income tax credit for cellulosic biofuel sold for fuel plus the additional first-year 50 percent bonus depreciation for cellulosic biofuel production facilities.

Biodiesel
- The Biodiesel and Renewable Diesel $1.00 per gallon Tax Credit;
- The 10 cents per gallon Small Agri-Biodiesel Producer Credit; and
- The $1.00 per gallon Tax Credit for Diesel Fuel Created from Biomass.

Alternative Fuel Refueling Property
- The 30 percent investment tax credit for alternative vehicle refueling property.

Other
- The Production Tax Credit, which provides an income tax credit of 2.2 cents per kilowatt-hour for the production of electricity using wind energy;
- The Community and Distributed Wind Investment Tax Credit, which gives the option to take an investment tax credit in lieu of the Production Tax Credit;
- Fair market test for Unrelated Business Income Tax;
- Provision Encouraging Donations of Conservations Easements;
- Fifty Percent Railroad Track Maintenance Credit for Short Line Railroads;
- Enhanced Deduction for Donated Food;
- Deduction for state and local sales tax; and
- Deduction for tuition and fees for higher education will all expire at the end of 2013.