AMERICAN FARM BUREAU FEDERATION®
600 Maryland Ave. SW | Suite 1000W | Washington, DC 20024
ph. 202.406.3600
f. 202.406.3602
www.fb.org

TAXES- EFFECTIVE INCOME TAX RATES

Issue:

Reducing rates is essential to tax reform designed to encourage private initiative and spur economic growth. Farm Bureau supports lower tax rates but will measure any tax reform plan by the degree to which it lowers effective tax rates paid by farmers and ranchers. Unless farmers and ranchers have options that allow them to deal with the cyclical and unpredictable nature of their business, there is the potential that tax reform could increase taxes paid by agricultural producers.

Background:

Farms and ranches operate in a world of uncertainty. From unpredictable commodity and product markets to fluctuating input prices, from uncertain weather to insect or disease outbreaks, running a farm or ranch business is challenging under the best of circumstances. Congress has acknowledged these unique challenges by including provisions in the tax code that help farmers and ranchers manage through cash flow challenges by leveling income and by matching income with expenses.

Managing tax liability is also an important component of farm and ranch management. Farm and ranch businesses have rates of return that are modest compared to other business opportunities. According to USDA’s Economic Research Service, farm and ranch businesses had an average effective tax rate of 15.1 percent in 2010 (the most recent year for which information is available.) This means that even with lower tax rates, farmers and ranchers need important cash flow and tax management tools.

Important to farm and ranch cash flow and tax planning are tax provisions that allow farm and ranch operators to match income with expenses. Without this capability they could face higher taxes, have to pay taxes on income they haven’t received or be forced to incur debt to purchase seed, fertilizer, fuel and other farm supplies. Examples of provisions that help farmers and ranchers match income and expenses include cash accounting, Section 179 small business expensing, immediate expensing of farm inputs like fertilizer and bonus depreciation. Expensing pre-productive expenses, rent and repairs would also aid farm and ranch cash flow.

It is not uncommon for a farm operation to experience a good year followed by several years with slim or no profit. There are several tax code provisions that allow the leveling of income, which results in a tax burden comparable to businesses with steady income streams. Examples of provisions that help level farm income include Section 1031 like-kind exchanges, income averaging, loss carry forward and carry back, and installment sales. The delay in recognition of crop insurance benefits and proceeds from early sale of livestock due to disease or weather disaster are also beneficial. Farm savings accounts would also aid farmers and ranchers by allowing them to reserve income from prosperous years for years that are less so.

Legislative Status:

The House tax reform blueprint proposes lowering the top individual rate to 33 percent, lowering the top corporate rate to 20 percent and creating a new pass-through business rate of 25 percent. The blueprint provides for immediate expensing of business investments except for land with indefinite carryforward that is indexed for inflation. The blueprint is silent on other tax provisions that farmers and ranchers use to manage through cash flow challenges such as cash accounting and Section 1031 like-kind exchanges.

AFBF Policy:

Farm Bureau supports reductions in all tax rates. Farm Bureau supports the continuation of tax code provisions that help farmers and ranchers deal with the cyclical and unpredictable nature of their businesses. These include the immediate expensing of business investments, cash accounting and Section 1031 like-kind exchanges and other provisions as outlined above.

Contact: Pat Wolff, 202-406-3670, patw@fb.org