On February 26, 2014, Ways and Means Chairman Dave Camp (R-Mich.) released his proposal for tax reform. The draft lowers tax rates for individuals and businesses and broadens the tax base by eliminating over 220 tax credits, deductions and exclusions.

Following is a list of the provisions important to farm and ranch businesses and to related industries.

Income Tax Rates:

* The proposal lowers both the top corporate income tax rate and the top individual tax rate to 25 percent. The top rate for corporations is currently 35 percent. The top rate for individual is 39.6 percent. Farm Bureau policy calls for rate relief for all taxpayers.
* There would be two tax brackets for individuals, 10 and 25 percent. The new 10 percent bracket would replace the current 10 and 15 percent brackets and the new 25 percent bracket would replace the current 25, 28, 33 and 35 percent brackets.
* The proposal imposes a surtax of 10 percent on the modified adjusted gross income (MAGI) of taxpayers making over $400,000/individual or $450,000/joint. This new 35 percent rate would replace the current 39.6 percent rate. Income from qualified domestic manufacturing, which includes farm and ranch income, is excluded from the 10 percent surtax.
* The MAGI is calculated by disallowing certain deductions. For example Farm Bureau supported deductions for state and local taxes, the self-employed health deduction, deductions for employer contributions to health plans and to Health Savings Plans are not allowed.

Capital Gains Taxes

* The current preferential 20 percent capital gains tax rate is eliminated so that  a portion of capital gains will be taxed at ordinary income  rates.
* Forty percent of capital gains will be excluded from taxation. The result would be that only 60 percent of any capital gains are taxed at  the taxpayer’s income tax rate. For example, a person in the 35 percent income tax bracket would pay an effective 21 percent on capital gains, a tax payer in the 25 percent bracket would pay an effective 15 percent rate and a person in the 10 percent bracket would  a 6 percent rate. The current zero percent rate for low-tax bracket individuals would no longer exist.
* The bill does not repeal the 3.8 percent Medicare tax on capital gains imposed by the Affordable Care Act.

Alternative Minimum Tax

* The proposal repeals the AMT which Farm Bureau supports.

Accounting Methods

* The proposal makes no changes to cash accounting rules for farmers. Farm Bureau supports the continuation of special cash accounting rules for farmers and ranchers that only requires accrual accounting for C-corps with more than $25 million in gross receipts.
* Three-year income averaging for farmers and ranchers, which is supported by Farm Bureau, is repealed.
* The proposal excludes businesses, including growers of perennials and plants for resale, with less than $10 million of average annual gross receipts from burdensome uniform capitalization (UNICAP) rules. Farm Bureau supports an exclusion for all plants.
* The proposal repeals the provision that allows certain types of property, including farm property, to be sold using the installment method. Other types of installment sales would continue to be allowed. Farm Bureau supports installment sales.

Depreciation and Expensing

* The Section 179 small business expensing deduction limit is permanently set at $250,000 with the deduction phased out when investments exceed $800,000. The current limit is $25,000 with the phase out starting at $200,000. Farm Bureau supports reinstating the 2013 level of $500,000 with a $2 million phase-out level.
* The proposal repeals MARCS (modified accelerated cost recovery system) and replaces it with a slower depreciation system for property placed in service after the end of 2015. Farm Bureau supports accelerated depreciation.
* The proposal repeals the five year carry-back operating loss deduction for farmers and ranchers. They would now be treated the same as other businesses which have a two-year carry-back.
* The ability of farmers to immediately deduct soil and water conservation expenses, erosion prevention expenses and expenditures for endangered species recovery would be eliminated. Instead, these expenses would be capitalized in the basis of the property. Farm Bureau supports tax incentives for endangered species protection and that promote conservation.
* Farmers and ranchers would no longer be able to take an immediate deduction for expenditures for fertilizer, lime and other materials used to condition soil. The expenditures would instead have to be deducted over time. Farm Bureau supports the immediate expensing of pre-productive expenses.
* The current 40 percent credit for employee health insurance expenses of qualified small employers would be repealed. Farm Bureau supports tax incentives that help employers pay for health insurance.
* The proposal would repeal Farm Bureau supported like-kind exchanges (commonly known as 1031 exchanges) that allow farmers to defer taxes when exchanging farm property for farm property.
* The proposal phases out the Farm Bureau supported deduction for domestic production activities, reducing the deduction from 9 to 6 percent for 2015 and to 3 percent for 2016. The deduction would be repealed starting in 2017. (As explained above however, domestic manufacturing income which includes farm income is excluded from the 10 percent income surtax.)
* The Farm Bureau supported provision that allows land owners to deduct up to $10,000 of reforestation expenditures instead of amortizing them over seven years is repealed.
* The amount of self-employment taxes that a self-employed individual may claim as a deduction for income tax purposes is reduced to mirror the FICA tax deduction.

Other Provisions of Interest

* The proposal contains a six cents-per-gallon increase to the current 20 cent excise tax on fuel used to power commercial cargo vessels on inland or intra-costal waterway to support the Inland Waterways Trust Fund. Farm Bureau supports this increase needed to fund construction and maintenance of locks and dams and our nation’s inland waterways.
* The proposal permanently ends the Farm Bureau supported tax credit for 50 percent of railroad track maintenance expenses. The tax credit lapsed at the end of 2013.
* The proposal repeals the employer exemption of having to pay FICA taxes on foreign workers from the Bahamas, Jamaica and other British West Indies who come to the U.S. to preform agricultural labor.

Tax Provisions for Renewable Energy

* The proposal reinstates but reduces the Farm Bureau supported Production Tax Credit for electricity produced from wind, closed-loop biomass, open-loop biomass, small irrigation power and other renewable sources to its the base level of 1.5 cents per kilowatt-hour. The tax credit had lapsed at the end of 2013. It is permanently repealed for new projects starting in 2014.
* The proposal permanently repeals Farm Bureau supported tax credits for biodiesel and renewable diesel. The tax credits lapsed as the end of 2013. They were $1 per gallon for biodiesel and renewable diesel plus a 10 cents-per-gallon credit for agri-biodiesel produced by small producers.
* The proposal permanently repeals the Farm Bureau supported credit of $1.01 for cellulosic biofuels that had lapsed at the end of 2013.

AFBF will be analyzing whether or not the benefits of lower tax rates are offset by changes to farm business deductions and credits.

The complete tax reform proposal can be found at <http://tax.house.gov/>