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November 8, 2017

The Honorable Kevin Brady
Chair
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth H.O.B.
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee On Ways and Means
U.S. House of Representative
1102 Longworth H.O.B.
Washington, DC 20515

Dear Chairman Brady and Ranking Member Neal:

The National Association of Wheat Growers (NAWG) supports tax reform but, based on our best understanding of the proposal, we do have concern with specific items. The information below will share those concerns in hopes that final legislation can be ultimately improved to reduce the tax burden of wheat farmers.

We have concerns about the rate at which businesses would be taxed. Farming operations are structured in a variety of ways: C-Corps, S-Corps, partnerships, sole proprietorships, or a combination of entities. Each of these structures has different concerns. Many of our C-Corp structured farms presently pay 15% and the proposed 20% flat rate is a 33% increase for those operations reporting less than \$50,000 taxable income per year. Additionally, we have concern that the pass-through rate of 25 percent and self-employment tax may offset each other in instances. For example, a farmer that owns land and rents it to a separate farming entity will likely incur more self-employment tax than under the current law and this may not be offset by the maximum business rate of 25 percent. More so, we have grave concerns about subjecting passive, farm rental income to the self-employment tax as for many farmers, this income is a farmer's retirement plan. Again, these concerns are raised based on our best understanding of the proposal.

We are also concerned with the elimination of the Section 199 deduction for agriculture. The elimination will likely result in many of our member's enterprises reporting 9% more taxable income. The impact to farmers who are members of cooperatives will be significant as well. Co-ops pass 95 percent of the section 199 benefit back to farmers across rural America, an amount of nearly \$2 billion annually.

Additionally, our growers are also concerned about provisions dealing with the taxation of corporate owned housing and the inability to carry back losses. The latter issue is particularly important now given the low price environment and difficult economic conditions in rural America.

NAWG was pleased with provisions allowing for the continued use of cash accounting and the continued use of stepped-up basis. Additionally, our growers support the provisions allowing for immediate expensing of business expenses as well as the continuation of Section 1031 Like Kind Exchanges. These elements of the tax bill are important to helping farmers reduce their tax burden and we encourage improvements to areas of concern outlined above.

Sincerely,

Gordon Stoner
President, NAWG

cc: U.S. House of Representatives