National Association of Wheat Growers
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December 5, 2017

The Honorable Kevin Brady
Ways and Means Committee
U.S. House of Representatives
1011 Longworth Office Building
Washington, D.C. 20515

The Honorable Orrin Hatch
Finance Committee Chairman
U.S. Senate
104 Hart Office Building
Washington, DC 20510

Dear Congressman Brady and Senator Hatch:

On behalf of the National Association of Wheat Growers (NAWG), I write to applaud the House and Senate action to move tax reform forward. As the bills go to conference, I would like to raise a few specific provisions of concern in the legislation that we urge Congress to address prior to final action. 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. The tax reform bills have different implications for these various entities. Many wheat farms are structured as C-Corporations. Their tax liability is currently 15 percent on the first $50,000 in taxable income and so a flat rate of 20 percent would mean a 33 percent increase for farms on their first $50,000 in taxable income. Particularly given the current economic conditions in wheat country and anticipated low prices for the foreseeable future, there will be many that will fall under the $50,000 threshold and those operations will be particularly impacted. As such, we urge the conference committee to address this provision by not increasing the tax rate on farming operations structured as C-Corps making less than $50,000 a year.

Our farmers also have concern about the uncertainty and complexity of how pass-through entities will be treated. There is a wide discrepancy on how much pass-throughs will pay. We encourage a pass-through tax structure that is easily understood for the many farmers who operate as a pass-through entity. Beyond rates, our farmers have expressed reservations about having provisions that aren't permanent. We strongly support provisions included in both the House and Senate bills that increase bonus depreciation, allow for the immediate write-off of 100 percent of the cost of qualified property, and the increased estate tax exemptions but we encourage these provisions be made permanent to create a predictable, fair, and simple tax code that enables them to make better planning decisions for their operations.

We are also concerned with the elimination of the Section 199 deduction for agriculture. 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, we support farm businesses, regardless of structure to continue to be able to deduct state and local taxes.

NAWG was pleased with provisions allowing for the continued use of cash accounting and the continued use of stepped-up basis in both bills. 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.

Thank you for your consideration of our thoughts on several key issues. Please let me know if we can provide any additional insights about the impact certain provisions in tax reform would have on wheat growers.

Sincerely,

Gordon Stoner
President, NAWG

cc: U.S. Senate
U.S. House of Representatives