American Soybean Association®

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TAX REFORM BACKGROUNDER
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ASA Position

ASA supports comprehensive tax reform that reflects the unique nature of farm operations, including:

- maintaining cash accounting and income averaging for farmers
- allowing the option for full and immediate expensing of capital investments
- repealing estate tax, maintaining stepped-up basis
- maintaining Section 1031 provision for Like-Kind exchanges
- extending and restructuring the biodiesel tax credit

Background

Comprehensive Tax Reform

Tax reform - a top priority and agenda item for 2017 - would have significant impact economy wide and to agriculture. The primary drivers of tax reform are the desire to reduce corporate and individual tax rates, eliminate incentives for U.S. companies to move operations and/or revenues offshore, simplify the tax code, and spur economic growth. In addition to lowering rates and spurring growth and improving U.S. economic competitiveness, ASA supports specific aspects vital to farm operations.

Cash accounting allows farmers to improve cash flow by recognizing income when it is received and recording expenses when they are paid. This provides the flexibility needed to plan for future business investments and in many cases provides guaranteed availability of agricultural inputs. Loss of cash accounting could result in farmers paying taxes on income before receiving payment for sold commodities.

Farm and ranch businesses operate in a constant world of uncertainty with ongoing expenses and sometimes drastic fluctuations in income. **Income averaging**, which permits revenue to be averaged over three years, allows farmers to level out their tax liability.

ASA supports the option of **full and immediate expensing** of capital investments as a replacement for Section 179 depreciation and continuation of Bonus Depreciation at 50%.

While the current **estate tax** exemption level provides protection for many farmers, full repeal would erase any uncertainty and reduce estate planning burdens. In addition to repeal of the estate tax, it is important to maintain stepped-up basis, which limits the amount of property value appreciation that is subject to capital gains taxes if the inherited assets are sold. Because farmland typically is held by one owner for several decades, setting the basis on the value of the farm on the date of the owner’s death under **stepped-up basis** is an important tax provision for surviving family members.

Like-kind exchanges allow farmers to defer taxes when they sell land, buildings, equipment, and livestock and purchase replacement property.

Biodiesel Tax Incentive

The biodiesel tax credit expired on December 31, 2016. Extension of the tax incentive is critical to the industry's growth and ASA is actively engaged in efforts to further extend the biodiesel tax credit.

ASA and the National Biodiesel Board support a restructuring of the tax credit from a blender's credit to a production tax credit. This change will further support domestic biodiesel production versus imported biodiesel, improve administration of the incentive, eliminate potential abuses and improve tax compliance. Shifting from a blender's credit to a producer's credit would eliminate the ability of subsidized foreign biodiesel to claim the credit, thus maximizing the added value of domestic production.