January 17, 2014

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Hatch,

We commend the Senate Finance Committee for embarking on its thoughtful approach to tax reform and want to participate by offering comments on several items of particular interest to farmers and ranchers. As stated in previous correspondence, it is not our intent to represent a comprehensive statement on tax reform; instead we offer you common sense suggestions addressing the proposed changes to the tax code raised in the Chairman's Discussion Draft. While we generally support the concept of creating a simplified pro-growth tax code, it is our goal to provide you with guidance as to how your proposed changes will impact the agriculture industry. These comments focus on two items contained in the Chairman's Discussion Draft of particular interest to farmers and ranchers.

<u>Cash Accounting vs. Accrual Accounting</u>

The discussion draft proposes a fundamental change to a common practice in most agricultural businesses. According to the discussion draft, agricultural businesses with more than $10 million in gross receipts will be required to shift from the cash accounting method to the accrual method of accounting. Due to uncertain and fluctuating income that results from variable cropping practices, weather conditions, and markets, farmers and ranchers need a tax code that allows them to manage the risks associated with agriculture while complying with tax liabilities under the law. Cash accounting combined with the ability to accelerate expenses and defer income gives farmers and ranchers the flexibility they need to manage their tax burden. Requiring agricultural businesses to shift to accrual accounting could dramatically reduce working capital and equity available for investment in many sectors of the agriculture industry as well as increase complexity and decrease flexibility for many agricultural businesses.

The following example, taken from the Farmers Tax Guide published by the IRS (IRS Publication 225) illustrates the differences between the two accounting methods:

> **Example 1.**
>
> You are a farmer who uses an accrual method of accounting. You keep your books on the calendar year basis. You sell grain in December 2013 but you are not paid until January 2014. Because the accrual method was used and 2013 was the tax year in which the grain was sold, you must both include the sales proceeds and deduct the costs incurred in producing the grain on your 2013 tax return.

Example 2.

> Assume the same facts as in Example 1 except that you use the cash method and there was no constructive receipt of the sales proceeds in 2013. Under this method, you include the sales proceeds in income for 2014, the year you receive payment. Deduct the costs of producing the grain in the year you pay for them.

We can provide additional real-world examples of the myriad challenges this proposal poses for agriculture. Simply put, we do not believe that this change is appropriate in a commodity industry with high price volatility, low margins, high capital needs and low liquidity. Mandates to use accrual basis accounting will pose significant tax liability and eliminate the flexibility agricultural operations need to adjust to ever changing environmental, regulatory, and market conditions. We strongly oppose such mandates.

<u>Section 179 Expensing</u>
The discussion draft also proposes setting the Section 179 small business expensing limit in 2014 at $500,000 with a $2 million dollar phase out and increasing the expensing limit in 2015 to $1 million. Section 179 small business expensing provides agricultural producers with a way to maximize business purchases in years when they have positive cash flow and for that reason, we applaud the inclusion of the Section 179 provisions in the cost recovery discussion draft and support maintenance of a $1 million Section 179 small business expensing limitation and $2 million acquisition limit.

As organizations representing small businesses, we are encouraged that Senate Finance Committee members are working to develop a comprehensive tax plan that addresses the needs of a twenty-first century economy and we look forward to working with you to provide insight and direction. Thank you for your consideration.

Sincerely,

Agricultural & Food Transporters Conference
Agricultural Retailers Association
American Beekeeping Federation
American Farm Bureau Federation
American Mushroom Institute
American Sheep Industry Association
American Soybean Association
Farm Credit Council
Farmers for Tax Fairness
Idaho Dairymen’s Association
National Barley Growers Association
National Cattlemen’s Beef Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Milk Producers Federation

National Pork Producers Council
National Potato Council
National Sorghum Producers
National Sunflower Association
National Turkey Federation
Professional Rodeo Cowboys Association
Public Lands Council
South East Dairy Farmers Association
Southeast Milk, Inc.
United Dairymen of Arizona
United Egg Producers
United Producers, Inc.
USA Rice Federation
US Canola Association
US Dry Bean Council
Western Growers Association
Western United Dairymen