PolicyPennings by Dr. Daryll E. Ray

Agriculture reaps benefits from new tax law

Congress has passed and sent a $136 billion corporate tax-cut bill and disaster aid package to the President for his certain signature. In addition to benefiting large corporations, the bill includes a number of features that are of considerable interest to farmers and ranchers.

The impetus for the new legislation was a WTO Disputes Panel ruling against an export tax subsidy known as FSC-ETI. Without going into the details of the tax code what was important to farmers is that the WTO ruling allowed the E.U. to impose a punitive tariff on a wide range of U.S. products. The tariff began at 1% and was to increase by 1% a month until the U.S. repealed the offending legislation. For agriculture this increasing tariff was imposed on products from meats, to fruits and vegetables, to grains and seeds to raw hides and skins.

This piece of legislation is sort of like the old joke that answers the question, “What is a camel?” Answer, “It is a horse put together by a committee.” As a result this legislation includes a large number of provisions completely unrelated to the FSC-ETI issue.

The signing of this law will bring about the immediate cessation of punitive tariffs on U.S. agricultural and manufacturing products.

In addition the legislation extends the ethanol fuel tax subsidy through 2010. It also restructures this subsidy so that the Highway Trust Fund is made whole. As a result, farm states will get an automatic boost in highway funding. Biodiesel also benefits from this new law by receiving tax subsidies through 2006.

Under provisions of this legislation, farmers who use income averaging to smooth out fluctuations in their annual income will be exempt from the provisions of the Alternative Minimum Tax. The bill also provides capital gains tax relief for farmers and ranchers when livestock is sold and replaced on account of weather-related conditions. Several provisions benefiting timber producers are also included within the bill.

For those producers who are purchasing new equipment, the legislation extends enhanced section 179 expensing so that they can immediately expense up to $100,000 of new investments through 2007.

Without trying to throw a wet towel over all of this, we would caution our readers that many of these provisions will be tweaked by implementing regulations. At that time you will want to consult your tax advisor to appropriately apply them to your operation.

The one big item of interest to some producers is the inclusion of a tobacco buyout provision in the legislation. We will leave a discussion of that issue to next week.

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