

**Testimony of Glen Keppy
Farmer and Director, CHS Inc**

**Before the Senate Committee on Finance
hearing on**

**The Role of Tax Incentives in Preserving Rural
Communities**

**Sioux City, Iowa
August 25, 2004**

Good morning Senator Grassley and Senator Brownback. My name is Glen Keppy. I am a farmer from Davenport Iowa and serve as a Director on the CHS Board. CHS is a regional agricultural cooperative with over 1,100 local co-ops representing nearly 350,000 producers centered in 28 states, to include Iowa, Montana, and Kansas, in fact CHS continues to be the second largest employer in the state of Montana. Our company is the result of the merger of the cooperatives CENEX and Harvest States, and thus the name CHS.

CHS appreciates being able to speak to several issues concerning the focus of this hearing today on rural America. For fifteen years, CHS Directors and management have been coming to Washington, DC urging help for rural America especially for agriculture.

CHS has worked hard supporting many of the items in bills produced by this Senate Finance Committee and applaud the committee, especially its leadership, in finding every means it can to advance hope to rural America.

I will highlight a few tax bills produced in 2004. In the highway bill, you have offered tax help for ethanol and biodiesel. This will help many farmers by providing another outlet for their crops. It will also help the environment by providing cleaner fuels for motor vehicles.

In the energy bill, you have offered several items to include tax credits for the small petroleum refiners that dominate rural America, as they try to meet the costly EPA diesel desulfurization requirements by 2006. These tax credits are critical to the last three remaining farmer-owned refineries in America today—one of which is in Montana and one in Kansas.

In the corporate tax bill, you have offered help to ag exporters of American grain and granted farmers the right to economic tax assistance by classifying their co-ops as manufacturers. Both of these measures will help, as the United States transitions away from export supports found illegal by the World Trade Organization and under which the United States is now being penalized, with tariffs increasing each month up to \$4 billion.

And this month, you introduced a bill for “Heartland Investment and Rural Employment,” called HIRE, that continues your efforts of helping rural America. This is the topic for today.

Having supported many of the sections of HIRE legislation in previous bills, CHS knows first hand that they are good provisions. The first part of the HIRE bill, Title I, has items we know will help cooperatives and producers. For example, you have been trying to eliminate the unfair third tax on co-ops that issue stock. Your proposed provision that allows co-ops to issue stock without reducing patronage dividends—which we know as the Dividend Allocation Rule — would certainly help cooperatives like CHS.

CHS looked at how elimination of the Dividend Allocation Rule would specifically help us in our CHS preferred stock offering nearly two years ago. We determined that elimination of the Dividend Allocation Rule would help us keep more patronage for our member-owners. More importantly if the Dividend Allocation Rule is no longer in place, we believe more co-ops would issue stock, thereby providing cash strapped farmers and ranchers more liquidity and financial strength. There is a lot of co-op interest in this. Our CFO and CEO have been giving briefings to other co-ops on the stock offering mechanism and the Dividend Allocation Rule’s impact.

The second part of this HIRE legislation we would like to comment on is in Title III. Title III has another good group of provisions. We want to thank Senator Brownback for his work on these issues and on the New Homestead Act along with Senators Dorgan of North Dakota and Senator Hagel of Nebraska.

We see the two provisions called “Rural Investment Tax Credits” and “Qualified Rural Small Business Investment Credits” as very useful for rural America.

Rural gas stations with convenience stores and stores for crop inputs like fertilizers and crop protection items might be good candidates for these rural America credits. Why? Let’s take gas stations as an example. The trend in the number of retail stores selling motor fuel in the United States has been a steady downward one. Since 1994, there has been a loss of 35,532 stores, for a decline of 17.5% nationwide. Since 1994, retail stores selling motor fuel in 10 of CHS’s core states, which include Iowa and Kansas, have declined by 3,491 stores or 12.6%. The three hardest hit

states for CHS are Wyoming with a decline of 42%, Kansas declining 21% and Montana declining 20.9%. We see that as a serious factor in contributing to the shrinking of rural communities. We are a mobile society and as gas stations close in a given area, people move.

CHS has been working on reversing this. It has a business program that gives co-ops the business tools to build local gas stations and convenience stores. But some are reluctant to make the financial commitment. This tax credit could help.

Our tax people have looked at the “Rural Investment Tax Credits” and would suggest several things the committee should consider. First, reduce the numbers of players in the oversight of the program. Second, set up a simple administrative process. Third, insure the program has restraints and constraints so it does not become slanted to a “who you know process”. Our tax people would be happy to work with your staffs on these suggestions. All-in-all this is a good provision.

In summary, we commend the efforts of this committee and its leaders in pushing for tax relief for agriculture and rural America. The committee continues to do its job well. The problem is the Congress.

First, Congress cannot seem to find the means to pass the energy bill or corporate tax bill – both, which I mentioned earlier, have some great tax help for agriculture and rural America. We need just two senators to change their filibustering vote on the energy bill, HR 6, and that, with its helpful ag and rural tax provisions, would become law.

Second, Congress needs to pass the corporate tax bill. It would be an embarrassment if the corporate tax bill with the tax provisions did not pass Congress this year; otherwise the WTO continues to levy more and more tariffs on our goods.

And lastly, this legislation called HIRE is another good bill that warrants passage. Once improved, CHS will actively urge members of Congress to give the HIRE bill their full support.

Thank you for this opportunity and thank you for your continuing efforts to help rural America.