

**Written Testimony of Gayle Goschie
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Senate Finance Committee
Navigating Business Tax Reform
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Chairman Hatch, Ranking Member Wyden, Co-Chairs of the Business Income Bipartisan Tax Working Group, and members of the Finance Committee, I would like to thank you for giving me the opportunity to testify today.

Senators Cardin and Thune, I also thank you for your efforts on the Working Groups Report, to address the challenges of our present tax code. Your interest in tax fairness and certainty is appreciated, as is your willingness to consider innovative approaches to dealing with challenges posed by current tax law.

My name is Gayle Goschie and I am here today to represent Goschie Farms Inc. and the Hop Growers of America. I am a fourth generation farmer. My two brothers and I run Goschie Farms in Silverton, Oregon. Our land, which has been in our family for more than 130 years has 1,000 acres; 550 of which are devoted to hops. Another 150 acres is farmed with wine grapes. We supply hops and grapes to craft breweries and independent wineries throughout the United States.

Goschie Farms Inc. has a staff of 80 full-time and seasonal employees. Our customers include 20 breweries located in Oregon, Washington, California, Colorado, Wisconsin and Michigan, and we grow wine grapes for three Oregon companies.

As you all know, the business of farming is fraught with uncertainty. A growing season can turn quickly from an economic gain to an economic loss overnight. A change in the weather, product prices, labor supply, or our customers' needs can have an extreme, often unforeseen impact on our business. Furthermore, the complex and sometimes arbitrary and inequitable nature of our tax laws can impact how we buy equipment, what type of crops we plant and our hiring practices. The agriculture industry has many uncertainties, taxes should not be one of them.

Taxes influence how we invest in our business. Tax rates affect the equipment we buy and when we buy it, the type of crops we grow and our hiring/labor decisions. When there is uncertainty with taxes we are unable to invest with confidence in our business. Fixing the present tax code is one of the ways Congress can help ensure that farms like mine are positioned for growth.

Stated simply, perhaps the greatest thing Congress could do for millions of American small businesses is to streamline and simplify our incredibly complex tax code. Real tax reform will help us do what we do best – run our small businesses.

Congress has already enacted some changes that will have a positive impact on the farming sector. In December 2015, Congress permanently extended the small business expensing limitation and phase-out amounts in Section 179 when it passed the PATH Act. Prior to Section 179 being made permanent we did not feel confident making needed purchases throughout the growing season. The amount allowed to be expensed was unknown and needed investments were delayed. This permanent extension has allowed us to invest in renewable energy as well as water and energy savings practices and we are hoping to do more.

This is a step in the right direction. We hope that it will encourage Congress to focus on other issues like the current depreciation schedule we follow under "Uniform Capitalization," a tax concept governed by Internal Revenue Code (I.R.C) Section 263A, which is complicated and time consuming. In addition, hundreds of purchases need to be recorded and tracked independently and there are inequalities from one industry to the next. For example, a tractor in agriculture is depreciated over seven years, whereas depreciation for the same tractor in construction would be over five years. It would be helpful to have uniform depreciations for similar items and to allow items to be pooled together as opposed to being listed separately.

It also impacts our development costs. There are a number of expenses that come with development of a vineyard, they include land clearing, soil and water conservation, direct and indirect costs of vine, trellis, and irrigation systems, and preproductive costs. The general rule under I.R.C. § 263A is that all preproductive costs incurred during the preproductive period of vines must be capitalized into the cost of the vines. Depreciation on those capitalized costs would

begin when the vines have experienced their first commercially harvestable crop, a period of at least 3 years. The plant and trellis pre-production costs in hops can be written off much sooner than wine grapes, but most crops have no restrictions at all.

As you can see the tax code for small business owners, farmers like me, is complicated and difficult to interpret. Goschie Farms does not have accountants on staff to analyze every decision as it is made or to maneuver each decision to maximize the tax benefits. Our time and efforts are needed in the fields to meet the demands of our customers.

The work we do every day as farmers is a business story about the safe, U.S. grown, quality products that are our livelihood. It is my generation's responsibility to carry our farming business practices forward with soil that is healthy, and an environment that is productive and safe. Both hop and wine grape growers farm with certifications in best practices, sustainability and energy conservation. Additionally, our farm has invested in a grid-tied solar system that harnesses up to 32 kW of direct current power and our total hop acreage is efficiently watered and fed through more than 250 miles of drip tubing. With the hope of consistent energy tax incentives, these are just the beginnings of ongoing environmental investments.

Another tax issue that would impact farms like ours is the Craft Beverage Modernization and Tax Reform Act (S.1562), which was introduced by Senators Wyden and Blunt. Though this legislation does not directly impact hop and grape growers it would recalibrate the federal excise tax for craft beer, wine and spirits producers.

The majority of our customers would use savings from this legislation to grow their business, invest in larger tanks, and increase their purchase of supplies – such as hops and grapes. Their savings will impact how they purchase ingredients and in many cases allow them to be more consistent, something that would significantly impact the agriculture producers who supply them with their ingredients. It should come as no surprise that in addition to the majority of the alcohol industry this bill has the support of farm groups like the Hop Growers of America, the Oregon Winegrowers Association and the National Barley Growers Association.

The cost of growing hops, like grapes, is not insignificant for a farmer. With the number of craft breweries in the United States over 4,000 and growing the demand for hops increases year after year, but there are many factors a hop farmer must take into account when evaluating the feasibility of growing their hop production; capital, labor, natural resources, crop yield, cultural practices, input prices, prices of hops, management skills, size of the operation, type and size of machinery, and irrigation systems are all factors that must be considered (Galinato & Tozer, 2015, p. 1).

When the craft beverage industry finds relief through a reduction in excise taxes, the grower will find expanding markets, increased demand and a bolstered confidence in continuing to work with the craft producers. With this unique example, a simplified tax code could bring relief to breweries, wineries, farmers and consumers.

In conclusion, I want to thank you again for inviting me here today to testify. I know you have heard many stories like mine and that you agree that our federal tax code must be reformed. Streamlining and simplifying the Internal Revenue Code must be a top priority for the Congress. Tax reform will create a tremendous economic benefit for businesses small and large – and for the American people.

References:

Ms. Suzette P. Galinato, S.P & Dr.Tozer, P.R (2015). *2015 Estimated Cost of Establishing and Producing Hops in the Pacific Northwest* (Report). School of Economic Sciences, Washington State University, Pullman, WA.