COMMITTEE ON FINANCE
NEWS RELEASE

Max Baucus, Chairman
http://finance.senate.gov

*****UPDATE*****

The following information has been updated as of May 8, 2008, to reflect the final agreement on the farm bill tax package.

2008 FARM BILL TAX PACKAGE:
FARM TAX REFORMS

Many Americans – including congressional leaders on the farm bill – say that America's farm policy is ripe for reform. The final farm bill conference report will include important reforms in the tax package as well as in spending provisions.

Along with a slight decrease in the ethanol tax credit, these tax reforms add up to almost $2 billion and fully offset a package of vital tax relief for American agriculture. They will reduce the ability to abuse farming businesses to generate losses, help farmers ensure their own retirement security, and ensure that agricultural producers and other taxpayers properly report income and pay their fair share. These reforms are right for farm country – and right for the farm bill. Key tax reforms include:

- **Preventing the use of farm losses as a tax shelter –** Some taxpayers can use complex farming operations to reduce income subject to tax. This proposal addresses this problem by limiting the amount of farming losses that a taxpayer may use to reduce other non-farming business income to the greater of $300,000 or the net farm income for the previous five years if the taxpayer receives Farm Bill commodity payments. This can save $479 million over the next ten years.

- **Allowing farmers to pay additional self-employment taxes to qualify for Social Security –** Qualifying for Social Security benefits can be difficult for self-employed farmers and ranchers because they do not always have a steady income stream. When there are no earnings, no Social Security taxes are paid and no quarters are accrued. Through farm optional methods, farmers and ranchers may voluntarily pay Social Security taxes in order to earn quarters so that they can receive Social Security benefits. However, the payment thresholds are outdated and no longer allow farmers and ranchers to earn enough Social Security credits per year. This proposal modifies the farm optional method so that farmers and ranchers may pay more in optional self-employment taxes so they may be eligible to secure Social Security benefits. This can raise $105 million over the next ten years.

- **Ensuring that farmers know their tax obligations -** Income that is subject to information reporting is less likely to be underreported to the IRS, a problem that frequently leaves legally owed taxes unpaid. This provision requires the Commodity Credit Corporation to always provide the IRS and the farmer with information returns showing the amount of market gain the farmer realizes when he or she repays a CCC market assistance loan.

Additional reforms offsetting farm tax relief include an exclusion of denaturant from eligibility for the alcohol fuel credit, an extended tariff on imported ethanol, and a duty drawback on certain imported ethanol.