COMMITTEE ON FINANCE
NEWS RELEASE

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

For Immediate Release
October 2, 2007

Contact: Carol Guthrie
(202) 224-4515

# FINANCE TO CONSIDER AGRICULTURE TAX MEASURES THURSDAY

*Package offers reliable disaster assistance, tax relief for farmers & ranchers, new flexibility for billions of dollars in farm bill funds*

***Washington, DC*** – Senate Finance Committee Chairman Max Baucus (D-Mont.) announced plans today for a Thursday markup of agriculture tax provisions. The business meeting of the Committee will take place this **Thursday, October 4**, at **3:30 p.m.** in **Dirksen Senate Office Building Room 215**. The **"Heartland, Habitat, Harvest, and Horticulture Act of 2007"** will create a trust fund to help ranchers and farmers hurt by crop and livestock losses, convert a number of conservation payment programs into fully-offset tax credit programs, and offer additional incentives for rural economic development and energy-related tax relief to aid agricultural producers. Creating the disaster assistance trust fund and converting payment programs to tax credits will free up previously obligated spending funds for the Agriculture Committee to use elsewhere in farm bill spending.

**"Congress needs to come through for America's farmers and ranchers with disaster assistance, tax relief, and other provisions that make sense for the agriculture sector today,"** said Baucus. **"The hard work and sacrifice of our agricultural producers should not go unnoticed or unrewarded, and this package of tax provisions aims to recognize the realities farming folks face today. Whether they're just starting out, facing tough times, or setting aside long-held lands for the future, America's farmers and ranchers in every corner of the country can benefit from this bill."**

A summary of the Chairman's Mark follows here. The full Chairman's Mark, with scores, is available on the Finance Committee website at http://finance.senate.gov/sitepages/legislation.htm.

## Disaster Assistance

**Permanent Agricultural Disaster Assistance Trust Fund:** Currently, farmers and ranchers may have to wait years to receive assistance from Congress for agricultural disasters. Farmers and ranchers need to know that when weather related disasters strike, a dependable safety net exists. The proposal creates a trust fund for disaster relief that would cover the "shallow losses" not covered by crop insurance. The proposal requires farmers and ranchers to purchase crop insurance in order to be eligible for disaster assistance. The trust fund will be funded through allocation of tariffs. Cost is currently scored at $6.1 billion over ten years. It will include:

> **Tree Assistance:** Assistance to specialty crop farmers whose trees, bushes and vines are lost due to a natural disaster. Payments will help to defray the cost of reestablishing orchards and vineyards.

*--more—*

**Pest and Disease Management and Disaster Prevention:** A new program under which USDA will conduct early pest detection and surveillance activities in coordination with State departments of agriculture, will prioritize and create action plans to address pest and disease threats to specialty crops, and will create an audit based certification approach to protect against the spread of plant pests which could cause crop losses.

## New Farmers

**Agricultural Bond Improvements**: "Aggie Bonds" are tax-exempt bonds that provide low-interest loans for first-time ranchers and farmers. Baucus's proposal updates the structure of Aggie Bonds for the first time in 26 years. The proposal would increase the loan limit from $250,000 to $450,000, and index the limit amount for inflation. It would also eliminate the dollar limitation in the definition of "substantial farmland." Cost is $19 million over ten years.

**Installment Sale Modification for Single-Purpose Agricultural Property**: Single-purpose agricultural property (such as chicken barns, pig barns, and vineyard property) may be depreciated more quickly than other real estate, but this depreciation is subject to a recapture provision when the property is sold. This means that a taxpayer who has taken significant amounts of accelerated depreciation on single-purpose agricultural property may be reluctant or unable to sell or exchange the agricultural property due to the large amount of ordinary income tax due at the time of the sale or exchange. The proposal allows a taxpayer to pay recapture obligations in installments over a period of time, rather than all at once in the year of the sale. Cost is $246 million over ten years.

## Conservation

**Conservation Reserve Program Tax Credits** Currently, participants in the Department of Agriculture's Conservation Reserve Program (CRP) receive cash payments. The proposal will allow a participant in CRP the option to choose between the regular cash payment and a tax credit. The tax credit will be equal to 100% of the value of the cash payment the participant would have otherwise received and the credit will be excludable from both income and self-employment taxes. Cost is $4.87 billion over ten years.

**Wetlands Reserve Program and Working Grasslands Protection Program Tax Credits:** Currently, participants in the Wetlands Reserve Program and Working Grasslands Protection Program receive cash payments for easements they sell to the government. The proposal will allow a participant in the Wetlands Reserve Program and the Working Grasslands Protection Program the option to choose between the cash payment for the easement or a tax credit. A tax credit will be equal to the value of the payment they would have received after taxes were paid on the payment. Cost is $75 million over ten years.

*--more--*

**Tax Treatment of Conservation Reserve Program Payments**: Farmers enrolling their land in (CRP) receive payment for refraining from farming their property and for engaging in certain conservation practices mandated by the Department of Agriculture. This proposal provides that CRP payments to retired or disabled individuals are to be treated as rental payments for tax purposes and are therefore excluded from self-employment taxes. Cost is $206 million over ten years.

**Rural Heritage Conservation Extension**: Baucus would permanently extend the enhanced tax incentive for conservation easements included in last year's Pension Protection Act. The provision allows all taxpayers to deduct up to 50% of their adjusted gross income (AGI) for donations of conservation easements and carry forward the deduction up to 15 years. A bonus allows ranchers and farmers to deduct up to 100% of their AGI for donations of conservation easements. Cost is $761 million over ten years.

**Endangered Species Recovery Act**: This proposal establishes two new tax credits for taxpayers who take voluntary measures to aid in the recovery of species that are either listed as threatened or endangered under the Endangered Species Act (ESA) or deemed by the Secretary of Interior or Commerce to be warranted for protection under the ESA. It also establishes a tax deduction for the cost of actions to implement recovery plans under the ESA, and an exclusion from income tax obligations for payments received under various cost-share conservation programs. Cost is $1.818 billion over ten years.

**Forest Bonds**: This proposal establishes a national program allowing the issuance of $1.5 billion tax-exempt timber conservation bonds. The bonds must be issued by a non-profit organization whose holdings consist primarily of forests and forest lands and whose board of directors includes specified representation of public officials and conservation organizations. Proceeds from the sale of bonds must be used for the acquisition of forest and forest lands that are subject to a conservation restriction, which is defined as a perpetual restriction that achieves specified conservation goals. Cost is $257 million over ten years.

## Rural Development and Other Agricultural Provisions

**Rural Renaissance Bonds**: The proposal creates a new category of tax credit bonds with a total allocation of $400 million for projects such as distance learning and telemedicine programs, rural telephone, broadband access and rural community facility projects. The cost over ten years will be $168 million.

**Credit for Drug Safety and Effectiveness Testing for Minor Species:** To help make more medications available to veterinarians and owners of minor species (such as sheep, goats, aquaculture) this proposal provides a 50% credit for safety and effectiveness testing expenses for new animal drugs intended for these species. Cost is $121 million over ten years.

**Section 1031 Eligibility for Mutual Ditch, Reservoir, or Irrigation Company Stock**: Section 1031 of the Internal Revenue Code allows the tax-free exchange of like-kind property held for productive use in a trade or business. Section 1031 may not be used to prevent recognition of gain on the exchange of stock. This provision will clarify that the exchange of ditch company stocks is effectively an exchange in real property and therefore tax free pursuant to Section 1031. Cost is $2 million over ten years.

--*more*—

## Energy

**Residential Wind Credit**: Currently, there are no tax incentives for residential wind property. The proposal creates a new 30 percent personal credit for residential wind property, capped at $4,000 per year. The cost is $3 million over ten years.

**Transmission Pole Payment Exemption**: Easement payments generally must be included in a taxpayer's income for federal income tax purposes. The proposal allows taxpayers who locate an electricity transmission pole on a line of 230 kilovolts or more to exempt easement payments received from the electric utility or electric transmission company from gross income. The cost is $179 million over ten years.

**Small Producer Credit For Cellulosic Alcohol:** The proposal creates a new production tax credit for cellulosic alcohol of 50 cents per gallon (in addition to the current 51 cents/gallon credit and 10 cent/gallon credit) for up to 60 million gallons of cellulosic fuel production in a taxable year. The cost is $828 million over ten years.

**Expand Expensing for Cellulosic Ethanol Facilities**: The proposal expands the eligible property qualifying for the 50 percent expensing to include alcohol produced from any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis. Cost is $1 million over ten years.

**Small Ethanol Producer Credit**: The proposal extends for two years (through December 31, 2012) the 10 cent per gallon tax credit on the first 15 million gallons of ethanol production for producers with annual capacity of not more than 60 million gallons. Cost is $172 million over ten years.

**Fossil-Free Alcohol Production Credit:** The proposal creates a new small producer alcohol credit of 25 cents per gallon for facilities that produce ethanol through a process that does not use a fossil-based resource available through December 31, 2012. Cost is $278 million over ten years.

**Biodiesel Tax Credits**: Extends for two years (through December 31, 2010) the $1.00 and 50 cent production tax credits for biodiesel. Extends for four years (through December 31, 2012) the 10 cent per-gallon tax credit on the first 15 million gallons of biodiesel production for producers with annual capacity of not more than 60 million gallons. Cost is $267 million over ten years.

**Renewable Diesel Incentives:** Extends for two years (through December 31, 2010) the $1 tax credit for diesel created through a thermal depolymerization process and caps, on a per facility basis, the $1 credit at 60 million gallons per year. Cost is $211 million over ten years.

**Alternative Fuels Excise Tax Credit**: The proposal extends through 2010 the alternative fuel tax credit for non-coal based transportation fuels. The proposal modifies the credit to include biomass-gas-based versions of liquefied petroleum gas and liquefied or compressed natural gas. Cost is $332 million over 10 years.

--*more*—

**Alternative Refueling Station Tax Credit**: The proposal extends the 30 percent alternative refueling property credit (capped at $30,000) for non-hydrogen property for one year (through December 31, 2010). Cost is $119 million over ten years.

Baucus's Chairman's mark will be fully offset. The offsets for the bulk of the bill will be finalized at Thursday's markup. However, offsets for the energy portion of the legislation include:

- **5-cent reduction in ethanol credit:** This proposal reduces the 51-cent-per-gallon tax credit for ethanol by 5 cents beginning with the first calendar year after the year in which 7.5 billion gallons of ethanol has been produced. The 7.5 billion target matches the renewable fuel standard passed by Congress in the 2005 Energy Policy Act. This proposal is expected to raise $854 million over ten years.

- **Extension of Tariff on Ethanol**: The proposal extends the tariff on imported ethanol for two years (through December 31, 2010), and is expected to raise $25 million over ten years.

- **Elimination of Certain Refunds of Duty Imposed on Ethanol**: Present law allows duties paid upon import to be reclaimed at a later date if the same or similar product is exported. Current law treats ethanol blended with gasoline the same as jet fuel. The proposal terminates that treatment. Any drawback for ethanol blended with gasoline is still allowed. This proposal is expected to raise $10 million over ten years.

- **Exclusion of denaturant from alcohol fuels credit**. The proposal excludes the volume of denaturant (a substance used to render alcohol toxic or undrinkable) in the fuel for purposes of calculating the volume of alcohol eligible for the alcohol fuels credit. The proposal is estimated to raise $284 million over ten years.

- **Alcohol and biodiesel as taxable fuel.** This proposal adds qualified alcohol fuel mixtures and qualified biodiesel fuel mixtures to the definition of taxable fuel as a type of diesel fuel. This proposal is estimated to raise $15 million over ten years.

# # #