COMMITTEE ON FINANCE
NEWS RELEASE

Max Baucus, Chairman
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FARM BILL'S DISASTER AID, REFORMS & TAX RELIEF BECOME LAW AS SENATE OVERRIDES VETO

Finance Chairman Baucus led fight for new disaster assistance trust fund, $2 billion in farm tax reforms funding farm tax relief

Washington, DC – The U.S. Senate voted 82-13 today to override a presidential veto of the 2008 farm bill, giving America's farming families a permanent agriculture disaster assistance trust fund and nearly $2 billion in farm tax relief as part of comprehensive farm legislation. Senate Finance Committee Chairman Max Baucus (D-Mont.) led the creation and the passage of the reliable disaster assistance program and the bill's tax and trade title, as well as the successful effort to fully pay for the bill's $10 billion in new spending over the next ten years. The bill's farm tax relief is also fully funded with nearly $2 billion in strong farm tax reforms.

"When the sun sets on farm country tonight, hard-working folks can know that this Congress believes in America's agricultural sector. By voting to override the President's veto, we did what's right for farm families in Montana and across the country today," said Baucus. **"Farm life will never be easy, but the disaster assistance and tax relief in this new law will help American ag producers shoulder the load of providing food and fuel to the world. Strong reforms make the farm bill fairer and require everyone to do their share. I'm proud to stand up for Montana and for all of America to support this farm bill."**

A summary of disaster relief, farm tax reform, farm tax relief, and trade provisions follows here. Additional information is on the web at: http://finance.senate.gov/sitepages/finalfarmbill.htm and http://finance.senate.gov/sitepages/legislation.htm.

Disaster Assistance

The permanent agricultural disaster assistance trust fund in the final farm bill finances five programs that can comprehensively address agricultural disasters across the nation. The provision requires farmers to purchase crop insurance in order to be eligible for disaster assistance. Payments would be made for crop years after 2007. Programs funded are:

- The **Supplemental Revenue Assistance Program (SURE)** covers crop losses due to natural disasters. To receive benefits from SURE, farmers must: 1) carry crop insurance on their entire farm; and 2) be located in a Secretarially declared disaster county or a contiguous county, or show proof of an individual loss of at least 50 percent. Farmers carrying higher levels of insurance will be eligible for higher payments. The Supplemental Revenue Program covers whole-farm crop losses.

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- The **Livestock Forage Program** provides assistance to ranchers in areas affected by drought. These payments are based on the severity of the drought experienced in the rancher's county. Ranchers in areas with exceptional or extreme droughts will qualify for higher levels of assistance. In order to qualify for assistance, ranchers must be located in a county that is experiencing a severe, extreme or exceptional drought condition based upon the Drought Monitor.

- The **Tree Assistance Program** provides compensation for specialty crop farmers to replant trees and vines that have been destroyed by natural disasters such as hurricanes, freezing rain, or severe temperatures.

- The **Livestock Indemnity Program** provides compensation to ranchers for livestock that are lost due to disasters such as extreme heat, blizzards, hurricanes, or other conditions. Indemnity payments are 75 percent of the fair market value of the livestock.

- **Emergency Assistance for Livestock, Honeybees, and Farm Raised Fish** is a program that addresses unique disasters not adequately covered by any other program within the Trust Fund. This program will provide assistance for unique or isolated disasters such as floods, tornadoes, hurricanes or Colony Collapse Disorder.

This provision is estimated to cost $3.807 billion over five years and ten years, and will be funded through allocation of tariffs. Transfer of funds to the trust fund will sunset September 30, 2011.

Farm Tax Reforms

Ethanol Credit Modification: The U.S. ethanol industry has grown dramatically in recent years, far exceeding Congress' goals for biofuel production. Now that the ethanol industry has matured, it is appropriate to curb the tax subsidy provided to ethanol. This package reduces the 51¢/gallon credit for ethanol by 6 cents in the year after which the 7.5 billion-gallon threshold established by the 2005 Energy Policy Act is reached. This provision is similar to a provision in the December 2007 *Clean Renewable Energy and Conservation Tax Act*, and is estimated to raise $1.203 billion over the next 10 years – enabling tax incentives for additional renewable energy strategies.

Preventing the use of farm losses as a tax shelter: Some taxpayers can use complex farming operations to reduce income subject to tax. The farm bill addresses this problem by limiting the amount of farming losses 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 will save $479 million over ten years for farm tax relief.

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 provision 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 to fund farm tax relief.

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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.

Extension of Tariff on Ethanol: The provision extends the tariff on imported ethanol for two years (through December 31, 2010), providing $70 million over ten years to fund farm tax relief.

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 provision terminates that treatment. Any drawback for ethanol blended with gasoline is still allowed. This provision will provide $17 million over ten years to fund farm tax relief.

Exclusion of denaturant from alcohol fuels credit. Current law provides a per-gallon credit for the volume of alcohol used as a fuel or in a qualified mixture. In determining the number of gallons of alcohol for which the credit is allowable, the volume of alcohol includes any denaturant (substances used to render alcohol toxic or undrinkable). The denaturant must be added under a formula approved by the Secretary, and cannot exceed 5% percent of the volume of the alcohol. This provision reduces the amount of allowable denaturants to 2% of the volume of the alcohol. This provision raises an estimated $124 million over ten years to fund farm tax relief.

Farm Tax Relief

Agricultural Bond Improvements – Help for Farmers Starting Out. "Aggie Bonds" are tax-exempt bonds that provide low-interest loans for first-time ranchers and farmers. The Aggie Bond program has not been updated in 26 years – in which time farm costs have risen exponentially. The bill will increase the loan limit for an individual beginning farmer from $250,000 to $450,000, and index the limit amount for inflation. The provision also allows more beginning farmers – including those with a previous stake in family farm land – to qualify for Aggie Bonds. This provision costs $20 million over ten years.

Section 1031 Eligibility for Mutual Ditch, Reservoir, or Irrigation Company Stock - Flexibility for Landowners with Water Rights: Some state water rules keep farmers and ranchers from selling their land when they need or want to. The bill will allow the tax-free exchange of stock that represents a holding of water rights, just as allowed for real property under Section 1031 of the tax code. The cost is $2 million over ten years.

Agricultural Business Security Tax Credit - Support for Agricultural Businesses: Agricultural chemicals and pesticides purchased for legitimate uses are increasingly vulnerable to theft because of the drug trade and national security threats. Some agricultural businesses may pay tens of thousands of dollars on new measures to secure their storage sites. This provision will help agricultural businesses afford the increasing expenses of protecting agricultural chemicals and pesticides. The bill will provide a credit for 30 percent of costs for the protection of agricultural chemicals or pesticides, with a $2 million annual limit and a per facility limitation of $100,000. The cost is $14 million over ten years.

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Equal tax treatment for equine livestock: The current depreciation schedule for the cost of a race horse does not recognize that most horses held for sporting purposes end their sporting careers by age four. Right now, a sporting horse bought at less than two years old and trained for racing must be depreciated over seven years. Racing horses bought at more than two years old can be depreciated over three years. The bill creates a uniform depreciation period of three years for all race horses. The provision costs an estimated $126 million over ten years.

Kansas Tornado Disaster Relief: Farm country is often tornado country, and this provision provides timely, temporary tax relief to the victims of tornados and storms that hit the Greensburg, Kansas area. Temporary assistance including increased ability to deduct personal losses, increased business expense deductions, and help for affected businesses that continued to pay their employees after the disaster struck are available only to individuals and businesses in the presidential disaster declaration area. The cost is $60 million over ten years.

Tax Relief for Conservation and Competitiveness

Conservation Tax Relief for Retired and Disabled Farmers: Retired and disabled farmers frequently live on small incomes. Many participate in conservation programs to preserve their land while they live there, and the Conservation Reserve Program provides payments to landowners who rest environmentally sensitive land and engage in certain conservation practices. The bill will keep CRP payments to retired or disabled individuals from reducing Social Security or disability payments, and also exempt the income from self-employment taxes. The cost is $192 million over ten years.

Endangered Species Tax Deductions: More than 70 percent of the nation's landscape is in private ownership. Nearly two-thirds of endangered and threatened species are found on private lands. The bill will establish a tax deduction for the cost of actions to implement recovery plans under the Endangered Species Act. The cost is approximately $283 million over ten years.

Extending the Deduction for Conservation Easements: More than 10 million acres of conservation easements are held by land trusts nationwide, many of them donated – and the charitable tax deduction for conservation easements has proven to be a valuable incentive for making such gifts and conserving valuable land. The bill will extend the deduction for two years. The cost is approximately $105 million over ten years.

Maximum Tax Rate for Qualified Timber Sales and Timber REIT Modernization: American timber companies are facing increasing global competition. To equalize the tax treatment of timber sales, regardless of the business structure of the timber company, the bill will establish a temporary maximum tax rate of 15 percent for timber sales by C-corporations that have held the trees for at least 15 years. The bill will allow timber Real Estate Investment Trusts (REITs) more flexibility to maintain their REIT status and a 15-percent tax rate for shareholders while receiving varying forms of income – for instance, from mineral royalty payments from land held by the REIT. Both provisions will help the entire American timber industry remain domestically and globally competitive. The estimated cost is $218 million over ten years.

Forest Bonds: Public-private partnerships play a vital role in conservation efforts by communities across the country. The bill establishes a national program allowing the issuance of $500 million in tax-credit timber conservation bonds, for issue by a qualified non-profit organization or state and for the acquisition of forest and forest lands that allow for public access and are subject to conservation restrictions. The cost is $250 million over ten years.

Homegrown Energy Tax Incentives

Cellulosic Biofuels: This credit was first created by the Finance Committee in June 2007. Cellulosic biofuels can be produced from agricultural waste, wood chips, switch grass and other non-food feedstocks. With an abundant and diverse source of feedstocks available, cellulosic biofuels hold tremendous promise as a home-grown alternative to fossil-based fuels. But because cellulosic biofuels are very expensive to make, government assistance is needed to spur these fuels to commercial viability. This package includes a new, temporary production tax credit for up to $1.01 per gallon, available through December 31, 2012, with an estimated cost of $403 million over the ten-year budget window.

Biofuels Study: Increasing use of alternative fuels, while vital to our energy future, can put pressure on other sectors of the economy. To determine the effect of advancing biofuels technology, the bill will require a multi-agency study to analyze current and future biofuels production, and their impact on factors such as land use, fuel prices, the price of grains and forest products, etc. The study is intended to be a far-reaching analysis of the impact of biofuels production.

Trade Provisions

The final 2008 farm bill contains a number of trade-related measures that accomplish a number of vital purposes for this agriculture legislation – from funding the farm bill’s spending provisions to leveling the trade playing field for winemakers and lumber producers

Customs User Fees: Congress first established customs user fees in 1986 to offset inspection costs that were previously funded solely by general taxpayer revenue. To raise the $10 billion necessary to offset the cost of spending provisions in the final 2008 farm bill, the final conference report extends all customs user fees until September 30, 2017, and requires pre-payment of some fees due in late 2017 and early 2018, requiring U.S. Customs and Border Protection (CBP) to reconcile overpayments or underpayments within 30 days to hold importers harmless for any error.

Wine Duty Drawback: Currently, CBP permits drawback claims (see above) on wine based on the wine color – red or white – not based on a grape varietal such as Chardonnay or Cabernet. Customs has announced that it plans to replace the existing definition in favor of a one based on wine varietal, which would substantially reduce rebates available to American winemakers competing globally. The farm bill provision would retain current practice, helping American winemakers retain current benefits.

Stay of Changes to “First Sale” Rule: The practice of “First Sale” allows an importer to assess the value of imported goods based on the first sale of goods destined for the United States, regardless of when that sale occurred. Without consulting Congress, CBP has proposed to assess duties on the “last sale” of goods, which could increase significantly the duties paid by American importers. The farm bill includes a sense of Congress that CBP should not from apply this change until at least 2011, while studying the economic and revenue impacts of the practice.

The bill also contains provisions to extend preferential access to the U.S. market for certain products from select countries in the Caribbean Basin region through the Caribbean Basin Initiative, and to expand duty-free access to the U.S. market for certain products made or partially made in Haiti.

Preparation is underway in the House of Representatives to correct an error that inadvertently eliminated a single title from the farm bill vetoed by the President. When that title is reinstated, the final farm bill will include a Softwood Lumber Importer Declaration Program requiring American importers of softwood lumber to declare that their imports are consistent with the terms of international agreements, obligate CBP to verify that the importer’s declarations are true and accurate, and impose penalties for knowing violations.

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