



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Advances Tax Incentives, Fairness for Farmers, Cooperatives, Small Businesses

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today won near-final approval of his key tax incentives and fairness measures for farmers, cooperatives and small businesses.

“In some areas the tax code is out of date, and it needs to come into the 21st Century,” Grassley said. “In other areas, tax laws are unfair to farmers and cooperatives or don’t do enough to build economic growth in rural communities. My goal is to update tax laws and create new incentives that make sense for rural America.”

Grassley was the lead Senate negotiator working on a House-Senate conference committee to reconcile differences between each chamber’s manufacturing tax and trade bill. Today, the conference committee is close to finishing its work. By 5 p.m., the conferees will finish voting on the final conference report. If they approve it, as expected, their action will clear the conference report for consideration in each chamber later this week. Grassley secured the following items in the conference report, which can’t be amended:

Farmer co-op initiatives. The IRS determined that some cooperatives should be exposed to a regular corporate tax due to the fact that they are using organic value-added practices rather than manufactured value-added practices. “This is unfair, and needs to be fixed,” Grassley said. In addition, he said, cooperative producers should be allowed to receive the same tax benefits from general business credits as large companies. Grassley’s proposals address these problems. Updates for agricultural cooperatives include:

- ▶ a modification to cooperative marketing rules to include value-added processing involving animals;
- ▶ an extension of declaratory judgment procedures to farmers’ cooperative organizations;
- ▶ payment of dividends on stock of cooperatives without reducing patronage dividends;
- ▶ the apportionment of credits, meaning cooperatives could allow eligible patrons the benefit of general business credits earned by the cooperative, which clarifies that the tax credit for small ethanol producers can flow through to the patrons of those cooperatives.

“The tax code has changed a lot in the last 40 years,” Grassley said. “At the very least, these changes need to happen so cooperatives can continue to compete effectively in the world-wide

market.”

Income averaging for farmers who are caught in the Alternative Minimum Tax. When Congress passed income averaging for farmers a few years ago, it neglected to take into account the problem of running into the alternative minimum tax, which many farmers are facing now. Years ago, the alternative minimum tax was meant to make sure upper income individuals paid their fair share of taxes, but increasingly is hitting middle-income taxpayers. Grassley said this legislation will fix this growing problem for farmers.

Reforms for small business. Many small businesses are organized as S corporations, which pass through income and loss to shareholders. The shareholders take into account their shares of these items on their individual tax returns. The number and type of shareholders are limited. Today’s legislation incorporates Grassley’s proposals to reform and simplify the tax treatment of S corporations to encourage their continued growth as the nation’s chief job-creating force. For example, the bill provides that all family members can be treated as one shareholder for purposes of determining the total number of shareholders, for six generations. Under current law, most family members have to be treated as separate shareholders, which limits the small business’ ability to diversify its investors and therefore better withstand business fluctuations. This is especially true for community and independent banks. Diversified ownership makes these banks stronger for the rural economy, and the expansion of S corporation ownership rules would allow many more to consider an S election.

“Rural communities contribute a significant amount to the economy,” Grassley said. “Small businesses create most of the nation’s jobs, and many of them are based in small-town America. Family farmers are critical to our safe and abundant food supply. That’s true not only for the United States, but also for the countries around the world that receive our food products. We can help sustain thousands of rural communities in Iowa and elsewhere with these common-sense reforms.”