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Washington, D.C. 20515

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Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Chairman Smucker and Members of the Main Street Tax Team,

We write to highlight the critical importance of several business tax provisions that significantly impact farmers, ranchers, landowners and other agricultural businesses across the United States. These provisions, which are not an exhaustive list and are not presented in any priority order, enable these agricultural operations to invest in their futures, maintain competitiveness, and contribute to the nation's food security and economic stability.

We urge you to consider the following key provisions:

1. **Maintaining Stepped-Up Basis:** Stepped-up basis is critically important to family-owned farms and ranches because it can significantly reduce the potential estate tax burden that may arise when the family passes on the property to the next generation. When a property owner passes away, the basis (or original purchase price) of the property is "stepped up" to the current market value at the time of their death, rather than being based on the original purchase price. This is beneficial because if heirs must sell the property, they only pay capital gains tax on the difference between the sale price and the stepped-up value, not on the difference between the original purchase price and the sale price.

   Family farms and ranches are often passed down through generations and can appreciate substantially in value over time. The original owners may have purchased the land decades or even generations ago at a relatively low price compared to its current market value. Without the stepped-up basis, heirs would inherit the property with the original lower basis. If the property were sold immediately, they would be liable for paying capital gains taxes on the large increase in value that has accrued over time.

And for many family farms or ranches that have appreciated in value over generations, the combined value of the land, buildings, and equipment can exceed this threshold, triggering estate tax liability. Without a stepped-up basis, the heirs would face both the estate tax (on the value of the farm at the time of death) and possibly a large capital gains tax if they sell the property soon after inheriting it.

If the property receives a stepped-up basis at the time of the owner's death, the heirs' new basis will be the current market value of the land. If they sell the property shortly after inheriting it, they can sell it at or near this value with little or no capital gains tax owed, even though the farm's value may have increased substantially over the years. This makes it much easier for heirs to retain and continue operating the farm or ranch without having to sell it off to pay estate taxes or capital gains taxes.

Without the stepped-up basis, heirs may be forced to sell part or all of the family farm or ranch to cover the estate tax bill, even if they want to keep the operation going. Stepped-up basis alleviates this pressure, allowing the family to continue operating the farm or ranch across generations, which is particularly important for rural communities.

The stepped-up basis provision helps to reduce the combined impact of estate taxes and capital gains taxes on family-owned farms and ranches, allowing them to remain in the family without the need for forced sales to cover tax liabilities.

2. **Estate Tax Relief**: The estate tax is overly burdensome on families trying to pass their farm or ranch to the next generation. While many of the undersigned groups believe it should be repealed in its entirety, we all share concern any reduction to the current enhanced exemption level will be detrimental for families looking to pass their land, farms and ranches to the next generation. The higher exemption threshold alleviates the tax burden that often forces the selling of all or parts of family farms to pay the tax bill. At a minimum, keeping the current enhanced threshold will ensure continuity of operations and preserve the agricultural heritage that is vital to our communities.

3. **Making the Lower Individual Tax Rates and Expanded Tax Brackets Permanent**: Many agricultural businesses operate as pass-through entities, meaning their profits are taxed at individual rates. The lower individual rates and expanded brackets contained in the Tax Cuts and Jobs Act are vital for farmers and ranchers, allowing them to retain more income to reinvest in their operations and meet rising production costs.

4. **Making 199A Qualified Business Income Deduction Permanent**: The 199A deduction allows agricultural producers to retain a portion of their income, promoting reinvestment in equipment, labor, land, and sustainable practices. This provision helps level the playing field for family farms against larger agribusinesses and the lower corporate tax rate, ensuring that these vital operations can continue to thrive and support local economies. This provision also benefits farmer cooperatives. According to the National Council of

Farmer Cooperatives, its members returned more than $2 billion back to farmers in 2022 thanks to the 199A deduction.

5. **Maintaining Section 179 Expensing**: This provision allows for the immediate expensing of qualifying capital investments, up to a limit and with certain income requirements. This provision provides flexibility to farmers in how they choose to expense and depreciate their capital investments. This is especially important in agriculture, where investments in machinery and technology can be substantial. By enabling farmers to deduct these costs in the year equipment is placed in service, Section 179 encourages investment, enhances productivity, and promotes innovation in the agricultural sector.

6. **Restoring 100% Bonus Depreciation**: The availability of 100% bonus depreciation has significantly benefited agricultural producers, enabling essential investments in equipment and infrastructure without the burden of delayed tax benefits. This provision not only stimulates growth but also enhances agriculture efficiency, allowing farmers to adopt the latest technologies and practices.

7. **Maintaining 1031 Like-Kind Exchanges**: Like-kind exchanges are a vital tool for agricultural businesses looking to reinvest in property without incurring immediate tax liabilities. Maintaining this provision allows farmers and ranchers to swap properties while deferring capital gains taxes, providing them the flexibility to adapt to changing market conditions, urban sprawl or environmental issues.

8. **Maintaining the 20% Capital Gains Rate**: Agriculture is a capital-intensive industry, which makes keeping the cost of capital low extremely important. A lower capital gains rate encourages reinvestment in agriculture operations, rewarding those who take risks to innovate and grow. Preserving the 20% capital gains rate will help ensure the financial viability of our agricultural supply chain.

Once again, this is not an exhaustive list of tax policies that benefit certain sectors of the agriculture supply chain. Many have tax policy priorities that are not as widely applicable to members of the Tax Aggies Coalition as the above provisions, such as the corporate tax rate, R&D expensing, and biofuels tax credits. We expect you will hear more on those provisions from individual businesses and organizations.

In conclusion, the above-numbered tax provisions are essential for the survival and growth of agricultural businesses across the United States. They support individual farmers, ranchers, and landowners while contributing to the stability of our food supply chain and rural economies. As you consider the future of these provisions, we strongly urge you to recognize their vital role in sustaining agriculture in our nation.

Thank you for your attention to this important matter. We appreciate your commitment to supporting the agricultural community and ensuring its continued success.

Sincerely,

American Farm Bureau Federation
Agricultural and Food Transporters Conference of ATA
Agricultural Retailers Association
AmericanHort
American Mushroom
American Soybean Association
American Sugarbeet Growers Association
American Sugar Alliance
American Sugar Cane League
American Veterinary Medical Association
California Association of Winegrape Growers
Farm Credit Council
Forest Landowners Association
International Fresh Produce Association
Livestock Marketing Association
Midwest Council on Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Beef Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Grange
National Milk Producers Federation
National Peach Council
National Pecan Federation
National Pork Producers Council
National Potato Council
National Sunflower Association
National Sorghum Producers
National Turkey Federation
Public Lands Council
Southwest Council of Agribusiness
United Egg Producers
U.S Canola Association
U.S. Peanut Federation
US Rice Producers Association
US Sweet Potato Council
USA Dry Pea & Lentil Council