May 31, 2017

The Honorable Kevin Brady, Chairman
House Committee on Ways & Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal, Ranking Member
House Committee on Ways & Means
1139E Longworth House Office Building
Washington, DC 20515

Dear Chairman Brady and Ranking Member Neal:

On behalf of the nation's farmers and ranchers, the organizations listed below are writing today regarding one of our priorities for federal tax reform: a reduction in capital gains taxes.

Capital gains taxes have a significant impact on production agriculture and producers' long-term investments in land, breeding livestock and buildings. We believe a reduction of the tax rate on capital gains and assets indexed for inflation would enable producers to better respond to new market opportunities and facilitate the transfer of land to young and beginning farmers.

Taxation for capital gains upon the sale of farm assets creates a number of problems, particularly when an asset sale causes a sharp transitory spike in income that pushes farmers and ranchers into a higher than usual tax bracket. USDA has found that 40 percent of family farms have reported some capital gains or losses, compared to 13.6 percent for an average individual taxpayer.

Another problem is the "lock-in" effect where the higher the capital gains tax rate, the greater disincentive to sell property or alternatively to raise the asking price. In today's agriculture economy, starting a farm or ranch requires a large investment due to the capital-intensive nature of agri-business, with land and buildings typically accounting for 79 percent of farm and ranch assets. Given the barrier created by the capital gains tax, landowners are discouraged to sell, making it even more difficult for new farmers to acquire land and agriculture producers who want to purchase land to expand their business to include a son or daughter. This lose-lose scenario also interferes with capital that would otherwise spur new and more profitable investments.

At a time of heightened financial stress in our agriculture economy, it is more critical now for farmers and ranchers to have the flexibility to change their operations to respond to consumer demand in an increasingly dynamic market. Because of the capital gains taxes imposed when buildings, breeding livestock, farmland and agricultural conservation easements are sold, the higher the tax rate the more difficult it is for producers to cast off unneeded assets to generate revenue, upgrade their operations and adapt to changing markets.

As you continue your work on legislation to reform the tax code, we urge you to carefully consider our recommendations to address these concerns regarding the inadequacies and inefficiencies of current capital gains tax provisions. We acknowledge the extremely complex task of crafting legislation to adopt comprehensive tax reform and appreciate your support of America's farmers and ranchers.

Sincerely,

Agricultural Retailers Association
American Farm Bureau Federation
American Farmland Trust
American Mushroom Institute
American Sheep Industry Association
American Soybean Association
American Sugarbeet Growers Association
Cobank
National Barley Growers Association
National Cattlemen's Beef Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Peach Council
National Pork Producers Council
National Potato Council
National Renderers Association
National Sorghum Producers
Panhandle Peanut Growers Association
Southwest Council of Agribusiness
United Egg Producers
U.S. Apple Association
U.S. Canola Association
U.S. Rice Producers Association
U.S. Sweet Potato Council
USA Rice Federation
Western Growers Association
Western Peanut Growers Association