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New Tax Laws *Benefit Farmers*

The American Jobs Creation Act of 2004 represents a major overhaul of U.S. Federal income tax laws applicable to farmers and other business taxpayers. The primary focus of the Act was the replacement of a tax benefit that allowed U.S. exporters to exclude a portion of their net foreign sales from their gross income, thus reducing their tax burden. The World Trade Organization (WTO) declared this exclusion a prohibited export subsidy, which prompted the European Union to impose sanctions on a variety of U.S. farm products, including some livestock and livestock products, oil seeds, cereals, vegetables, fruits, nuts, and cotton. Passage of the 2004 legislation has already resulted in these retaliatory tariffs being lifted.

The Act replaces the exclusion with a new tax deduction for income from domestic production activities for U.S. manufacturers, including farmers. The new deduction goes well beyond the exclusion and applies to all qualifying manufacturers, regardless of whether they export, making it less likely to trigger WTO sanctions. Thus, while few farmers directly benefited from the exclusion, a majority of commercial farms will pay lower Federal income taxes as a result of this new deduction. The new deduction is not limited to farm corporations but is available to farm sole proprietors, partnerships, S corporations and estates, and trusts. Farmer cooperatives and agribusinesses involved in the production or processing of agricultural products are also considered manufacturers. The deduction, however, is limited to no more than 50 percent of wages paid to hired labor. This limitation will reduce tax savings for farmers who would otherwise qualify, but who use little or no hired farm labor in their farming operation.

The Act contains other tax provisions of significance to farmers, including a 2-year extension of the \$100,000 small-business expensing provision that allows most farmers to write off their entire investment in farm machinery and equipment in the current year. Other changes include an extension of the replacement period from 2 years to 4 years or more for livestock sold on account of weather-related conditions and a provision that will allow farmers to use income averaging without triggering the alternative minimum tax. *W*

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For more information, see . . .

The ERS Federal Taxes Briefing Room, at www.ers.usda.gov/briefing/federaltaxes/

Significant provisions of the American Jobs Creation Act of 2004 include:

- Repealing the foreign sales corporation/extraterritorial income provisions that were declared an illegal trade subsidy by the World Trade Organization.
- Enacting a new deduction for U.S. manufacturers, including farmers.
- Extending the \$100,000 small-business capital expensing provision.
- Extending the replacement period for livestock sold due to weather conditions.
- Allowing farmers to use income averaging without triggering the alternative minimum tax.
- Increasing tax incentives for the production of ethanol and biodiesel.
- Eliminating the tobacco marketing and price support programs and approving a buyout of quota owners and tobacco growers.