

NCFC Testifies Tax Fairness For Farmer Cooperatives

WASHINGTON, D.C. — The National Council of Farmer Cooperatives (NCFC) in testimony to the Senate Committee on Finance's Hearing on Small Business and Rural Development expressed its strong support of S.312, the Tax Empowerment and Relief for Farmers and Fishermen (TERFF) Act, introduced by Senators Charles Grassley (R-IA) and Max Baucus (D-Mont.).

"Farmer cooperatives, their farmer owners, employees, and their families all have a huge interest in rural America, since that is where they call home," testified David Graves, president and CEO of NCFC.

There are over 3,000 farmer cooperatives in the U.S., Graves noted, whose member owners in-

clude a majority of America's nearly 2 million individual farmers. Being farmer owned and controlled, he emphasized, their earnings are returned to their farmer members on a patronage basis — helping farmers improve their overall income and contributing significantly to the economic and tax base of rural communities.

"In addition," Graves pointed out, "farmer cooperatives represent a significant source of employment for many rural communities all across the country — providing jobs for approximately 300,000 full- and part-time employees with a combined payroll of more than \$8 billion."

A major challenge facing farmer cooperatives is access to capi-

tal, said Graves. Being farmer owned and controlled, they can not go to Wall Street as easily as other types of businesses. Current tax policy and regulations also limit their ability to raise equity capital.

To help address this issue, S. 312 includes a provision that would modify the Dividend Allocation Rule, which currently, in the case of farmer cooperatives, imposes the equivalent of a "triple tax" on cooperative earnings when dividends are paid on capital stock, reducing the patronage earnings paid to farmer-members. The rule discourages farmer cooperatives from raising equity capital through the use of such

financial tools, and puts them at a competitive disadvantage.

"Clearly," Graves urged, "this unfair and discriminatory tax burden should be eliminated."

S.312 also contains several other provisions that would benefit farmer cooperatives by:

- Clarifying current tax law to allow farmers to cooperatively market value-added products through animal processing (the conversion of feed by chickens into products such as eggs, for example) on the same basis as products derived from mechanical processing (wheat into flour);

- Allowing the existing 10 cent credit for small ethanol producers to be passed through by a

farmer cooperative directly to and for the benefit of its farmer owners; and

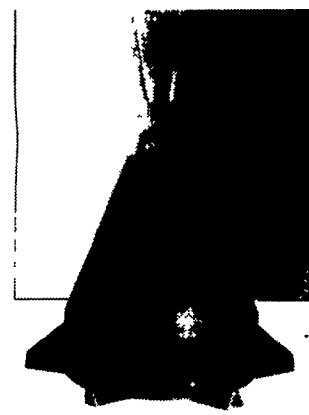
- Extending declaratory judgment procedures to ensure that farmer cooperatives have the same rights to judicial review on tax-related issues as any other similar type entity.

"Maintaining and strengthening the ability of farmers to join together in cooperative self-help efforts is vital to the economic well being of farmers and the rural communities where they live, Graves concluded. "For this reason, NCFC strongly supports S. 312, and commends Senators Grassley and Baucus for introducing this important legislation."

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