SMALL FARM TAX BURDENS

FIELD HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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CONTENTS

Hearing held on August 10, 1999

WITNESSES

APPENDIX

SMALL FARM TAX BURDENS

TUESDAY, AUGUST 10, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:10 a.m., in Missouri Cattlemen's Beef Association, Lower Level Conference Room, 2306 Bluff Creek Drive, Columbia, Missouri, Hon. Jim Talent (chairman of the committee) presiding.

Chairman TALENT. I will go ahead and convene the hearing. This is a hearing of the House Committee on Small Business. Let me preface my opening statement by saying that, while I keep these things informal in Washington, I will keep them even more so here. I did want to have an actual hearing because I want to put this on the record, and I want to take it back to Washington.

The efforts of people like those who are going to be testifying today and many of you in the audience is beginning to penetrate in Washington and is raising the level of awareness about the problems facing the agricultural community; but when I say "raising the level of awareness," I don't mean to say that it has been sufficiently raised yet.

I was asked the other day with regard to the emergency relief bill that passed the Senate—and I hope a similar bill passes the House in September—whether there really was an emergency in agriculture today. That is the kind of question where if you have to ask that kind of question, probably no answer is going to help you. So what I want to do is to get a record here from people who are dealing on the ground with the problems of agriculture.

We are going to focus today on the problems caused by tax policies, policies which, if we can change them, are going to empower family farmers and the agri-business community to profit better in good times and deal better with bad times. But I am sure we will discuss, also, in the course of the testimony, the immediate crisis.

I want to thank my friend and Representative Hulshof and each of the witnesses who are going to testify today for welcoming the Committee to Columbia for this hearing. Your willingness to testify today makes it possible for us to listen to your concerns and make them known to Congress in developing a strong agricultural agenda.

I would like to announce that on August the 24th, the Small Business Committee also will hold a meeting with farmers and ranchers in Kansas City to discuss agricultural and regulatory policy. The crisis in agriculture is staggering. The Committee needs to hear your central concerns and recommendations for both immediate and long-term relief.

Record high disasters and record low commodity prices are hurting Missouri's farmers and ranchers. Plainly, we have to help them through the tough times. Tax responses are by no means the only thing we should do. We need to aggressively open markets for our products abroad, and we need relief for hard-pressed farmers and ranchers in these difficult years of drought and low prices.

I have cosponsored H.R. 2743, the Farm and Ranch Emergency Assistance Act, which was introduced by Representative Emerson. The bill would double 1999 AMTA payments, reform trade sanctions, fund crop insurance, fund expanded concessions sale and donation programs, and suspend the limits on loan deficiency payments.

Today we want to explore the small farm tax burdens and how H.R. 2488, the Taxpayer Refund and Relief Act, which was approved by the House and Senate last week, can help in dealing with this crisis. Farmers and ranchers, indeed all Americans, need tax relief. The average family now pays more in taxes than it spends on food, clothing, shelter and transportation combined. Federal taxes consume about 21 percent of national income, the highest proportion since World War II. Total Federal, State and local taxes stand at a record 32 percent of national income.

My parents were starting out in the early '50s. The average American family paid about 2½ to 5 percent of its total income in Federal taxes. That has increased by four to ten times as a percentage of income in the last 45 years.

The Tax Code, moreover, is an unwieldy mess that gives the IRS the power to tax you the highest if you work hard, save and invest. Consequently, it hurts family farmers and ranchers heavily. These people, who put their good name and reputation on the line to create jobs and to grow food and wealth for their loved ones and their communities, are among America's greatest resources. Yet, after paying on income and investments throughout their lives, the deadly estate and gift, or death tax as my friend calls it, is crushing them.

While death taxes collect only approximately 1.4 percent of Federal receipts, they consume over 65 cents on every dollar in enforcement and compliance cost. They force the sale of thousands of farms, ranches and businesses throughout our country and destroy jobs and economic potential. Dollars alone don't tell the whole story.

Family farmers own and work their land on average nearly 30 years. Inflation makes them appear to be land rich while actually they are cash poor. They make their living growing food and fiber, not speculating in land and equipment. The death tax, therefore, is the single most devastating tax on virtue. It destroys the American dream by penalizing hard work, sacrifice, perseverance and faith in our farmers and ranchers with a hefty 55 percent death tax levy.

I will digress, and the people who are familiar with the hearings of this Committee, know that my digressions often take up more time than my actual statements, but a few years ago the then, I think, Under Secretary of Treasury, is now the Secretary of Treasury, Lawrence Summers, said that anybody who wanted estate tax or death tax relief was selfish. This is the attitude we have to fight. You know, if you work hard, but if you spend everything that you earned and everything your farm or small business earns, that is not selfish in the minds of people like that; but if you try to save it to leave it to your kids, you are being selfish.

The Taxpayer Refund Relief Act includes several provisions that will directly benefit agricultural, including repealing the death tax by the year 2009. It creates Representative Hulshof's Farm and Ranch Management Accounts, or FARRM Accounts. This promising new tool will allow farmers and ranchers to save during the good years and help see them through the bad years.

Our first panel is going to testify on FARRM Accounts. I want to applaud Representative Hulshof for his outstanding leadership on this important issue.

I am also delighted that the tax package allows the self-employed, including, of course, family farmers, to deduct 100 percent of their health insurance premiums beginning January 1 of the year 2000. Because of the disparity in the health insurance deduction—currently 60 percent for the self-employed as compared to 100 percent for large employers—the after-tax costs of health insurance premiums for the self-employed is greater than the cost paid by Fortune 500 companies. Ending this inequity will make health insurance more affordable for self-employed Americans, including the majority of farmers and ranchers.

In addition, the tax relief bill reduces capital gains taxes for individuals from 20 to 18 percent; and for those in the 15 percent bracket, from 10 to 8 percent. It also indexes capital assets for inflation. These changes will benefit farmers and ranchers directly because agriculture is a capital-intensive business requiring heavy investment in land, buildings and equipment.

In closing, it is important to realize that with the average farmer or rancher pushing age 60, now is the time to act on agricultural and tax relief. On the tax side, FARRM accounts, death tax repeal, 100 percent health insurance reduction and capital gains reform make a potent combination to help farmers and ranchers protect their property for the next generation of farm and ranch families.

It is my pleasure now to yield to my friend and colleague Representative Hulshof, who is a member of the Ways and Means Committee and has been a strong advocate for tax relief for family farmers and small business.

[Mr. Talent's statement may be found in the appendix.]

Mr. HULSHOF. I appreciate that, Mr. Chairman, and thanks for allowing me to participate in the small business hearing.

I want to welcome you to the Ninth Congressional District, and specifically to my home here in Columbia, Missouri. It is great to see so many friendly faces in the audience. I look forward to your testimony.

If it is okay, and in the interest of brevity, I would like to submit my opening statement formally for the record, and then just highlight a couple of points.

I think you have adequately addressed the situation, or at least acknowledged the situation that there is a crisis right now facing American agriculture. Livestock prices, crop prices are at record lows. According to the Food and Ag Research Policy Institute Factory right here in Columbia, farm prices are not expected to rebound, at least in the short term. I think Congress must address this in a meaningful way.

You mentioned Jo Ann Emerson recently introduced a bill, which I too have cosponsored of. I think we have got to do much more than that. I think we have to look at the trade barriers. I know one of the things Senator Ashcroft got included in the Senate bill last week was that no longer can the White House impose unilateral trade sanctions that involve agricultural products or medicine. That will now take an act of Congress. We now have sanctions against some 60 countries where our ag products are not going into those markets in order to achieve some sort of foreign policy objective.

Again, many of you have heard me tell this story before, but it was probably one of the first political lessons that I learned and that was when the grain embargo on our wheat to Russia was imposed in the late '70s, it almost cost us our family farm for a variety of reasons, of course, the ag crisis as it was back then, but that single political decision had a very real-life effect on our family farm that my parents continued to operate.

So I think that there are a variety of things that we can look at on the trade sector as well. I know that there are some other things regarding concentration and mergers that we continue to address. I know crop insurance is another idea that is being discussed and debated in Washington, as well as the emergency assistance, but today we are here to talk about the tax code.

Now, as some of you have pointed out to me, income tax relief doesn't help us when we don't have income. But I think that this significant tax cut that is awaiting the President's signature when we send it to him in September—you know there has been a lot of talk of billions and trillions of dollars, and, yes, the bill that was passed by both the House and Senate and came through our Committee, the Ways and Means Committee first—$792 billion over 10 years.

Here is how I would like to talk about it for today's terms, however. Over the next 10 years, we are projected to have approximately $3 trillion in surpluses. Now, the politics of surpluses are interesting in Washington. We haven't dealt with them before. The first thing we would like to do is to pay down the national debt. So of that $3 trillion, if you could assume that each one of these dollar bills signifies a trillion dollars over the next 10 years, what we have decided to do, the President says let's take 62 percent of the Social Security surplus. We say let's take 100 percent, essentially $2 trillion, and we want to lock it up and put it aside, pay off the IOUs and the trust fund, not let Washington politicians spend that Social Security surplus as has been done since 1969. Of that remaining trillion dollars over the next 10 years, we want to let you keep about 75 cents of it.

As Jim has talked about, we are taxed almost at a record high level. I think the only other year that we have paid more as a percentage of the economy was 1945, which was the end of World War II. We think now is the time to let you keep more of your hard-earned money. I am pleased that included in the tax package that passed the House and Senate was the Farm and Ranch Risk Management Accounts. I hope to hear from a real-life point of view how this would be helpful.

We talk about the theoretical reasons why a risk management tool would be of benefit to farmers. Now granted, in the short term, it is not going to be of much help. We are looking at a management tool for farmers and ranchers to prepare for the inevitable down years by putting excess income aside into a FARRM account that would get to be taken as a tax deduction in the years placed in the FARRM account. It would remain in that FARRM account for no longer than 5 years, and when it is taken out of the FARRM account, it would be taxed as ordinary income. So it is not tax avoidance. It is tax deferral.

I was asked a good question by one of the representatives of the media, what about income averaging, and, yes, in 1997 Congress passed income averaging as a way to help farmers put aside excess income over the preceding 3 years to have more of a stable income flow so that you aren't in the 39.6 percent tax bracket one year and plunging down to the 15 percent tax bracket the next. We want to have that steady income stream if it is possible. Yet, income averaging does nothing for farmers and ranchers to prepare for the inevitable lean years.

I dare say, and maybe some of our panelists would hazard a hypothetical for us, if FARRM accounts had been in effect, such as when we had a good year perhaps in 1997 or a better than average year in 1997, perhaps family farms would not be facing the dire straits they are facing right now had they had this risk management tool at their disposal.

You touched on, Mr. Chairman, some of the other important things like the Federal death tax and 100 percent deduction for the self-employed for health insurance, all of which I think are useful items. So again, I thank you for giving me the opportunity to tag along, to be an ex officio member of the Small Business Committee, and I look forward to hearing from our witnesses as well.

[Mr. Hulshof's statement may be found in the appendix.]

Chairman TALENT. Thank you, and you have contributed, I think, the single most cogent comment about the death tax that I have heard, that we should have no taxation without respiration.

Mr. HULSHOF. As they say, Mr. Chairman, you get a certificate at birth, you get a license at marriage, and, yes, you get a tax bill at death.

Chairman TALENT. Well, the way we do these things, we have two panels of witnesses today. If the first panel will come forward, and I will introduce people and then you all can give us your testimony. So if David and Ron and Dale and Richard will come forward.

Now, I know that Ken joins me in thanking the Cattlemen's Association for hosting this. John Cauthorn is going to be testifying on the second panel, but I want to thank the Association right off the bat.

All right. We want to have plenty of time for questions, and I will go ahead and take in order from my left to your right.

Our first witness today is David Blakemore, who is a General Manager of B&B Cotton from Campbell, Missouri. He is testifying on behalf of the cotton producers.

David, thank you for being here. I want to thank all of the witnesses for coming. Please, give us your testimony.

STATEMENT OF DAVID BLAKEMORE, GENERAL MANAGER, B&B COTTON CO.

Mr. BLAKEMORE. Thank you, Mr. Chairman, for arranging this hearing and for this opportunity to share my views on small farm tax burdens. I am David Blakemore. I am a cotton producer and ginner from Campbell, Missouri. I am representing the Cotton Producers of Missouri.

Before addressing these tax issues specifically, I would like to share some observations about the acute economic plight confronting our farmers and related small businesses. American agriculture is dealing with crisis conditions that affect ancillary business as well.

I find it most discouraging that some policy makers believe farmers are doing rather well in 1999. USDA projects farm income for 1999 to be only slightly lower than 1998.

Mr. Chairman, the only reason the Americans farmers' and ranchers' 1999 income is only going to be down 12 percent below 1998 is because USDA is counting 2.5 billion in emergency money that was appropriated in 1998, but not received by our farmers until June of 1999.

USDA's latest projections indicate that commodity receipts for grains, oilseed crops and cotton and tobacco will be down 23 percent from 1997. Given that 1998 returns did not cover farmers' out-of-pocket cost of production, you can well understand the desperate plight of our farmers today.

I do find it encouraging that the Senate eventually gave strong bipartisan support to a significant emergency agricultural assistance package. Doubling of AMTA payments, reinstatement of cotton's step-two program, and the increase in payment limits for marketing loan gains would be very meaningful. It will permit some farmers who otherwise could not have covered their obligations to survive for another year. Hopefully, the package will be retained when the House and Senate conference their respective appropriations bills.

I also observed that Representative Emerson, who has just introduced a bill that includes these essential provisions for cotton and other southern crops, as a member of the Agricultural Appropriation Subcommittee, she will be a conferee when the House and Senate appropriations bills are reconciled after the August recess. I commend her initiative and both of you for helping to cosponsor this legislation and look forward to all of your continuing leadership.

Looking beyond the current crop year and the help we hopefully will get from an emergency relief package, current farm law provides farmers virtually unlimited cropping flexibility. Generally speaking, farmers liked this aspect of current farm law when it was under consideration by the Congress. Unfortunately, cropping flexibility loses much of its appeal when futures prices suggest no feasible alternatives. Cotton, corn, soybeans and rice prices are all below the full economic cost of production for most farmers in this region, and a global surplus in virtually every other commodity must be worked down before there is much likelihood of significant price recoveries.

We are told that the economic problem in Asia may persist for at least another couple of years. If so, any reduction in surplus stocks will be slower than normal. America's farmers and ranchers may face an extended period of poor economic conditions, and they will certainly need more than short-term emergency relief to remain viable in the years ahead.

Clearly, tax reform can be an important component for restoring the long-term health and vitality of American agriculture. I commend Chairman Talent and Representative Hulshof and your colleagues for your leadership in this arena.

Income taxes, capital gains and estate taxes all need a careful review, as do the tax rates for gasoline and diesel fuel. With respect to income taxes, cotton farmers have continually expressed united industry policy through the National Cotton Council, their strong preference for a system of taxation that permits establishment of a special account for farmers that would allow them to defer income in profitable years for use in tough years. Such a system would be highly beneficial to farmers in dealing with the wide year-to-year swings in taxable income.

FARRM accounts that have been discussed among policy makers, would generally conform with the special account concept cotton farmers have supported. As you know, profitable years are getting further and further apart. It is becoming more and more important to have provisions to let farmers take advantage of such years. Thanks to the leadership of Representative Hulshof and Chairman Talent, a bill addressing this fundamental need was added to the tax package, which passed last week.

While we have sought unlimited entries into FARRM accounts, we understand that budget implications serve to limit what is politically feasible. The 20 percent, which is allowed in the tax measure just passed, will be most helpful to many farmers if signed into law. I would add that we appreciate the leadership of Representative Hulshof in keeping restrictions on what can be done with the accounts to a minimum and making them as easy as possible to set up.

With the concurrence of all other segments of the U.S. Raw cotton industry, producers also support other tax measures, including the continuation of income averaging and legislation to accelerate the timetable for 100 percent deductibility of health care insurance premiums paid by self-employed individuals. Thankfully, these cotton industry concerns have already been addressed in recent legislation. Omnibus legislation passed last year made provisions for income averaging permanent.

The tax package just passed cuts the capital gains tax from 20 percent to 18 percent and permits indexing beginning 2000 for individuals, though not for corporations. The bill also accelerates the time for 100 percent deductibility of health insurance premiums paid by self-employed persons, including provisions for investment tax credits, and phases down inheritance taxes, ultimately repealing them in 2009. These reforms will go a long way toward providing farmers with a much more reasonable tax environment.

Thanks again for your leadership and for permitting me to share these observations about tax reform.

[Mr. Blakemore's statement may be found in the appendix.]

Chairman TALENT. Thank you, David. I appreciate that very much.

Our next witness is Ronald McNeall, the President of the Missouri Corn Growers Association. Ron, thanks for coming. Please go ahead.

STATEMENT OF RONALD McNEALL, PRESIDENT, MISSOURI CORN GROWERS ASSOCIATION

Mr. MCNEALL. Chairman Talent, Representative Hulshof, and others, I thank you for the opportunity to testify today before the House Committee on Small Business regarding small farm tax burdens, and I must say I do appreciate your opening comments. I feel they were very much appreciated and it may be a little bit like me preaching to the choir, but that being as it may——

Chairman TALENT. Yes, but we want to hear the choir preach back now. Go ahead.

Mr. MCNEALL. As President of the Missouri Corn Growers Association, I appreciate the chance to share with you the concerns of the Missouri corn farmers regarding the excessive tax burdens placed on them. Although we have many concerns regarding small farm tax burdens, I have been asked today to focus my remarks on an innovative proposal introduced in Congress by Representative Hulshof. So I will do so.

Farm and Ranch Risk accounts, or FARRM accounts, represents an exciting new tool that we could use to manage the cyclical nature of our business, farming. As you are well aware, we do not enjoy the security of a regular paycheck in the production of agriculture. Instead, we are at the mercy of the weather and many other production risks. These risks means that some years may be really good and some years could be really bad, but that is a whole other story. Regardless, farmers want and need additional tools to help us manage the ups and downs of our farm income.

The return of income averaging for production agriculture was a great tool to help us manage the tax burdens. Now it is time to begin to address the more fundamental problems of the cycles in farm income. FARRM accounts would greatly help us in this regard. The ability to set aside 20 percent of my income in a good year could be a great way to help maintain some stability through the down years. I could only wish that this program had been in place through the '90s so we could have had this rainy day fund for this year.

The FARRM account concept is an excellent idea. I only wish that the proposal did not cap the percentage at 20 percent. As you well know in a year like this one, income on my farm and the farms of my corn farmer neighbors could be off by well more than 20 percent. Possibly this suggestion could be used to improve the tool in the future.

The Missouri Corn Growers Association was pleased to hear that Congressman Hulshof's FARRM account proposal was included in the current farm tax relief package. We can only hope that the President will now sign this meaningful reform, including FARRM accounts, so that this rainy day fund will be in place for the next time the sun don't shine. While I have your ear, I would also like to mention several other areas of reform in the tax code that could make a huge difference to Missouri corn farmers. Repeal of the death tax, reduction of capital gains taxes and immediate 100 percent deductibility of health insurance for farmers and other self-employed individuals are several proposals that I would remind you are high on the priority list of the Missouri Corn Growers Association.

The Missouri Corn Growers Association would also propose that Congress consider several tax incentives that would really help our Nation's farmers and ranchers. Our urban cousins enjoy economic incentives and there is no reason that we shouldn't also be eligible for some of these advantages. We strongly urge the Committee on Small Business to provide tax credits to encourage producers to pursue policies that could make a difference for them.

We also ask that you please consider investment tax credits for farm business capital purchases, including tax credits for farmers who invest in new generation, value-added cooperatives and income tax credits for farmers who purchase crop revenue insurance. All of these proposals really deserve more than the brief mention. However, based on time limitation, that is all I will give today.

The Missouri Corn Growers Association will be happy to discuss these tax incentive proposals with you or your staff at great length at any time. Once again, thank you for the opportunity to address this hearing. We certainly appreciate your support of FARRM accounts and other tax reforms and incentives that will relieve the tax burdens of small farms. Thank you.

[Mr. McNeall's statement may be found in the appendix.]

Chairman TALENT. Thank you, Ron.

The next witness is Dale Ludwig, who is the Executive Director of the Missouri Soybean Association. Dale, please.

STATEMENT OF DALE R. LUDWIG, EXECUTIVE DIRECTOR/CEO, MISSOURI SOYBEAN ASSOCIATION

Mr. LUDWIG. Okay. I first of all want to thank you, Mr. Chairman, for the opportunity to speak here on behalf of soybean producers all across this State, and, Mr. Hulshof, I appreciate you being here as well.

The answer is, yes, there is indeed a serious, serious problem in agriculture, and that problem is that over the last 20 years, or pick a number, we have seen prices for agriculture, even in the good years, pretty much stay the same and then when we move into a period of years of outstanding production around the world, we have been able to see the prices continue to go down while all the input cost and everything else, the cost of living continues to increase. Is there an emergency out there, and the answer is; indeed, there is, and as a result of that it may be necessary to continue to put additional dollars into the farm economy as we did last year.

I have prepared some written testimony that I would ask that it be included in the official record, but to prevent being repetitive, I think I will just make a few other comments.

First of all, I want to thank you for what you have done on general tax reform. I think it is time for some people in Missouri and all across this country to stand up and say you are doing the right thing. I feel it surprising that you would be criticized for wanting to send money back to the people who actually earned it and the people that are sending it to Washington in the first place. When you talk about selfish, I think of the people in Washington who want to keep all of the funds. So I applaud you for your efforts there.

Chairman TALENT. Thank you for that, Dale. My comment on the radio this morning, many of the people who are criticizing this are quite sincere, but if you actually sit back and listen to the criticisms, they come from all over the place. We shouldn't cut taxes because the economy might be too good, we shouldn't cut taxes because the economy might be bad, we shouldn't cut taxes because we want to reduce the debt, we shouldn't cut taxes because we want to spend the money. I mean, you reach the conclusion after a while, these people just don't want to cut taxes, and with that I just fundamentally disagree.

I exercised the Chairman's prerogative to interrupt you.

Mr. LUDWIG. That is fine. Feel free at any time.

The Farm and Ranch Risk Management is a wonderful idea and, as has been said a couple of times, it is unfortunate that it wasn't in place over the last 5 or even 10 years, but we only have to go back to 1997 when soybeans were in the mid-eight dollar range. They are half that today. In '97 we would have been able to put some money into this account, and I also agree 20 percent probably isn't enough.

The other thing that I would want to support, certainly, Ron of the corn growers is tax credits is one of the right ways to go to encourage people to get involved in new generation co-ops. That is part of the long-term strategy in my opinion that we are going to have to take to come out of this severe situation that we are in.

Chairman TALENT. I absolutely agree. Capturing the value and diversifying for the family farmer is absolutely a key. I should have said in response to your comments, Ron, this gentleman sitting to my left almost single-handedly saved the ethanol tax credit 2 years ago, was it?

And he won't say it himself, but the flak he took inside the Congress for standing up for his constituents—maybe he has said it, I don't know. He really did.

Mr. LUDWIG. I see a (FARRM) Farm and Ranch Risk Management as being a piece of the puzzle to kind of the long-range approach to improving conditions in agriculture, but there is a whole number of other things that need to be implemented, and I will quickly kind of go through a couple of those.

An infusion of cash into agriculture like we did last year probably will be necessary again. The second thing, we are currently working on trying to move some soybeans around the world in a humanitarian type effort. The advantage to moving these beans into some countries that actually need food are twofold. Number one, if we can bring the price up, we actually reduce the amount of dollars we would pay in deficiency payments. So actually the cost of doing that becomes much smaller than it looks originally on the surface.

The other things that happens, if we do it correctly, if we move those soybeans into the right countries, we not only help some people that have serious problems as far as food needs, but we also will be able to long term build markets around the world. If we move soybeans into countries that 5 years from now when—their economies will be better, they will have cash to buy products, then they will be familiar with what they can do with some of these soy products, not just soybeans, but soy flour and isolated soy proteins and some other products as well.

And as a result of that, we lower the carry out and we don't spend the next 5 or 6 years trying to work out of a mountain of soybeans that we have today. So that is the advantage. The costs are much smaller than they appear on the surface because of the offset in deficiency payments.

Longer term we see a couple of other things that we need to do. In the commodity bean market, we have worked with, along with corn growers and a number of other people, alternative uses for these crops. We are at a stage right now where we think that we will have two commercial products that will come out every year for the next three or four. We need some things like tax credits, we need support from the Small Business Committee to turn these things into real products and real businesses. That is not just good for agriculture. That is good for small businesses in the State of Missouri as well as the general farm economy and the economy in general. So if there are ways that the Small Business Committee can address that issue, we certainly would be supportive and appreciative of that.

The other thing that we need to or something—that we have worked hard the last 2 years at trying to set Missouri up as being a State that can participate in the identity preserve soybean market. Initially, that is food beans that would primarily go to Asia, but longer term it has to do with a number of different products that are developed with biotechnology, which is why the whole GMO issue is so critical.

It is one that we are going to have to work through. Certainly, we need the export markets that we have, especially when you think about soybeans. Every other row, 50 percent, of all the soybeans that we grow we export, we move somewhere else. So that at any time we are having exports reduced or stopped as a result of GMOs, it is a serious issue. But I think that is part of what it is, a trade issue especially with Europe, and we have to approach it as being that.

The other thing in our green-peace groups across the country are working very hard at creating a problem so that they can ask for money to solve it. If you take a look at the products that happen to be on the market now are really insignificant as to what biotechnology is going to do long term. The one for soybeans happens to be Roundup Ready Soybeans today. The other interesting thing about Roundup Ready Soybeans, that they have been working and researching Roundup Ready Soybeans for 15 years. It isn't like it came on the market 3 years ago and nobody knew anything about them. We have also worked through 3 years now, and have you heard of any problems as a result of food safety from those, and the answer is no.

So long term the benefits to consumers with health issues, the benefits with alternative uses for crops like soybeans and corn and others are worth the fight that we are going to have to work through the whole GMO issue today. The longer term, it is where we need to go and part of what we need to do. If we stay in the commodity bean market long term, it is going to be tough to put additional dollars into farmers' pockets, and that is exactly what we are trying to do when we move to identity preserve production of soybeans.

So I think we need to move forward on a couple of these issues and certainly we need to make sure that we feed the people that feed the world and that is the farmers. Thank you for the opportunity to talk to you today.

[Mr. Ludwig's statement may be found in the appendix.]

Chairman TALENT. Well said.

Our last panelist on the first panel is Richard Erisman, who is a Farm Bureau board member from District 3 in Centralia, and he's testifying on behalf of the Farm Bureau. Richard.

STATEMENT OF RICHARD ERISMAN, BOARD MEMBER, MISSOURI FARM BUREAU

M. ERISMAN. Mr. Chairman, Congressman Hulshof. Kenny, you know that it is kind of dangerous sometimes for me to be off the cuff and last in these kind of positions. Mr. Hulshof, I am just waiting for your next joke.

Chairman TALENT. I encourage you to wing it, Richard.

Mr. ERISMAN. I think that the best thing for me to do is to kind of paraphrase through my remarks because that way you will get the best of the thing.

We farm in Centralia and we have been doing this for years. We are full-time farmers. I am a State board member. My wife helps farm, but she's an RN. She's an RN so we can have health insurance. At Boone Hospital. I know that that has been an issue for taxes, too, is farmers' health insurance and a need for higher deductibility and less cost. And one of the ways that we have adapted to getting around some of that stuff is to have her work off farm, but it would be a lot easier if we could just do it from the farm.

You both know that there are a lot of problems that farmers are facing. The commodity prices are low, we have had a drought. In my own situation, we got hit by a tornado this spring. Just what we needed with hog prices the way they are. Maybe the Lord was trying to tell us something, that we didn't need to be producing those hogs. Unfortunately, he didn't take enough of those buildings, so we had to rebuild so we could kind of keep going because the banker does expect to be paid this fall somehow or the other. And we are not unique.

Missouri Farm Bureau recently conducted six regional meetings in which 800 of our members talked about the farm prices. And we learned that it is affecting everybody. We heard from young people and old people, people that would like to get out, people that really don't know what to do, people like my son who are going to graduate from college in December, would love to farm, but is there going to be a place?

The FARRM account would probably help because we would have had more money available to get through these bad times to make an opportunity for young people to get in.

At the meeting that Farm Bureau held, one producer said that he was the youngest farmer in his township 10 years ago and he still is. What's that saying for all of north Missouri?

I had the opportunity to personally talk to Secretary Glickman in December, and I think that Congress has got to make a confirmed and conscious decision to maintain agriculture and if they don't, you are going to see continued change and continued conglomeration.

One of the livestock farmers that I deal with says we are having the Wal-Martization of agriculture because it is just getting bigger and bigger and bigger and the products that we have to sell are cheaper and cheaper. Pretty soon we are all just going to be working for somebody who has no tie to the land, he has no tie to the rural community, there is nobody to support the schools, you don't have a tax base there. And I think that the FARRM account and some of the things that you guys are trying to do are helping to address those situations that are going to keep the people on the land in north Missouri.

If you go to Columbia and Mexico where you've got population centers, you've got lots of opportunities for income but if you get much farther north, it is agriculture, and when agriculture is hurting, those communities are hurting.

Something is dreadfully wrong. The elected officials, you guys, can't—we shouldn't have to look to you all for financial assistance year after year, but somehow or another we have got to get the regulations and the taxation burdens reduced, too.

The FARRM account, how could we ask for more? The Farm Bureau is going to support death tax reductions. The comments here say that we just spent $1,250 for an estate tax plan, and that is exactly right. And when I was getting ready to do this, it seemed only right to say that the only people that benefit from that $1,250 were accountants and the attorneys. And I asked the person that was helping me write this if I should.

Chairman TALENT. I want to know where you got a lawyer to do it for $1,250.

Mr. ERISMAN. The first guy wanted $1,800. Maybe we don't have a good estate plan. Who knows?

But the whole key is, are we going to be able to stay on the ground, on the land and are we going to be able to pass it on to the next generation? And the FARRM account will help do that. The elimination of the death tax will definitely help do that.

I think that you guys, Congressman Hulshof and Congressman Talent, are definitely on the right track. Farm Bureau is going to support what you are doing. You are doing what we have asked you to do. I have this great desire to say thanks, I guess, to let you know that what you are doing is what we want done.

Some of the things that we learned when we were doing these series of meetings, we had two people from the University of Missouri. One of them was an economist, and he said that changes are inevitable, that we have to adapt to change. The other one was a sociologist, and he said that the system was put in place by people and it can be changed by people, that change is not inevitable. And I think that, yes, we are in a hard market driven economy, but we are also a social people. And I think we can make some changes in government that will cause agriculture to stay the same grand—no, grand is not the right word, but the same viable industry that it has been for the last 50 years.

And I guess I would close by saying something I just read this morning. It was attributed to Will Rogers, that he said 70 years ago as we were just entering the era of government intervention in agriculture. He said that farmers are learning that the relief they get from the sky beats what they get from the government. But by the same token, when there is no relief from the sky, we are going to have to have something from the government, and I think that is where we are today. We have had nothing from the sky since July in this area—since the first of July. The corn is burned up, the beans still have plenty of opportunity. I'd address your comments.

[Mr. Erisman's statement may be found in the appendix.]

Chairman TALENT. Thank you, Richard. You have summed it up very well. Last Saturday I joined Congressman Hulshof at his Ninth District picnic and it rained and nobody complained. Rich, I am going to ask a couple of questions, and then I am going to yield to my friend and you all have covered the ground very well.

Of all of the testimony that we got here, and it is excellent testimony, your comment about the fact that, look, if a young person or one of your kids came to you and asked you, should I get involved in family farming, you know, you would have to say no, not with the outlook the way it is. That sums it up, I think, as well as it can be summed.

My own opinion, and I am not asking you to comment on this, is that the innovation, the ability, the persistence of the average family farmers today is such that probably most of them will probably struggle through. I mean, as long as this generation lasts, we are going to have some kind of a family farm basis in this country. The problem is if the most innovative and productive kids in the next generation look at this and look at their other opportunities that they can go into and say, geez, I'd love to, I just can't. You want to comment on that?

Mr. ERISMAN. It seems that the brightest and the sharpest of the people that need to be out there making the production decisions and doing the management are doing something else because the income is a lot more secure. If we don't have those bright folks out there, pretty soon all you have got is a bunch of laborers in agriculture, and those folks are not going to necessarily be the folks that you want or have the ability or desire or the need to do the things it takes to keep the rural community alive.

Chairman TALENT. If you are looking at a sector where the maximum you are going to get is a few percent return over the years, it is hard to draw the best people into it. Now the flip side of it is—and I would like everybody to comment on this if you want to—I also agree with what you were saying, that if we would do the things that we can do, and I think are pretty obvious to do, we can turn this situation around. We don't have to continue as we were 100 years ago at the mercy of these cycles, these wild cycles in commodity prices and the things you all have mentioned, the kinds of long-term tax relief Representative Hulshof has pushed. Having a single-minded focus on getting markets open abroad, we must increase demand in the longer term, we just have to do it, and stop sacrificing that to the shadows of foreign policies.

The value-added concept, Dale, and I want the Committee to get into this very hard, and this is within the jurisdiction of the Small Business Committee. How we can provide some seed money, no pun intended here, to open up some of these value-added processes that farmers can participate almost on a co-op kind of basis so you are not as dependent on the commodity price, because now part of your operation is what you are getting for the processed good or the manufactured good, which is not going to be subject to these wild swings.

One point you all did not mention, is the government doing its job in building infrastructure to reduce your cost in getting things to market, and to have a decent infrastructure serving your communities? I think if we do those things, then the future for the ag community changes, and yes, we will still have bad years, but the bad years won't hurt as bad and you will have a lot more good years and you will be a lot more stable.

You all want to comment on that at all before I yield to my friend here?

Mr. BLAKEMORE. I would make one comment on the infrastructure issue, and this will probably not be exactly popular with the Farm Bureau and our soybean boys; however——

Chairman TALENT. Good. A little provocation here on the panel.

Mr. BLAKEMORE. They have freedom to farm with grains, they can swap back and forth. You speak of infrastructure; you cannot put soybeans through a cotton gin, you cannot put corn in a cotton warehouse, you cannot harvest anything with a cotton picker but cotton. We do not have freedom to farm. You cannot continue growing those crops when you don't have an infrastructure to process cotton.

And we talk about Will Rogers and the 1937 farm bill, the first effort by the government really to help the farmer out, and we are at prices that are, in those terms or those dollars, about the same right now. They did look at the infrastructure at that point, and everything they did at the farm bill at that time. I don't know that we have looked at our infrastructure with this last farm bill.

Chairman TALENT. Any other comments?

Mr. LUDWIG. I am not sure I disagree with that. He didn't make me mad, because many of our members also grow cotton in southeast Missouri. But I think infrastructure-wise—and Richard may want to comment on this—I think the 15-year highway plan, the concept of it at least was important as it built roads and developed roads in rural Missouri that were going to make us more effective at being able to start some of these small businesses that we talked about across the State of Missouri. Obviously, the river and continuing to update their infrastructure on the Mississippi River is very important if we are going to continue to export half the products that we grow here.

And then finally, you know, as I mentioned, tax credits for developing some of the plants and type of structures that we may need to develop some of these alternative uses for agricultural products is going to be very helpful, and that is pretty much all I would say.

Mr. ERISMAN. I thought that both of you gentlemen along with our Senators have done an excellent job of getting more money brought back to Missouri. And the Federal highway bills, it helps to improve 63 in our area, and I know we are working on 61 and 36.

I am fully in agreement that an infrastructure for Farm Bureau has always been a major concern, that the farmers have the opportunity to get their product to market after they produce it. It is a huge concern. As far as—I don't know why the gentleman from the southeast is concerned about Farm Bureau not supporting infrastructure, and for myself, if I can go to the other side of my business, which is pork production, we have got all of those specialized facilities and everything too that is not good for anything else. So if you don't have the ability to use them, if you don't have the market for it, it is a loss and it is a total loss.

Chairman TALENT. Kenny, I'll recognize you.

Mr. HULSHOF. Thanks, Mr. Chairman. Let me pick up on the infrastructure theme. And actually, David, in your testimony in page 3, you mentioned actually cutting taxes and you mentioned diesel fuel, something that is not getting a lot of play in this tax cut, which has given me the opportunity to do it now.

Back in 1993, you may remember that there was a tax increase, and part of that tax increase was a 4.3-cent excise tax on gasoline and diesel fuel and it was called the deficit reduction tax at the time it was implemented. The 4.3-cent excise tax on gasoline last year with this Federal highway bill, we made sure now goes into the highway trust fund for infrastructure. So there will be more Federal highway dollars available.

So we took it out of deficit reduction, at least the 4.3-cent gasoline excise tax, and we put it into the highway trust fund. But at the same time, especially for the rail industry and barge industry, they were still paying the 4.3-cent diesel tax for deficit reduction. This tax bill that will be awaiting the President's signature in September, we repealed that deficit reduction tax on diesel fuel. Right now there is no railway trust fund, and the rail industry tells us they don't want a trust fund, but they would like to have some additional funding to invest in their own infrastructure. Ron, as you know, especially over in Kansas, trying to get grain, corn to market in Kansas because they just don't have enough rail cars to get that corn out, maybe this is some way to help them.

Regarding the inland waterway trust the inland waterway trust fund, especially, as you know, living close to the river down in Campbell, there is sufficient money in the inland waterway trust fund right now for the matching grants and the like, that they don't need that 4.2-cent in their trust fund, and so the barge industry has also said, just take this tax off of us, and it is in here. It is in this $792 billion that we repeal that deficit reduction tax on diesel fuel.

Just a couple of other quick points and then really kind of a hard-ball question for you, Mr. Erisman. Regarding the GMO issue, I completely agree, Dale, that this is something that is a significant issue that is going to have to be addressed. I had a briefing this past week before we came home from Washington, actually last week, regarding this whole biotech issue, and, of course, it is extremely important for this university, and I see some folks here that have been right on the cutting edge on biotechnology, and interestingly, again going to you, David, you know, with BT Cotton, and I recognize that there is cotton seed oil that you actually ingest, but I said surely a goodness because this is something we wear, external fibers that there is not the controversy about biotech cotton. And they said, believe it or not, in England——

Mr. BLAKEMORE. Marks & Spencer.

Mr. HULSHOF. They are calling it—instead of Frank & Foods, they are calling it Frank & Pants to create this controversy about biotech cotton, even though we have fibers that we don't ingest, and so I think—I clearly think this is an issue that we are going to have to address.

Now for the tough one. You know, my good friend from one of the local print media that had a deadline and had to leave, I recognize an editorial in that esteemed newspaper some months ago in talking about the Farm and Ranchers Management account, gave me the title "Hulshof the Tax Fiddler," was the title for the editorial. And the thrust of the editorial was, and the question I ask you is, why is it that farmers need this special break? We don't do it for the shoe industry. We don't do it for the steel industry. Why is it, then, that you, Richard, or any of you, I am not just singling you out, but what answer would you give or what would you give me as ammunition to those naysayers that say, why are we carving out this special tax treatment for farmers or ranchers, what would be your response?

Mr. ERISMAN. The big thing that jumps at you is that none of those other industries are 100 percent or at least 90 percent dependent on what mother nature does on the weather. That is the one variable that a farmer can only control if he has got some irrigation for rainfall, but he can't control it if he has got too much rain, if he has got a flood, he has got all of those variables that are beyond his control.

You can control the input you put in the ground yourself, you can control what you pay for the things that you are buying, the tractors and the breeding stock and the roof over your head and all of those things, but you cannot control the weather. And if this country is going to have an abundance of good, quality, nutritious and cheap—and I emphasize the word "cheap," I should say inexpensive because cheap is the wrong connotation, inexpensive food, we pay less than 12 percent of our income out for food in this country and if we are going to continue to have that, we have got to have farmers that are willing to take risks. And you have got to have something behind that to back it up, something to know that when you got more rain than you can use or not near enough, that there's some funds available that you can draw on to continue to live to try again next year.

Mr. HULSHOF. In fact, let me propose this hypothetical to you. Let's say that the Environmental Protection Agency through the Missouri Department of Natural Resources came out to your farm and said you got a problem with your lagoons and we want you to do some mitigation, at your own cost of course. Is there any way for you to pass that cost on?

Mr. ERISMAN. Absolutely not, because the farmer is the only person, the only business that we buy at retail and sell at wholesale. I think that is the clearest explanation of the whole thing. We are not usually a market maker. We are a price taker. We need to have some of the flexibility and some of the reserves and sometimes some plain help to be ready to continue to do the things that need to be done.

Mr. HULSHOF. The other point that I think probably could be made and especially with our friends from the livestock industry who will be here shortly, is that when you got a 220-pound live hog that is ready for market, you can't inventory that hog like you can with steel or with some other raw products. I mean even in the instance of corn or cotton or soybeans, I guess, obviously, you can put it in the dryer or put it in the bin, but, of course, there is storage cost as well. If you don't have storage, that is another input cost.

So I appreciate hearing those answers because it is often, and even in Washington I think Jim can attest, that people have asked why is it that we need a special provision just for farmers and ranchers, and I appreciate your—Ron, did you have a——

Mr. MCNEALL. I would like to add to what he said. Also, is that agriculture is the only industry that feeds the world that we have to eat and agriculture feeds it. And the other thing, agriculture probably produces—and I am not real good with statistics—probably 75 percent of the industry in this country thrives somewhere off of agriculture somewhere along the line. So if you take the bottom of the pyramid out from under the pyramid, I think the whole pyramid would tumble.

Mr. HULSHOF. Dale, do you have another comment?

Mr. LUDWIG. A couple quick comments. One is when we talked about an implemented freedom to farm, one of the things that we talked about was opening up markets around the world. We have never given the President trade negotiating authority and is something we need to do.

It is like, let them do what they said they are going to do, and "they" is the Federal government, and if they do all of those things, it helps us keep us out of situations like we are in. We are counting on exporting 50 percent of our soybeans and if they don't let us develop those markets, now we are not able to participate in a number of agreements that are being drawn up and signed today by other countries as a result of not having that trade negotiating authority.

Number two, and you hit it, is regulations and environmental regulatory concerns and additional costs as a result of that. I would venture to say that part of the problem with the pork industry and the lack of capacity to actually process pork was as a result of EPA regulations discouraging people from growing and getting into that processing industry. And, you know, that's something that I have said for a long time, and it's a part of that additional regulation.

Finally, the comment is, consumers across this country don't want there to be a lack of competition to grow and produce food.

Mr. HULSHOF. As a final comment—Mr. Chairman, I appreciate your indulgence—I appreciate your constructive comments about the 20 percent cap and the limitation being too low, I appreciate that comment.

The way that we have kind of kept this fairly tight when we crafted this provision, you represent, really, traditional agriculture. I see we have got nontraditional, though, whether it is your Christmas tree farmer, you qualify. My cosponsor, Karen Thurman from Florida on the Ways and Means Committee, has a lot of nontraditional as far as nurseries, vegetables, citrus and the like, and, again, for individual farmers, not corporations, but for individual farmers this provision now is poised to become law if the President will sign it. So I appreciate, and, Mr. Chairman, I would yield back.

Chairman TALENT. All right. Well, I want to thank the panel, and I think you about said it all, but we have another panel and we will be talking about the situation with pork producers, and I am sure that Rick Rehmeier will have additional comments on that.

Thank you all for your time, and if our second panel would come and take their places.

John Cauthorn from Mexico, Missouri is the President-Elect for the Missouri Cattlemen's Association in Columbia, Missouri. Please give us your testimony.

STATEMENT OF JOHN CAUTHORN, PRESIDENT-ELECT, MISSOURI CATTLEMEN'S ASSOCIATION

Mr. CAUTHORN. Thank you, gentlemen. Thank you, Mr. Talent, Mr. Hulshof, and thank you for your openness and to your accessibility to the public. You know, sometimes we have legislators and politicians that aren't that accessible. We sure appreciate your concern for us. I am a diversified livestock and grain farmer in Audrain County, Missouri. I would just like to say that the Missouri Cattlemen's Association is proud to be able to provide this facility for you folks today and we welcome you here today. This building was a long time in coming, but from the standpoint of the ag community, we think that a good place to meet and a—I can't think of the word, but, you know, we need to be proud of who we are and where we come from.

We believe that the issues being addressed here today are an important part of the solution to agriculture's current and future dilemmas related to profitability. Government certainly has a place in our industry. We believe that the place for that government is in opening the doors that allow us to control our own destiny, and we as Missouri cattlemen have been able to avoid most of the complications of government assistance. Our number one desire from government is to allow us to do the job that we know that we can do.

As you folks know and we alluded to earlier, the cattle industry has asked for very little actual government aid except in the case of disasters from the Federal government, and we seem to fight about that quite frequently.

We believe that our success will help the grain producers and merchandisers and animal health professionals, livestock markets, and all of those that we depend upon for our livelihood. Changes that can be sustained and that make economic sense will benefit all of those in agriculture. We are all tied together in this business.

Real and sustained improvements in the rural sector may only be possible with changes in those programs that limit our ability to utilize our income in the most effective manner.

Our long-term interests, obviously, are focused around our concerns with the death tax, the restraints that it places on us in our vision for our cattle operation. Put yourself in my position, imagine that you operated a medium-sized diversified grain and livestock operation. At the end of my life the current death tax laws will take the equity that is the profit in my operation and divide it between my heirs and the government. Actually, the ag community has sacrificed income over the years to create equity in their business. We have worked for less because there are not too many people that would work—start out their life and start out a year and think about making $40,000 and end up with nothing, but the ag community seems to do that quite frequently.

In turn, my heirs will begin their farming experience with a shortage of equity. That shortage will prevent them from maximizing the potential from the farming operation then repeats itself, when we again will have to split that equity between the next generation of farmers and the next generation of government programs funded by tax collection.

The alternate would be that my children would be able to take advantage of my years of hard work and to build upon the history of our family farm to be able to withstand the ebbs and tides of the marketplace all while investing in their own future. That investment in a family farm means local grain dealers and merchandisers, animal health professionals, feed mills, equipment providers, suppliers, and all of those in the community also profit from our profitability.

Now, I would like to state that a lot of government programs that send money out, did not help a community in the productivity of that community. That money seems to be held in very tight hands, and we need people working in our Nation building communities, building small communities.

The Kennesaw study referenced in our written material shows that death tax is a definite drain on our already ailing local communities. Those studies showed that if the death tax was eliminated, thousands of additional dollars would be eliminated in each of our local communities and the Federal budget would benefit by millions. Those studies also would lead us to believe that the real losers in the elimination of the death tax would be those attorneys and probate specialists who consume some 68 cents out of every dollar collected, and we all love lawyers. The more—sorry about that.

Mr. HULSHOF. That is all right, John.

Mr. CAUTHORN. The more immediate concerns involve the current capital gains tax. We applaud the recent improvements in capital gains rates and support the current packages in Congress that reduce those rates even further. The true answer to capital gains is to eliminate it. The capital gains tax and its result on farming and ranching operations across Missouri and this country is to force us to make investments and retain investments in ways that aren't always in our best interests.

Investments in breeding livestock and the production of seed stock for your own operation have become a nightmare. The result is a shrinking Missouri seed stock industry and less than optimal business decisions on the part of the producers that support that industry. Again, we believe that lowering and eventually eliminating the capital gains tax would allow those dollars to freely move in our communities generating jobs, economic development and improve stability in the farm economy at every turn. My purchases of seed stock, equipment, inputs and supplies, and my investments, must be based on sound business principles. Capital gains does not help me accomplish that goal.

Agriculture is a business. Missouri Cattlemen's Association believes that Congress should address our needs and our industry just like a business. We hope that continued efforts to give agriculture the same benefits as traditional businesses are successful. Our health insurance and other business-related expenses are just as important as any other small business. We don't believe our sole-proprietor oriented structure should preclude us from the same deductibility levels that a more traditional small business may operate under.

Programs such as Representative Hulshof's proposal to provide farmers with FARRM accounts seems to be a tremendous step in the right direction. The FARRM account would again allow us to manage our income levels in the most efficient manner. All of us in agriculture know that we will have both highs and lows in the market. Supply and demand will also be a harsh truth for us to expect. This tool and others like it will allow us to manage our affairs with our long-term goal of continuing our family farming operations is a great door for you to open for us.

I would like to close by stating our appreciation for you offering this opportunity to speak. We know that you have supported our desires in the past, and we hope that you continue to work together in the future.

I would like to comment on Mr. Talent's earlier comment about the percent we're paying as a nation in the taxes. You know, history states that if we pay over 40 percent of our income as taxpayers, that that nation is doomed for failure. It is a matter of time. And as far as the ag community, you know, I think there was some questions alluded to marketing. I think the ag community needs to be more focused on marketing. We need to take more share of the pie, and we can use some help from the government for that.

Thank you, gentlemen.

[Mr. Cauthorn's statement may be found in the appendix.]

Chairman TALENT. Thank you, John. I will resist the opportunity to comment except to say that I agree with you completely.

All right. Rick Rehmeier of Augusta, who is the past President of the Missouri Pork Producers Association. Rick, thank you for being here.

STATEMENT OF RICK REHMEIER, PAST PRESIDENT, MISSOURI PORK PRODUCERS ASSOCIATION

Mr. REHMEIER. Chairman Talent, Congressman Hulshof, it is a pleasure to be here today. We are all thankful you are all here today listening to our concerns.

As you said, I do farm near Augusta, Missouri with my parents and my brother's family. We operate a pork and crop farm, and I am a past President of the Missouri Pork Producers.

Without question, we in agriculture are enduring some of the most trying times in history. We understand that there are a variety of reasons that have led us to these problems that we currently face. We appreciate your interest to listen and learn and take some action in some of these key areas.

First, pork producers have and continue to support efforts to establish the FARRM accounts program. While it is unfortunate that this program hasn't been in place during the past few years, it is extremely important that we make every effort to pass this measure, which is of utmost importance to agriculture, and we especially have seen that in the past year in pork production.

Pork producers are also long-time supporters of the effort to eliminate or repeal the death tax, which in many cases forces families to sell the farm in order to pay taxes rather than pass it on to the next generation.

I can certainly understand Richard's problem because the other day we sat down with two attorneys and the accountant last month for about three hours, and I am sure that meter was clicking pretty good at that time.

Capital gains taxes, they also create an unfair burden for farmers who have worked for years to build equity in their operations. Capital gains tax implications continue to make it difficult for farmers to sell or transfer the farming operation to younger farmers without incurring prohibitive tax consequences. In essence, the capital gains tax discourages success and it should be dramatically improved upon, if not eliminated.

Farming is extremely competitive, new challenges at every turn, whether it be drought, low prices or other concerns. Agriculture is difficult at its best.

The additional burdens of the death tax and capital gains tax compound our businesses even more. Considering the many challenges we face, relief in these two areas is extremely important. We urge the U.S. Congress to press with rapid and meaningful reform.

Another area of significant importance relates to the farmer's inability to deduct 100 percent of health care insurance cost. While some progress has been made in this area, farmers continue to be at a disadvantage when compared to other businesses that enjoy the full deductibility of health insurance.

The Missouri Pork Producers have had a long-standing policy that supports your effort in these areas. We look forward to working with you to secure meaningful results in this area.

Thank you for your interest and time in being here today.

[Mr. Rehmeier's statement may be found in the appendix.]

Chairman TALENT. Thank you, Rick, and again thanks to all of the witnesses. I know you all have actual operations to run, and I'm appreciative that you are here, and our last witness is Rich

Palmer, who is the President of the Dairy Association from Old Monroe.

STATEMENT OF RICH PALMER, PRESIDENT, MISSOURI DAIRY ASSOCIATION

Mr. PALMER. Good morning, Chairman Talent, Mr. Hulshof. We, too, appreciate the opportunity to come and be a part of this discussion.

As has been stated earlier, we are in this together. Agriculture is beginning to pull together as is evident by this group that is here.

I don't have a written testimony, and I don't think that is the way this ought to be approached. Each of us here have stated, and it has been stated several times that we are very much in agreement with your all's approach to the Farm and Risk Management Account. The 20 percent amount that was stated earlier, we think it ought to be larger than that. It probably ought to be considered in a time thing, too, since the weather factor usually has about a 10-year rotation rather than a 5-year rotation.

We are also very concerned about the estate or death tax. As we look at Missouri's agriculture and the dairy operations, our average dairy farmer is about 55 years old, and most of the sons and daughters who are behind those operations are already off the farm because there is no way that both families can make a living on it.

We see expansion in all kinds of agriculture in the way of consolidation, and I think that is the fear that a lot of us have, is that as we continue to consolidate, we look at possibilities of carpet farming. And at that point, the price of food is not going to be 9 or 10 percent, it is going to be whatever it takes to produce it, plus whatever the stockholder needs, plus whatever the profit margin needs to be in that operation. So we won't see those kind of prices.

So we look at the small farm as an entity and as a business and if we are going to maintain that, then we need those advantages that come with the tax relief we are discussing here as well as other things.

We talk about the infrastructure that is at risk. The infrastructure in the dairy industry is extremely at risk, and we understand those things. The dairy industry of Missouri alone has lost nine plants in the last 4 or 5 years. We are looking at a shrinking processing industry as is other agriculture. The veterinarians and all of those other people who rely on us for their income, are in jeopardy also.

The health tax—I mean, the health insurance is—we need that part to be on a level playing field. We have fought the fight long enough. We need those advantages, also.

Capital gains has always been an extremely tough part of agriculture because of what it does to our equity as we try to move on to the next generation.

Dairy farming in this State has shrunk by 25 percent in the last 5 years. We are losing dairy farmers at a 10 percent rate per year the last 2 years. So we are very aware of what is happening to the industry, and these tax reforms certainly will have an impact and will help. Sometimes we worry about it being too little too late. So we urge you in these reforms that the sooner the better.

Outside of the tax thing, we, of course, appreciate your all's support with our 1–A projects in the Congress today and the compact issue, of course.

So I will relinquish to my time. I think we have gone long enough, and we would open it up for comments. Thank you, sir.

[Mr. Palmer's statement may be found in the appendix.]

Chairman TALENT. Thank you, Rich. It is fitting that you would testify last as far as I am concerned because I am headed from here down to join Representative Blunt on his ag tour, and I am sure the dairy issues will be mentioned very often.

I am going to—in fact, let me just go ahead and yield directly to Mr. Hulshof and then I may ask a closing question. Go ahead.

Mr. HULSHOF. Let me just—and, again, I don't want anybody to think that—we have many members of the media that are here, and I don't want it to be said that the Congressman was picking on one particular medium; that is, one of the local newspapers, but it happened to be that in Saturday's paper an editorial regarding the estate tax and our efforts and what you talked about. And so let me ask again, because when you tell the story, I think it has a special power and eloquence rather than when politicians are talking about it.

One of the points made by the author of this particular article said that, really the only ones who are interested or who would find this to be welcome news; that is, the repeal to the death tax, is about 1 percent of the U.S. Population that is worried about having to pay those estate taxes, and each of the three of you have mentioned it and our preceding panel of four witnesses mention it. Are we just fortunate that we have seven people that are here that constitute the very wealthy? I mean, why is this not—or is it the repeal of the death tax, John, is it something that just benefits the well-to-do?

Mr. CAUTHORN. I think I have alluded to the fact that we do work for nothing many years in our life to build equity. And if we are working—if we are providing our labor for nothing, then we are providing a service to someone else in this Nation, and the ag community has been an independent group, but we cannot continue to pay large taxes like this and pass the farming ground on. It just won't work, too much debt.

Mr. HULSHOF. Anybody else? Rick.

Mr. REHMEIER. When we have some extra profit—when we did have some extra profit, let me put it that way, we would go out and either expand or buy more property. We didn't go out and buy a new boat or a house at the lake or something like that. So we did this to let the next generation have a place to go.

My son is a senior in high school. Hopefully he'll come here next year. Boy, I said, maybe you want to get a different education than in agriculture. So that is why these tax breaks are very beneficial to us. It is hard enough now without having to give half the farm away to restart the next generation.

Mr. HULSHOF. Rich.

Mr. PALMER. Basically, I'm reiterating, but as an example a family close to us had four sons involved and a father, and one morning the father wasn't there at the breakfast table and it cost those—and this was several years ago—it cost that family $70,000 to go to work that day, and it meant nothing except that dad wasn't at the table. So what that man, like I said, worked for all his life passed on to the government and the kids wound up with the burden, and we are doing all of the work anyway. So it doesn't make sense to do that, and, like I said, it is driving those young people off the farm.

You can't bring them—you can't hold them to something like that. I have got the same problem with a son. I mean, he looks at this and he said, why. I see you pay the help more than you pay me. I said, I got to keep them. I can't afford it. All he has to do is invest in a lunch box and he can go to work for more money and be off all weekend instead of milking Saturday and Sunday.

Mr. HULSHOF. Well, a couple of you have alluded to this and unfortunately what the full picture and we talk about—in fact, I got the revenue table that you, as you know, we are so consumed with numbers as far as the quote, "loss of revenue to the government," which I have a problem with that very concept of loss of revenue to the government because the government's loss is the American people's gain, but what isn't included is the amount of resources that some of you have mentioned, you had to consult your tax lawyer or your accountant to put together an estate plan in order to avoid this tax.

There is a local family that owns one of the lumberyards here in Columbia, and the two sons have told me that each year—dad is sort of out of the business—but each year they buy term life insurance, the sole point of which is that the proceeds of a life insurance policy will go to pay the estate tax. And so how many dollars, thousands of dollars, I would assume, that that family has to put into purchasing term insurance just so that the estate tax bill can be paid. Rick.

Mr. REHMEIER. Kenny, we are going to be spending $12,000 a year doing that, and that is money that could be put back into the operation, just so that we can inherit the farm. A real life perspective that when we hear the allegations of tax breaks for the wealthy or when we hear that we are committing the ultimate act of selfishness, as our new Treasury Secretary has indicated. It helps us when we tell these human-life, kitchen-table stories as a reason that we should move forward, and I appreciate your allowing me to participate, Mr. Chairman.

Chairman TALENT. Thank you. I think that the death tax is, from a standpoint of trying to encourage the right thing and discourage the wrong thing, the stupidest of all of the stupid taxes of the Federal Government, and it is the least defensible. I can't think of an honest way to defend that tax from any perspective. But apart from all of that, as bad as it is at a practical level, first for entrepreneurship for small business people, for family farmers, for their families, for their communities, it is just wrong. It is wrong when you work your whole life, you pay the taxes up front, so you have paid taxes on every dollar that is in that estate, and then the government comes in and takes half of a person's life effort. It is just wrong. I don't care how much it is. It is just wrong, and it really ought to be changed. It is that great equity behind this or a great sense of justice that I think kept pushing this bill that you have championed so well.

The only other thing I want to say, and you can comment on it if you want, and I thought about it with regard to some of your testimony and also the first panel, people ask is there a crisis in agriculture, do we really need to do these things. I think as a nation we have to decide whether we want a generation from now for there to be a substantial family farm segment in America or not. That is the decision we have to make.

If we decide we do, I think I am optimistic that we can have a flourishing—I mean, I am optimistic, if you do these things and empower folks like you and hold, I hope for your kids, that we will have a strong family farm segment. If we don't, though, and I appreciate your comments on this, I think we have to face the reality that a generation from now we are going to be corporate-farm dominated. You all as much have said it. You might as well just say it. So we have to decide that Congress—is it worth preserving the family farm as an institution in the United States? I think it is, both for the sake of the food supply, but something beyond that, also. I mean, I think America loses something if we don't have family farmers anymore.

You may want to make a comment. This is what I hear over and over again, and I don't know if people are just willing to say it right up front. We are not going to be able to assemble a panel like you all 30 years from now if we don't do something. Is that a fair statement?

Mr. REHMEIER. I think something will have to be done. I think we need you all to go back there and champion for it. And if we don't have, like I said, my son, their sons coming up, you won't have anybody sitting here 25 years from now that you can talk to except corporate boards, and that is my opinion.

Chairman TALENT. Well, thank you for your testimony. Let's now leave the record open for five days, which is common with the Committee, in case any members of the Committee who weren't here today or Mr. Hulshof wants to submit any other questions or comments, and with that, I will adjourn this hearing of this Small Business Committee, and, again, with my gratitude to the witnesses.

[Whereupon, the committee was adjourned.]

Opening Statement of U.S. Representative Jim Talent (R-MO), Chairman

U.S. House Committee on Small Business
Columbia, Missouri
August 10, 1999

I would like to thank my friend Representative Hulshof, and each of the witnesses here today, for welcoming me to Columbia, Missouri for this hearing. Your willingness to testify today makes it possible for us to listen to your concerns, and to make them known to Congress in developing a strong agriculture agenda.

On August 24th, the Small Business Committee also will hold a meeting with farmers and ranchers in Kansas City, Missouri to discuss agriculture and regulatory policy. The crisis in agriculture is staggering, and we want to learn your central concerns and recommendations for both immediate and long-term relief.

Record high disasters and record low commodity prices are hurting Missouri's farmers and ranchers. Plainly, we must help them through these tough times. Tax responses are not the only thing we should do. we need to aggressively open markets for our agricultural products abroad and we need relief for hard-pressed farmers and ranchers in difficult years of drought and low prices. I cosponsor H.R. 2743, the Farm and Ranch Emergency Assistance Act, introduced by Representative Jo Ann Emerson (R-MO). The bill would double 1999 AMTA payments, reform trade sanctions, fund crop insurance, fund expanded concession sale and donation programs, and suspend limits on loan deficiency payments.

Today, we will explore your small farm tax burdens, and how H.R. 2488, the Taxpayer Refund and Relief Act (approved by the U.S. House and Senate last week), can help. Farmers and ranchers – indeed all Americans – need tax relief. The average family now pays more in taxes than it spends on food, clothing, shelter and transportation combined. Federal taxes consume about 21 percent of national income, the highest proportion since World War II. Total federal, state and local taxes stand at a record 32 percent of national income.

The tax code, moreover, is an unwieldy mess that gives the IRS the power to tax you the highest if you work hard, save and invest. Consequently, it hurts family farmers and ranchers heavily. These hard-working people, who put their good name and reputation on the line to create jobs and to grow food and wealth for their loved ones and their communities, are among America's greatest resources. Yet, after paying taxes on income and investments throughout their lives, the deadly estate and gift (or death tax) is crushing them.

While death taxes collect only approximately 1.4 percent of federal receipts, they consume over 65 cents on every dollar in enforcement and compliance costs. They force the sale of thousands of farms, ranches and businesses throughout our country, and destroy jobs and economic potential. But dollars alone don't tell the whole story.

Family farmers own and work their land on average nearly 30 years. Inflation makes them land rich and cash poor. They make their living growing food and fiber, not speculating in land and equipment. The death tax, therefore, is the single most devastating tax on virtue. It destroys the American dream by penalizing hard work, sacrifice, perseverance, and faith in our farmers and ranchers with a hefty 55 percent death tax levy. It tells every American that no matter how hard you work or how wisely you manage your affairs, in the end the IRS is going to step in and take it away. As a result, 70 percent of family businesses never make it past the first generation, and nearly 90 percent never make it past the second generation. This is simply unfair.

Benjamin Franklin, one of our Founding Fathers, said there were two certainties in life: death and taxes. But I don't believe even Dr. Franklin, with his prescience, could have told us that both would occur at the same time. You likely have heard it said that no American should have to visit the undertaker and the tax collector on the same day. Similarly, no farmer or rancher should have to cut up half or more of his farmland or equity to pay the death tax, or to save the family farm or ranch during hard times. It's plain to me too that Missouri's farmers and ranchers deserve creative risk management tools to manage the unpredictable, cyclical nature of their businesses throughout their lives.

The Taxpayer Refund and Relief Act includes several provisions that will directly benefit agriculture – including repealing the death tax by the year 2009. It creates Rep. Hulshof's Farm and Ranch Risk Management (FARRM) Accounts. This promising new tool will allow farmers and ranchers to save during the good years to help see them through the bad years While our first panel will testify more on FARRM Accounts, I want to applaud Rep. Hulshof for his outstanding leadership on this important issue.

I am delighted also that the tax package allows the self-employed to deduct 100% of their health insurance premiums beginning January 1, 2000. Because of the disparity in the health insurance deduction (currently 60 percent for the self-employed as compared to 100 percent for large employers), the after-tax cost of health insurance premiums for the self-employed is greater than the cost paid by Fortune 500 companies. Ending this inequity will make health insurance more affordable for self-employed Americans – including the majority of farmers and ranchers.

In addition, the tax relief bill reduces capital gains taxes for individuals from 20 to 18 percent, and for those in the 15 percent bracket, from 10 to 8 percent. It also indexes capital assets for inflation These changes will benefit farmers and ranchers directly because agriculture is a capital intensive business requiring heavy investment in land, buildings and equipment.

In closing, it's important to realize that with the average farmer or rancher pushing age 60, now is the time to act on agriculture and tax relief. On the tax side, FARRM Accounts, death tax repeal, 100% health insurance deduction, and capital gains reform, is a potent combination to help farmers and ranchers protect their property for the next generation of farm and ranch families.

Opening Statement of U.S. Representative Kenny Hulshof (R-MO)

U.S. House Committee on Small Business
Columbia, Missouri
August 10, 1999

I would like to thank Chairman Jim Talent for holding this field hearing of the Small Business Committee in Columbia. Your willingness to come here to listen to the concerns of Missouri's farmers and ranchers is certainly appreciated.

Put simply, there is a crisis in agriculture. Prices for pork, cattle, corn and soybeans are at record lows. According to FAPRI's respected agriculture economists, farm prices are not expected to rebound for some time to come. For Congress to address this issue in a meaningful way that helps Missouri's farmers and ranchers, it is clear that a comprehensive agriculture strategy is necessary. The United States must work to tear down foreign trade barriers that limit access to vital foreign markets. We should enact sanctions reform so that our farmers and ranchers are not used as pawns in international disputes. Congress should enact price reporting legislation that looks closely at concentration in the packing industry to prevent monopolistic practices in agribusiness. Our farmers need crop insurance reform and emergency assistance to help cope with an ongoing crisis that has seen commodity prices fall to Depression era levels.

But today, we are here to focus on another important part of this comprehensive agriculture strategy - tax relief. For all Americans, the tax code is inefficient, discourages savings and investment and harms economic growth. Like all Missourians, farmers and ranchers need relief from their crushing tax burden. At a time when the federal government is projected to post record surpluses, there is no reason that we cannot address important domestic concerns like Social Security and Medicare, pay down the debt and allow our farmers and rancher to keep more of what they earn.

Last week, that is exactly what the House voted to do. The House-approved Taxpayer Refund and Relief Act of 1999 would provide $792 billion in tax relief while reducing the federal debt by $2 billion over the next ten years and ending the raid on the Social Security Trust Fund. This is a big win for our nation's taxpayers and a big win for Missouri's farmers and ranchers.

The tax relief package contains important provisions that will directly benefit agriculture. Earlier this year, I introduced and Chairman Talent cosponsored the Farm and Ranch Risk Management (FARRM) Act. This bill will allow our nation's farmers and rancher to establish a "rainy day" fund to manage the risks that are unique to agriculture. Our panelists will be discussing this idea in more detail. But for now, I take great pleasure in announcing that FARRM Accounts are included in tax package approved by Congress.

The Taxpayer Refund and Relief Act of 1999 also eliminates the federal Death Tax. Death should not be a taxable event. We cannot in good conscience inhibit the ability of a family farm to be passed from one generation to the next because of a punitive death tax. Both Chairman Talent and I have been aggressive in our efforts to eliminate the Death Tax. Hopefully, we will soon achieve this goal

Many of Missouri's farmers and ranchers are self-employed. If these individuals were a corporation like Ford or IBM, they would be able do completely deduct the cost of buying their health insurance. However, this rule as it applies to corporations does not apply to our self-employed farmers and ranchers. This is a matter of basic fairness. A self-employed individual deserves the same tax treatment as a corporation when they buy health insurance. Chairman Talent and Senator Bond should be commended for their leadership in remedying this inequity and getting the 100% deductibility of health insurance for the self-employed included in the recently approved tax relief package.

Lastly, we need to continue the effort to reduce capital gains taxes. Agriculture is a capital intensive business. To be profitable, Missouri's farmers invest heavily in capital assets like land, buildings and equipment. However, since these items are held for longer than 12 months, they are subject to the capital gains tax when sold. To help reduce the tax burden on our farmers and ranchers, we should reduce capital gains taxes and index capital assets for inflation. I am pleased that the tax bill recently approved by Congress does both.

As I said at the beginning of my statement, we need a comprehensive strategy to address the crisis that is plaguing rural America. A key part of this overall strategy is making changes to the tax code that will help agriculture. I thank Chairman Talent for coming to Columbia today to discuss this important issue and commend him for his leadership in providing tax relief to rural Missourians.

Remarks of David Blakemore

For:
Columbia, Missouri Field Hearing
House Small Business Committee
August 10, 1999

Mr. Chairman, I thank you for arranging this hearing and for the opportunity to share my views on small farm tax burdens. My name is David Blakemore. I am a cotton producer and ginner from Campbell, Missouri.

Before addressing tax issues specifically, I want to share some observations about the acute economic plight confronting farmers and related small businesses. American agriculture is dealing with crisis conditions that affect ancillary businesses as well.

Need for Emergency Assistance

I find it most discouraging that some policymakers believe farmers are doing rather well in 1999. USDA projects farm income for 1999 to be only slightly lower than 1998. Mr. Chairman, the only reason America's farmers and ranchers 1999 income is only going to be down 12% below 1998 is because USDA is counting $2.5 billion in emergency money that was appropriated in 1998 but not received until June of 1999. USDA's latest projections indicate that **commodity** receipts (i.e., receipts for grains, oilseed crops, cotton and tobacco) will be down down 23% from 1997. Given that 1998 returns did not cover farmers out of pocket cost of production you can well understand the desperate plight our farmers are in today.

I do find it encouraging that the Senate eventually gave strong bipartisan support to a significant Emergency Agricultural Assistance package. A doubling of AMTA payments, reinstatement of cotton's Step 2 program and the increase in payment limits for marketing loan gains would be very meaningful. It would permit some farmers who otherwise could not have covered their obligations to survive for one more year. Hopefully, the package will be retained when the House and Senate conference their respective appropriations bills.

I would also observe that Representative Emerson has just introduced a bill that includes these essential provisions for cotton and other southern crops. As a member of the Agricultural Appropriations Sub-committee, she will be a conferee when the House and Senate appropriations bills are reconciled after the August recess. I commend her initiative in introducing this bill and look forward to her continuing leadership on the conference committee.

Longer-Term Agricultural Needs

Looking beyond the current crop year and the help we hopefully will get from an Emergency Relief package, current farm law provides farmers virtually unlimited cropping flexibility. Generally speaking, farmers liked this aspect of current farm law when it was under consideration by the

Congress. Unfortunately, cropping flexibility loses much of its appeal when futures prices suggest no feasible alternatives. Cotton, corn, soybean and rice prices are all below the full economic cost of production for most farmers in this region, and a global surplus in virtually every commodity must be worked down before there is much likelihood of significant price recoveries.

We're told the economic problems in Asia may persist for at least another couple of years. If so, any reduction in surplus stocks will be slower than normal. America's farmers and ranchers may face an extended period of poor economic conditions, and they will certainly need more than short-term emergency relief to remain viable in the years ahead.

Clearly, tax reform can be an important component for restoring the long-term health and vitality of American agriculture, I commend Chairman Talent, Representative Hulshof and your colleagues for your leadership in this arena. Income taxes, capital gains and estate taxes all need a careful review, as do the tax rates for gasoline and diesel fuel.

With respect to income taxes, cotton farmers have continually expressed, united industry policy through the National Cotton Council, their strong preference for a system of taxation that permits establishment of a special account for farmers that would allow them to defer income in profitable years for use in tough years. Such a system would be highly beneficial to farmers in dealing with the wide year-to-year swings in taxable income.

FARRM accounts that have been discussed among policymakers would generally conform with the special account concept cotton farmers have supported. As you know, profitable years are getting further and further apart, it is becoming more and more important to have provisions to let farmers take advantage of such years. Thanks to the leadership of Representative Hulshof and Chairman Talent, a bill addressing this fundamental need was added to the tax package which passed last week.

While we have sought **unlimited** entries into FARRM accounts, we understand that budget implications serve to limit what is politically feasible. The 20% which is allowed in the tax measure just passed will be most helpful to many farmers if signed into law. I would add that we appreciate the leadership of Representative Hulshof in keeping restrictions on what can be done with the accounts to a minimum and making them as easy as possible to set up.

With the concurrence of all other segments of the U.S. raw cotton industry, producers also support other tax measures, including: the continuation of income averaging and legislation to accelerate the timetable for 100% deductibility of health insurance premiums paid by self-employed individuals.

Thankfully, these cotton industry concerns have also been addressed in recent legislation. Omnibus legislation passed last year made provisions for income averaging permanent.

The tax package just passed cuts the capital gains tax from 20% to 18% and permits indexing, beginning in 2000, for individuals, though not for corporations. The bill also accelerates the time for 100% deductibility of health insurance premiums paid by self-employed persons, includes provisions for investment tax credits and phases down inheritance taxes – ultimately repealing them in 2009 .

These reforms will go a long way toward providing farmers with a much more reasonable tax environment. Thanks again for your leadership and for permitting me to share these observations about tax reform.

Testimony of Ronald McNeall
President, Missouri Corn Growers Association
before the
House Committee on Small Business

August 10, 1999

Chairman Talent, Representative Hulshof and others, I thank you for the opportunity to testify today before the House Committee on Small Business regarding small farm tax burdens. As President of the Missouri Corn Growers Association, I appreciate the chance to share with you the concerns of Missouri corn farmers regarding the excessive tax burdens placed on them. Although we have many concerns regarding small farm tax burdens, I have been asked today to focus my remarks on an innovative proposal introduced in Congress by Representative Hulshof, so I will do so.

Farm and Ranch Risk Management Accounts, or FARRM Accounts, represent an exciting new tool that we could use to manage the cyclical nature of our business, farming. As you are well aware, we do not enjoy the security of a regular paycheck in production agriculture, instead we are at the mercy of the weather and many other production risks. These risks mean that some years may be really good, and some years may be really bad. Unfortunately, this year looks to be one that could be really bad, but that's a whole other story. Regardless, farmers want and need additional tools to help us manage the ups and downs of our farm income.

The return of income averaging for production agriculture was a great tool to help us manage the tax burden, now it is time to begin to address the more fundamental problem of the cycles in farm income. FARRM accounts would greatly help us in this regard. The ability to set aside twenty percent of my income in a good year could be a great way to help maintain some stability through the down years. I could only wish that this program had been in place throughout the 1990s so we would have these "rainy day" funds to use this year.

The FARRM account concept is an excellent idea. I only wish that the proposal did not cap the percentage at twenty percent. As you well know, in a year like this one, income on my farm and the farms of my corn farmer neighbors could be off by well more than twenty percent. Possibly this suggestion could be used to improve the tool in the future.

The Missouri Corn Growers was pleased to hear that Congressman Hulshof's FARRM account proposal was included in the current tax relief package. We can only hope that the President will now sign this meaningful reform including FARRM accounts, so that this "rainy day" fund will be in place the next time the "sun don't shine."

While I have your ear, I would also like to mention several other areas of reform in the tax code that could make a huge difference for Missouri corn farmers. Repeal of the death tax, reduction of capital gains taxes, and immediate 100 percent deductibility of health insurance for farmers and other self-employed individuals, are several proposals that I would remind you are high on the priority list of Missouri Corn Growers.

The Missouri Corn Growers Association would also propose that Congress consider several tax incentives that would really help our nation's farmers and ranchers. Our urban cousins enjoy numerous economic incentives and there is no reason that we shouldn't also be eligible for some of these advantages. We strongly urge the Committee on Small Business to provide tax credits to encourage producers to pursue policies that could make a difference for themselves.

We ask that you please consider investment tax credits for farm-business capital purchases, income tax credits for farmers who invest in new generation, value-added cooperatives, and income tax credits for farmers who purchase crop revenue insurance. All of these proposals really deserve more than the brief mention, however based on time limitations that is all I will give today. The Missouri Corn Growers Association would be happy to discuss these tax incentive proposals with you or your staff at greater length at another time.

Once again, thank you for the opportunity to address this hearing. We certainly appreciate your support of FARRM accounts and other tax reform and incentives that will relieve the tax burdens of small farms. Thank you.

Statement of the
Missouri Soybean Association
to
The House Committee on Small Business
The Honorable James Talent, Chairman

Hearing on
"Small Farm Tax Burdens"
August 10, 1999

Oral Statement
by
Dale R. Ludwig, Executive Director/CEO, Missouri Soybean Association

The Missouri Soybean Association would like to thank you for the opportunity to testify on farm tax related issues here this morning.

There are indeed many uncertainties associated with production agriculture. To list just a few, they would include weather, prices, ag policy, government regulation, and the list could continue on.

I applaud your efforts in addressing tax issues to stabilize production agriculture as well as small businesses in every way possible.

The Missouri Soybean Association as well as the American Soybean Association are on record as supporting the Farm and Ranch Risk Management (FARMM) bill. Previous evaluation by the joint committees on taxation estimates that FARMM would save farmers and ranchers $500 million over 5 years and $900 million over 10 years. This is one way that we could help stabilize agriculture.

We need only go back to 1997 to a much more prosperous time in agriculture. Soybeans were priced in Chicago at well over $8 and most all of agriculture was much healthier than today. That was a time when farms were profitable and an excellent time for producers to have a program allowing them to put up to 20% of their farm income into an account that would not be taxed. That would allow them to prepare for what has seemed to be a inevitable period of time when they are no longer in the black and are required to use assets that they have saved, or in many cases borrow additional dollars, just to continue to operate.

The FARMM program would be extremely helpful in allowing producers to help themselves, leveling farm income and giving them a safeguard during difficult agricultural periods like we are in now.

Our current FARMM program is a good one. Freedom to farm and growing for the markets are a practical way to approach operating an industry like agriculture. However, I think it is also important to note that when you grow for the market, you have to have access to the market. One of the things that agriculture has been denied, specifically soybean farmers who export up to 50% of all the soybeans they grow, is access to international markets. The inability for Congress to pass legislation that would give the President trade negotiating authority is one more justification for some type of tax relief for producers. Include environmental regulations that get more difficult to meet and more costly for producers every year, more must be done if we want to protect and feed the people who feed the world, farmers.

The Missouri Soybean Association is also on record for favoring the reduction or elimination of estate taxes for small businesses, including farm business estates, below $5 million. The capital gains tax also should be lowered and investment tax credits for agricultural production of equipment should be reinstated.

Addressing the estate tax or death tax issue is the most fundamental act that Congress can do to protect the long-term viability of people in agriculture. In a time when cost of owning and operating a farm continues to escalate, when economies of scale require us to farm more acres to spread costs of expensive equipment, we can't continue to assess farmers the huge fees requiring generation after generation to mortgage or sell part of their operation just to survive.

Chairman, I would like to thank you for the opportunity to testify and would be more than happy to answer any questions.

Statement of Richard Erisman at the U.S. House of Representative's Committee on Small Business Field-Hearing on Small Farm Tax Burdens, August 10, 1999

Mr. Chairman, Congressman Hulshof, thank you for calling this morning's hearing to discuss the growing tax burden on U.S. farmers and ranchers. This is a very important, and due to the disastrous conditions facing the agricultural economy, very timely hearing. I commend you both for your continued leadership and support of agriculture and rural communities.

My name is Richard Erisman and my family has been involved in production agriculture for several generations. My family and I farm near Centralia where we operate a diversified row crop and hog operation. I farm full-time and serve as a state board member of the Missouri Farm Bureau. My wife helps with the farming and also works as a nurse in Columbia. Our three children also work on the farm and my oldest son will graduate from the University of Missouri soon and hopes to continue farming.

You are both well aware of the many problems farmers are currently facing. Commodity prices are extremely low and now we are facing serious drought conditions. Coupled with continued consolidation within the agribusiness sector, weak export demand and a growing regulatory burden, the situation has created a financial crisis for many farm operations. Unfortunately, the booming US economy is actually a bust for agriculture.

Our farm is no exception. We suffered severe losses last fall when hog prices fell to 8 cents per pound, approximately 20 percent of the cost of production. In April, a tornado ripped through our farm, damaging several buildings and causing several thousand dollars in damages. And now, our corn and soybean yields will no doubt be reduced as a result of the drought conditions.

Mr. Chairman, our farm is not unique. Missouri Farm Bureau recently completed a series of six regional meetings, with more than 900 members in attendance. We learned that the current crisis is affecting producers regardless of what they are producing, what region their operation is located, their age or the size of their farm. We heard stories of younger producers struggling to hold on and older producers looking to get out. We heard fathers and mothers say they cannot in good conscience advise their children to stay on the family farm. We heard one producer say that he was the youngest farmer in his township 10 years ago and still is today.

Something is wrong. We cannot expect our elected officials in Jefferson City or Washington, DC to eliminate all of the risk that is inherent in agriculture. As farmers, we shouldn't rely on financial assistance from the state or federal government. But, likewise, we should not be burdened with unnecessary regulation or excessive taxation.

In recent days, the US Senate has responded to the farm crisis by approving a $7.4 billion assistance package. Farm Bureau supports this measure, yet believes additional funds may be necessary once the extent of the drought loss is quantified. We are hopeful that conferees on the appropriations bill, and your colleagues in the House of Representatives will support a timely assistance package. And I would ask for your continued help in convincing the Secretary of Agriculture to utilize the funds already appropriated for hog producers.

This financial assistance is only one component of the overall policy needed to strengthen our farm economy. Farm Bureau continues to work for additional tax relief, export promotion and regulatory reform. This is proving to be difficult, despite the promises made in the 1996 farm bill. One thing was made very clear during our regional meetings; farmers like the flexibility of the current farm bill and are not advocating a return to the failed supply management schemes of the past. Despite the rhetoric, the current farm crisis should not be blamed on the 1996 farm bill.

The remainder of my remarks will focus on the need for additional tax relief. Our organization was pleased with the progress made with the passage of the last tax package, but we vowed to work even harder for more relief. The $792 billion package passed by Congress contains several provisions that will indeed help our farmers and ranchers. For this reason, we will be working hard over the next few weeks to secure the President's support.

We are extremely pleased the final package includes Congressman Hulshof's Farm and Ranch Risk Management Accounts (FARRM). We have worked with Congressman Hulshof and his staff for more than 2 years on this provision that allows farmers to set aside up to 20 percent of their income in a good year for use in a poor year. Last June, I joined many other representatives of the Missouri agricultural community at a press conference expressing our support of this measure.

Given the risk involved in production agriculture this provision is a sound risk management tool for many producers. In fact, the current economic crisis illustrates the need for the FARRM accounts. On my farm, 1995, 1996 and 1997 were years in which I would have put money into a FARRM account. In the absence of FARRM accounts, my family and I worked with our financial advisors to minimize our tax burden. Ultimately, we decided to allocate some money to capital expenditures such as new buildings. Had FARRM accounts been available we would likely have put money aside, thereby reducing our tax liabilities in those years. That money would be available to us today when we could really use it and when our overall tax liability is likely to be greatly reduced.

Farm Bureau also supports a complete repeal of the death tax, significant reductions in capital gains taxes and the acceleration of the 100% health insurance deduction for the self- employed.

During our recent meetings, we heard from producers who can no longer afford their health insurance premiums and others whose spouse is working off-farm for access to affordable health insurance. The economic crisis is putting a great deal of stress on farm families, stress that can lead to health problems. In one case, a family had to drop their health insurance as they could no longer afford the premium. Subsequently, the wife had a heart attack and they are now facing large medical bills.

Our staff continues to get calls from members who are frustrated by the complexity of estate tax regulations—a tax that is simply not defendable. My wife and I recently updated our estate plan, attempting to do everything possible to keep the farm in the family. This update came with a cost of $1250. It seems the only ones who gain from this tax are the government, accountants and attorneys.

And we have talked with several Farm Bureau members who are hoping for changes in the capital gains tax that will allow them to sell farmland without the large tax burden that now exists.

Mr. Chairman, Congressman Hulshof, you are on the right track. Tax issues are indeed important and changes must be made that allow us—Missouri farmers and ranchers—to keep more of our money. On behalf of Missouri Farm Bureau, thank you for your leadership on these issues.

Statement of the
Missouri Cattlemen's Association
To
The House Committee on Small Business
The Honorable James Talent, Chairman
Hearing on
"Small Farm Tax Burdens"
August 10, 1999

Oral Statement

John Cauthorn, President Elect, Missouri Cattlemen's Association

MCA is proud to be able to provide for you this facility for listening to ours and other views about some of the issues that affect each and every one of us in agriculture. We believe that the issues being addressed here today are an important part of the solution to agriculture's current and future dilemmas related to profitability. Government certainly has a place in our industry. We believe that the best place for that government is in opening the doors that allow us to control our own destiny. We as Missouri cattlemen have been able to avoid most of the complications of government assistance. Our number one desire from government is to allow us to do the job we know that we can.

We believe that our success will help the grain producers and merchandisers, the animal health professionals, livestock markets and all those that we depend upon for our livelihood. Changes that can be sustained and that make economic sense will benefit all of those in agriculture. Real and sustained improvements in the rural sector may only be possible with changes in those programs that limit our ability to utilize our income in the most effective manner.

Our long-term interests obviously are focused around our concerns with the "Death Tax" and the restraints that it places on us in our vision for our cattle operation. Put yourself in my position and imagine that you operate a medium-size diversified grain and livestock operation. At the end of my life the current "Death Tax" laws will take the equity that is the profit in my operation and divide it between my heirs and my government. In turn my heirs will begin their farming experience with a shortage of equity. That shortage will prevent them from maximizing the potential from the farming operation. The process then repeats itself when they again will have to split that equity between the next generation of farmers and the next generation of government programs funded by the taxes collected.

The alternative would be that my children would be able to take advantage of my years of hard work and to build upon the history of our family farm. To be able to withstand the ebbs and tides of the marketplace all while investing in their own future. That investment in a family farm means local grain dealers and merchandisers, animal health professionals, feed mills, equipment providers and suppliers and all those others in the community also profit from their profitability.

The Kennesaw study referenced in our written material shows that the "Death Tax" is a definite drain on our already ailing local communities. Those studies show that if the "Death Tax" was eliminated that thousands of additional dollars would be available in each of our local communities; and the federal budget would benefit by millions. Those studies also would lead us to believe the only real losers in the elimination of the "Death Tax" would be those attorneys and probate specialist who consume some $0.68 out of every dollar collected.

More immediate concerns involve the current capitol gains tax. We applaud the recent improvements in capitol gains rates and support the current packages in congress that reduce those rates even further. The true answer to capitol gains is to eliminate it. The capitol gains tax and its result on farming and ranching operations across Missouri and this country is to force us to make investments and retain investments in ways that aren't always in our best interest.

Investments in breeding livestock and the production of seedstock for your own operation have become a nightmare. The result is a shrinking Missouri seedstock industry and less than optimal business decisions on the part of the producers that support that industry. Again, we believe the lowering and eventual elimination of the capitol gains tax will allow those dollars to freely move in our communities, generating jobs, economic development and improved stability in the farm economy at every turn. My purchases of seedstock, equipment, inputs and supplies and my investments must be based on sound business principals, capitol gains does not help me accomplish that goal.

Agriculture is a business. MCA believes that congress should address our needs and our industry just like a business. We hope that continued efforts to give agriculture the same benefits as traditional business are successful Our health insurance and other business related expenses are just important as any other small business. We don't believe our sole-proprietor oriented structure should preclude us from the same deductibility levels that a more traditional small business may operate under.

Programs such as Representative Hulshof's proposal to provide farmers with FARRM Accounts seems to be a tremendous step in the right direction. The FARRM Account would again allow us to manage our income levels in the most efficient manner. All of us in agriculture know that we will have both highs and lows in the market Supply and demand will always be a harsh truth for us to expect This tool and others like it that allow us to manage our affairs, with our long-term goal of continuing our family farming operation is a great door for you to open for us.

I would close by again stating our appreciation for you offering this opportunity to speak. We know that you have supported our desires in the past and we hope that we can continue to work together in the future.

ESTATE TAXES WHITE PAPER- EXECUTIVE SUMMARY

This paper addresses the impact of federal estate taxes on family businesses, with a specific focus on the agriculture and beef industries. The analysis presented here represents a compilation of much of the recent research on how estate taxes burden family businesses and inject non-business criteria into business decision processes. This report also includes the analysis of data provided by nearly 1,000 family businesses on the past and present effects of estate taxes and the owners' expectations of the future. It also quantifies the efforts of these families to plan for and minimize their future estate tax liability.

In addition to examining the impact of estate taxes on family businesses, this paper also assesses the role of family business assets in providing the revenue generated by estate taxes. The data supporting exempting family business assets from estate taxes:

1. Estate taxes make family business owners more risk-averse and result in their adopting a shorter-term focus for business investments.
2. Family businesses, in an attempt to generate liquidity and minimize their estate tax liability, divert considerable amounts of money from growth and additional corporate and income tax revenue.
3. The past, present, and expected future impact of estate taxes on jobs is substantial.
4. Most estate tax revenue does not come from family business wealth. Family business assets make up a small fraction (one-seventh) of taxable estates.
5. Exempting family business assets from estate taxes would reduce federal tax revenue by one-seventh of one percent, about $1.5 billion per year.
6. The issue of "paying" for tax cuts is frequently raised in the tax reform debate. In the case of estate taxes, it is prudent to ascertain the true cost of the revenue produced by the tax.

INTRODUCTION

Family-owned businesses represent a productive and stabilizing force in the U.S. The "family" component often brings many assets and competitive advantages to the family business. A major benefit family brings to the business is long-term commitment. They focus not on the next quarter's earnings but on meeting long-term family, community and business goals. To many of these families, the business represents the overwhelming majority of family assets and the primary means of family employment and income. Seventy-eight percent have more than 75% of their net worth in the business.

Often, the identity of the business becomes inseparable from that of the individuals and the family as a whole.

Family businesses are extremely important to those who own and run them, and they are critical to our nation and economy. Family firms carry an enormous share of the load in terms of employment, wages, and job creation. Of the more than 22 million businesses in the U.S., between 90 and 95% (about 20 million) are family businesses. These include firms where the family influences the strategic direction of the firm and there is at least some desire to keep the business in the family. While many of these family firms are small, this number also represents nearly 200 of the Fortune 500.

Family businesses contribute dramatically to the U.S. economy:

- Family businesses generate one-half (49%) of U.S. gross domestic product.
- Family businesses employ 6 of every 10 U.S. workers (59%) - around 77 million people.
- Family businesses created nearly 8 of every 10 new jobs (78%) from 1977 to 1990.

ESTATE TAXES AND JOBS

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While precise economic costs remain open to debate, the data consistently indicate that estate taxes cost jobs:

- Collectively, the 967 family businesses included in this study lost more than 700 jobs when estate taxes last came due.
- They employ 9,000 fewer people than they would if estate taxes were eliminated -- this represents 5.4% job growth that has been prevented by estate taxes.
- These business owners also expect that more than 20,000 jobs will be lost when estate taxes next come due.

As in the case of planning costs, nearly seventy percent of responding firms (n = 670) did not report an estimate of expected future job losses. Many of these respondents are the same individuals who also did not report an estimate of their future estate tax liability. This raises the possibility that the estimate of 20,000 future job losses might greatly understate the degree of job losses which these 967 firms will experience when estate taxes come due.

FAMILY BUSINESS AND THE AGRICULTURE INDUSTRY

The agriculture industry represents the largest segment of the U.S. economy more than $177 billion of $6.7 trillion total U.S. GDP in 1993.

The agriculture segment is made up primarily of family businesses. According to 1992 U.S. census data, only 3.6% of U.S. farms are owned by corporations, and most are family corporations with fewer than 10 stockholders -- only 0.4 percent are non-family corporations.

The cattle industry, comprised of more than 1 million individual farms and ranches, represents the largest component of U.S. agriculture. Sales of cattle and calves totaled more than $39 billion in 1993, exceeding 22 percent of all farm marketings. The beef industry provides 186,000 full-time jobs on farms and ranches and supports an additional 1.37 million jobs throughout the economy, adding $153 billion to the U.S. economy. It also represents the largest commodity sector in 18 states, second-largest in 9 states, and third-largest in 6 states.

Forty-two percent of U.S. cattle businesses with more than 100 head have been in the same family for more than 50 years. Twenty-one percent have been in the same family for more than 75 years.

Only 1.9 percent of beef farms and ranches are owned by corporations, and most are family corporations with fewer than 10 stockholders -- only 0.2% are non-family corporations. Most cattle ranchers (98%) own small, single-family businesses with less than 500 head.

The Impact of Estate Taxes on Agriculture and Beef

Agriculture sales exceeded $177 billion in 1993. Sales of cattle and calves amounted to $39.9 billion in 1993 -- almost 23% of all agriculture marketings.

Combined sales for the 39 family agri-businesses surveyed totaled $740 million -- less than one-half of one percent (.0042) of the total agriculture market. The table below represents the estimated impact of estate taxes and planning costs on agriculture and beef producers based on the assumption that other firms in the industry operate in the same manner as the firms in this sample.

ESTIMATED PAST ESTATE PLANNING COSTS FOR THE AGRICULTURE AND BEEF INDUSTRIES

	Agriculture Industry	Beef Industry*
Total past expenses for estate planning advisors	$159.6 million	$35.5 million
Total past expenses for estate tax life insurance	$505.9 million	$112.4 million
Total past costs associated with estate planning	$665.5 million	$147.9 million

ESTIMATED IMPACT OF ESTATE TAXES ON AGRICULTURE AND BEEF JOBS

	Agriculture Industry	Beef Industry*
Jobs lost when estate taxes last came due	18,200 jobs	4,000 jobs
Fewer jobs now because of estate taxes	53,900 jobs	12,000 jobs
Anticipated job losses when estate taxes next come due	70,100 jobs	15,600 jobs
Total Impact on	142,200 jobs	31,600 jobs

employment (past, present, future)

FAMILY BUSINESS ASSETS AND ESTATE TAX REVENUE

Family business assets are a small fraction of taxable estates. While family business assets are very vulnerable to estate taxes, most of the assets subjected to estate taxes are not part of a family business. The majority of estate tax revenue is paid by a relatively small number of individuals (estates). Those with estates in excess of $5 million make up less than six percent of taxable estate tax returns, they pay nearly half (48%) of all estate taxes - and most of this does not represent family business assets. Even among those with estates larger than $5 million, less than one-fourth (23%) of the wealth in their estates consists of family business assets, based on the assumptions used in the table above. It is important to note that this amount does not account for assets moved out of owners' estates to avoid estate taxes. It also does not include assets transferred to the next generation prior to death on which estate taxes have already been paid. Thus, the added flexibility for family business owners which would occur if estate taxes were eliminated would likely be greater than that indicated by these data.

OBSTACLES TO LONG-TERM FAMILY BUSINESS SUCCESS

Family business wealth is different from other wealth.
Family business ownership greatly complicates the estate planning process, significantly limiting the potential for estate planning effectiveness.

Owners with increasing portions of their estates represented by the family business experience several difficulties:

- They are less able to minimize estate taxes.
- They spend more for estate planning advice.
- They are less optimistic about future business survival.
- They are less optimistic about future business growth.
- They are more likely to liquidate at least part of their business when estate taxes come due.
- They are more likely to eliminate jobs when estate taxes come due.

While all businesses face obstacles to survival and long-term success, family businesses face numerous challenges not encountered by other firms. The "family" component which can be a tremendous benefit to a family business can also lead to its undoing. Many have attempted to speculate about which characteristics and behaviors make the difference in the roughly 3 in 10 family businesses that survive through the second generation. The truth is that family businesses fail for many reasons. The difficulties which surround succession of management and ownership can be greatly aggravated in family firms. These occur at the precise time when the family is most vulnerable -- when an owner or leader has died and the family is grieving, businesses often struggle with this void in leadership.

While succession planning has received considerable attention as a key to long-term family business success, issues surrounding ownership transition - particularly liquidity problems associated with paying estate taxes - have been largely overlooked. Families in business tend to concentrate much of their wealth in the business, often keeping assets in the estate(s) of the founding generation. This long-term, "patient capital" approach serves many family businesses well -- until the death of the founder. At that point, the concentration of wealth in the family business can create a significant liquidity problem. Assets are often deployed in a long-term manner, and family business stock frequently has little, if any, marketability. The impact of death taxes is certainly not unique to families in business. However, businesses with widely dispersed ownership are not as vulnerable to the taxes imposed on the death of any single owner. In such cases, where a relatively small portion of the company's assets is at stake, remaining owners are more likely to be able to provide liquidity to one group of heirs. This option is much more difficult in cases where ownership is highly concentrated in the estates of only a few owners.

The financial aspects of estate taxes and planning burden family firms in several ways:

- They drain resources from the family and the business when taxes come due
- They consume time and money spent in planning.
- They force families to make decisions which are in conflict with business growth. Rather than reinvesting in the growth of their businesses, they focus on generating liquidity to pay the expected death tax burden. The less liquid the assets of the family business, the greater the impact of death taxes -- and the less that families can do to minimize that impact.
- They place family agri-businesses in a virtual no-win situation when death taxes come due. Estate taxes are particularly burdensome to those with a high proportion of land in their family business assets. While the value of the estate may be driven by the current value of the land, the only way to realize this value quickly is to sell the land. In selling the land, the family dissolves the family business.
- Having reached $978 billion, farm assets are believed to have exceeded $1 trillion in 1997. Farm land represents a large portion of these assets.13 At the same time, 47% of farm and ranch operators are 55 years or older.14 As the assessed value of farmland continues to increase, many heirs of these farmers and ranchers may be faced with the need to sell the family farm in order to pay the death tax bill.

Estate taxes dramatically alter decision-making processes in family firms. Estate taxes represent the primary government-imposed barrier to long-term family business survival and growth. In a study of more than 700 family businesses which had failed in the past three years, the heirs most often attributed business failure to inadequate estate planning.

While more than three in four of the founders in this study had an estate plan in place, these plans turned out to be severely flawed. They neither minimized estate tax liability nor provided liquidity to pay the tax. The data presented in this report also indicate that death taxes represent a significant past, present and pending burden to many of the firms studied.

One problem with planning for estate taxes is the ever changing value of the business. When beginning the process of estate planning, it is almost always impossible to accurately predict the future value of the business. This leads to too little planning, which puts the business at risk, or over-planning, which drains capital from the business as families set aside funds to pay future estate taxes. Inappropriate estate planning can also result in ownership transfer decisions which hinder the working relationships of next-generation family members.

OTHER RESEARCH

The findings of the Kennesaw study are consistent with those of others who have studied the drain estate taxes impose on the economy. Foster and Fleenor (1996) concluded that in order to match the disincentive effects of estate taxes, income taxes would have to be raised to roughly 70%. Saposnik, Tompkins and Tutterow (1996) developed a model of investment decisions in closely-held firms, illustrating how estate taxes may act as a disincentive to owners investing in illiquid, value-increasing investments. Bernheim (1987) concluded that the indirect effect of estate taxes on federal personal income tax receipts results in a neutral or even negative impact on federal tax revenue. Soldano (1996) concluded that estate tax revenue is not worth the costs of government enforcement efforts, reporting that government and taxpayers spend approximately $0.65 on enforcement and compliance activities for each dollar of estate and gift tax collected. Wagner (1996) calculated the number of jobs that would have been created from 1971 to 1991 had estate and gift taxes been eliminated in 1971. He estimated that 262,000 more jobs would have been created than actually were. He also estimated that the supply of capital would have been $398.6 billion higher, and GDP would have increased by $46.3 billion more than actually occurred. Aronoff (1995) estimated the effect of a business owner investing $100,000 in the business as opposed to spending that amount on estate tax life insurance premiums. He estimated that this $100,000 investment would in that same year produce:

1. $500,000 more in taxable sales per year;
2. 5 new jobs paying $25,000 each at a 12% tax rate yielding $15,000 more in annual personal income tax revenue;
3. $8,750 in additional annual corporate tax revenue, assuming a 5% profit margin and a 35% corporate tax rate;
4. Over 20 years, $4.75 million in additional revenues to the federal government.

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Missouri Pork Producers Association

WORKING FOR MISSOURI PORK PRODUCERS SINCE 1954

House Committee on Small Business
Regarding Small Farm Tax Burdens
Tuesday, August 10, 1999
Columbia, Missouri

Congressman Hulshof, Congressman Talent, my name is Rick Rehmeier. My family along with my parents and brothers' family operate a diversified farm near Augusta, Missouri with primary enterprises being pork and crop production. I am past president of the Missouri Pork Producers Association and I am here today to testify on their behalf.

Without question, we in agriculture are enduring some of the most trying times in history. We understand that there are a variety of reasons that lead to the challenges we currently face and we appreciate your interest to listen, learn and take action in some key areas that can be of assistance.

First, pork producers have and continue to support efforts to establish the FARRM accounts program. While it is unfortunate that this program hasn't been in place during the past few years, it's extremely important that we make every effort to pass this measure, which is of utmost importance to all of agriculture.

Pork producers are also long-time supporters of efforts to eliminate or repeal the death tax which in many cases forces families to sell the farm in order to pay taxes rather than pass it on to the next generation.

Capital gains taxes also create an unfair burden for farmers who have worked for years to build equity in their operations. Capital gains tax implications continue to make it difficult for farmers to sell or transfer farming operations to younger farmers without incurring prohibitive tax consequences. In essence, the capital gains tax discourages success and it should be dramatically improved upon if not eliminated.

Farming is an extremely competitive business with new challenges at seemingly every turn. Whether it be drought conditions, low commodity prices, or a host of other concerns, agriculture is difficult at best. The additional burdens of the death tax and capital gains taxes compound our business even more. Considering the many challenges we face, relief in these two areas is extremely important. Again, we urge the US Congress to press forward with rapid and meaningful reform.

Another area of significant importance relates to the farmer's inability to deduct 100% of health insurance costs. While some progress has been made in this area, farmers continue to be at a disadvantage when compared to other businesses that enjoy full deductibility of health insurance costs.

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Missouri Pork Producers have a long standing policy that supports your efforts in each of these areas and we look forward to working with you to secure meaningful results.

Again, thank you for your interest and taking time to hear from those of us who deal with these issues in our farm business situation.

Respectfully submitted:

Rick Rehmeier

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Testimony before the House Committee on Small Business

Small Farm Tax Burdens

August 10, 1999

Columbia, Missouri

Good morning! I'm Rich Palmer, president of the Missouri Dairy Association (MDA) and a dairy farmer from Old Monroe, just north of St. Louis. MDA represents 1700 dairy farmers in the state of Missouri.

We are pleased to address several subjects before you today which are constant burdens to our members. Each dairy farm is a small business! So many rely on us such as veterinarians, milk haulers, farm equipment dealers, seed dealers, electric cooperatives to name a few--every day--365 days a year--not to mention our dairy cooperatives and processors.

Our end product is a cheap, wholesome, constant supply of calcium and nutrients in the form of milk for Missouri's consumers.

But dairy farming is an endangered species in Missouri. **We've lost 1,100 dairy farms since 1988.** When you lose the farms, you lose the producer and the cows, and you lose the milk supply. **Missouri is almost a billion pounds of milk short now to supply the fluid and product needs of our growing population.**

There are many reasons why we've lost those farms. **Price volatility** is one of the biggest reasons. We feel the proposed Farm and Ranch Risk Management Act (FARRM Accounts) would help a great deal. The end of last year saw an all time high in milk price for farmers but by April we experienced a 40% drop in income---the largest drop ever in the Basic Formula Price. The short lived good prices only allowed us to catch up on some feed and vet bills.

Deferring taxes on up to 20 percent of net farm income saved in a FAARM account would've been a great tool to have had for some of the income we experienced last fall. MDA supports your efforts to provide this new risk management tool.

Passing the farm on is another reason. Your efforts to phase down and eventually repeal estate, gift and generation-skipping transfer taxes in 10 years can not happen soon enough for Missouri's dairy producers. Many are over 55 now and trying to entice their family to continue in the dairy business.

-more-

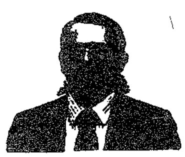
The dairy business is a lifestyle today's generation finds difficult and less attractive than other career opportunities. We need to do all we can to entice the next generation to stay on the farm. **Tax burdens** such as these only add to the challenge of who is going to milk the cows in the next millennium? Small family farm businesses or corporate America?

The proposed 100% deduction on **health insurance premiums** for self-employed persons on January 1, 2001 is another move in the right direction which we applaud. This has long been a sore spot for most farmers and ranchers. It is one of those issues most often talked about and the question is always--*why not a 100% deduction?*

MDA also supports enhanced **capital gains** treatment on family farm assets and therefore agrees with the proposed reduction of capital gains from 20% to 15%, and 10% to 7.5% for individuals in the $15,000 ordinary income bracket.

In summation, MDA feels the FARRM accounts would be another very worthwhile risk management tool and the proposed tax relief measures are warranted and needed by Missouri's dairy farmers if we are to remain in business as independent operators and supply Missouri's consumers with their milk and dairy products.

Thank you Mr. Chairman for the time to express our interest on these issues.



SHORT BIO: William "Rich" Palmer, Old Monroe—The Lincoln County farmer began his dairy operation in 1967 upon completion of his military service. His operation includes 160 cows, 946 acres including 325 acres of corn, 125 acres of soybeans, 100 acres of alfalfa, and a 600 acre hunting preserve.

Rich's service to agriculture includes the following: Mid-America Dairymen (Mid-Am) young cooperator in 1972, Mid-Am district chair 1973, Eastern Division Mid-Am board since 1974, Mid-Am Corporate board 1986-1997, Midland St. Louis Division Board since 1981, charter member of Missouri Dairy Association and president since 1989, St. Louis Dairy Council since 1981 including two-year term on the executive committee, National Beef Board since 1993, Governor's Advisory Council on Agriculture since 1989, Western Quality Foods Sinton Dairy board since 1990, Lincoln County Extension Council 1968-72 including two years as president, Lincoln County Farm Bureau board 1972-78 including six years as vice president and two years as president, and Lincoln County Youth Fair Board from 1970-81 serving as vice president in 1970 and chair in 1971. Rich is also in the Missouri Dairy Hall of Honors.

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