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House GOP Leaders Unveil Tax Cut/Reform Plan

Amidst great ballyhoo on Capitol Hill and at the White House, House Republican leadership this week finally released *The Tax Cuts & Jobs Act,* the much-touted GOP plan to reduce federal corporate and personal taxes, while simplifying the tax code. No surprise, President Trump immediately endorsed the bill prior to leaving for his 10-day trip to Asia.

"The special interests will distort the facts, the lobbyists will try to save their special deals and some in the media will unfairly report on our efforts," the president said. "But my administration will work tirelessly…and deliver historic tax cuts and reforms."

When asked if agriculture would be happy with this week's House package, Brady told one reporter, "Local business, small business, anyone who's competing worldwide, including our ag community, are going to be very excited about this bill."

A family of four with a median household income of $59,000 would save $1,182 a year on their taxes, using the proposed doubled standard deduction, reduced tax rates and expanded child tax credits, lawmakers say, with Republicans quick to label the package as all about helping the middle class. House Ways & Means Committee Chair Kevin Brady (R, TX) says individual taxpayers will be able to use a "post-card filing" system when all is said and done.

However, a first reading of the legislative summary and policy explanation shows the bill introduced is long on corporate rebalancing of tax rates, credits and loopholes, and a bit shorter on benefits to individual taxpayers. The logic may be that giving the economy a major boost through lower corporate tax rates means more jobs, higher salaries, more spending, etc.

The House tax reform bill introduced today may change in major ways as it becomes the subject of a House Ways and Means Committee markup next week. Once approved by committee, the package moves to the floor for debate and a vote by the full House, and it's Speaker Paul Ryan's (R, WI) plan to get the floor vote by Thanksgiving, going so far as to threaten keeping the House in through Christmas to get tax reform approved. The Senate is operating about a week behind the House, expected to introduce its version of tax cuts/reform next week, a version which may not look a whole lot like the House bill in certain respects.

Business taxes: The bill shifts the current U.S. "offshoring" model to a territorial tax system, ending what the White House calls "the perverse incentive to keep foreign profits offshore by exempting them when they are repatriated to the U.S." The system will replace the so-called "worldwide tax system" with a 100% exemption for dividends from foreign subsidiaries where the U.S. parent company owns at least a 10% stake.

The framework anticipates transitioning to the new territorial system by treating accumulated illiquid assets to a lower tax rate than foreign earnings held in cash or cash equivalents. Payment of the tax liability would be spread out over several years. A one-time 10%

repatriation tax may be available to these companies, taxing an estimated $2-4 trillion in profits held overseas.

Businesses generally would see the top corporate rate slashed from 35% to 20%, compared with an average of 22.5% in the industrialized world. Small and family-owned businesses operated as sole proprietorships, partnerships S corporations and LLCs, with $10 million or less in assets, would see their top tax rate capped at 25% -- the lowest small business tax rate since World War II – with action to prevent individuals from "recharacterizing" of personal income into corporate income to avoid paying higher personal tax rates. The corporate alternative minimum tax (AMT) would be eliminated, as recommended by the congressional Joint Committee on Taxation, and under consideration are "methods to reduce the double taxation of corporate earnings."

Businesses will be able to immediately expense or write off the full cost of investment in depreciable assets, other than structures – read "new equipment" – made after September 20, 2017, for a minimum of five years. The White House hinted there's work afoot to "enhance this unprecedented expensing of business investments, especially to provide relief to small businesses."

While generally businesses will continue to write off the interest on loans, interest expenses for C corporations will be partially limited under the GOP plan. Citing "the substantial (tax) rate reduction for all businesses," so-called "domestic production deductions" – Sec. 199 deductions – will be eliminated.

Protected are the research/development tax credit, deductions for donations to tax-exempt organizations, such as churches, foundations and other federally chartered charitable groups – with new rules on accountability for these organizations – and the low-income housing credit.

<u>*Personal tax benefits:*</u> The bill reduces the current seven personal tax brackets for tax-paying low- and middle-income Americans to 12%, 25% and 35%, while maintaining a top personal bracket at 39.6% for incomes of $1 million or more per year for individuals. In addition, there's a surcharge on incomes over $1.2 million.

Standard deductions would immediately double – $12,000 per individual; $24,000 per married couple. A new "family credit" expanding the child care credit is created, providing $1,600 per child, and adding a new credit of $300 per parent or non-child dependent. However, the plan also preserves the Child & Dependent Care Tax Credit to help care for children and dependent parents "who may need additional support."

The plan retains the earned income tax credit, but immediately repeals the individual ATM. Tax treatment for 401(k) and Individual Retirement Accounts (IRA) remains the same, and the plan continues deductions for contributions to federally chartered charitable organizations.

The federal deduction of interest on existing mortgages is preserved, along with the interest deduction for newly purchased homes with values up to $500,000. State and local property taxes can be expensed, but that write off is capped at $10,000.

The estate tax is modified by doubling the exemption -- $11 million per individual; $22 million per couple – and completely repealing the estate tax by 2024. “Family-owned farms and businesses will no longer have to worry about double or triple taxation from Washington when they pass down their life’s work to the next generation,” the Ways & Means Committee said.

In the miscellaneous category, universities with large endowment funds and aggressive fundraising campaigns take a hit. The plan would limit certain donations, such as those attached to sporting events. The bill would also eliminate the interest deduction on student loans, which affects about a third of Americans with student debt.

Who’s Happy, Who’s Not with the GOP Tax Bill for Now?

The policy assault on the House GOP tax reform plan unveiled this week by Democrat leadership was expected, but not all of the shots taken were partisan. Ag and business groups while critical, are generally holding their opinions until more study is done and the House Ways & Means Committee begins its markup of the bill next week.

The National Federation of Independent Businesses (NFIB), the country’s largest small business association, immediately announced it could not support the plan as currently written. “This bill leaves too many small businesses behind. We will work with Chairman (Kevin) Brady (R, TX) to make the necessary corrections so that the benefits of tax reform extend to all small businesses,” NFIB said in a statement.

Proposals to expand immediate expensing, maintain the business-interest deduction and eventually eliminate the estate tax were praised by the American Farm Bureau Federation (AFBF). In a statement, AFBF President Zippy Duvall said the GOP tax plan "moves us closer to a tax system that rewards the hard work and entrepreneurship of America's farm and ranch families."

National Farmers Union (NFU) President Roger Johnson said his group isn’t happy with "overarching elements" of the plan, including the estate tax repeal, because it shifts the tax burden from the top earners to the middle class. NFU also said the plan will increase the federal debt by an estimated $1.5 trillion.

One proposal not sitting well with farmer-owned cooperatives is the notion of repealing the Section 199 deduction for manufacturers. The cash benefit of this deduction is usually passed on to cooperative members/owners and this major benefit would be lost, according to the National Council of Farmer Cooperatives (NCFC).

"The House tax reform package takes money away from farmers at a time when they are suffering from extremely low commodity prices," NCFC President Chuck Conner said. "Rural

America strongly supports a pro-growth tax policy, but the proposal to eliminate Section 199 will have the exact opposite effect."

Clovis Withdraws, Northey Held Hostage, Ibach Sworn In

Dr. Sam Clovis, President Trump's nominee to be USDA undersecretary for research, education and economics (REE), withdrew his name from consideration this week, telling Trump in a letter the Washington, DC "political climate…has made it impossible for me to receive balanced and fair consideration" to be the department's chief scientist.

Critics contend Clovis pulled the plug on the nomination before the White House did, and that it was only a matter of time before his name disappeared from the pending list of Senate confirmation hearings and votes.

Meanwhile, Sen. Ted Cruz (R, TX), carrying water for Texas oil companies, continues to block the nomination of Iowa Agriculture Secretary Bill Northey to be USDA's undersecretary for farm production and conservation until Trump convenes a "summit" to find "a solution" to how the administration will deal with the Renewable Fuel Standard (RFS).

One ray of sunshine for Secretary of Agriculture Sonny Perdue's leadership team is the formal swearing in this week of Nebraska Agriculture Commissioner Greg Ibach to be undersecretary for marketing and regulatory services. Ibach will now join Steve Censky, USDA deputy secretary, and Ted McKinney, undersecretary for trade and foreign agriculture, while Trump continues to seek nominees to fill the undersecretary for food safety and the undersecretary for food, nutrition and consumer services.

Clovis, a national campaign co-chair for Trump, and who currently serves as White House liaison to USDA, has had a rough go since he was nominated to be the department's chief scientist. Critics – primarily Senate Democrats, including Senate Minority Leader Chuck Schumer (D, NY) and ag committee ranking member Sen. Debbie Stabenow (D, MI) – contend he's "wildly unqualified" to hold the job given his background and education are primarily in business and public administration. Then as a conservative radio talk show host and former senate candidate, Clovis made what many contend were incendiary statements not only about federal farm programs, including crop insurance, but also about issues related to women, gay rights and other topics.

Late last week it was revealed in unsealed documents related to the Senate Intelligence Committee's investigation of Russian influence in the 2016 presidential election that Clovis had contact with a former Trump campaign volunteer, George Papadopoulos, who has since pled guilty to lying to the FBI about his dealings with Russians promising negative information about Hillary Clinton's campaign for the White House. Clovis, in his campaign role, at first reportedly advised the Trump campaign to stay away from the Russians, advising Papadopoulos not to try and set up a meeting. Then, in August, 2016, according to media reports, Clovis encouraged Papadopoulos to go ahead and set up the meeting, though Trump's campaign attorney is said to have reiterated Clovis' opposition to any meeting between Russian contacts, the then GOP White House candidate or his campaign staff. Clovis has been characterized as a "fully cooperative witness" in the Senate committee's work.

Meanwhile Cruz maintains his hold on Northey's nomination, saying there'll be no vote on Northey until the president convenes a meeting of Cruz, eight other oil state senators, pro-RFS senators and others who are seeking "a solution" to the RFS, a move critics say is Cruz's way of getting the president to "compromise" on recent EPA/White House actions related to the RFS.

Cruz said his Senate cohorts are concerned "about the potential for job losses among refiners" resulting from market gyrations and high prices for Renewable Identification Numbers (RIN), credits used to offset RFS biofuel/gasoline blending mandates. So far, no one in involved has heard from the White House about a meeting, and the President is in Asia for the next 10 days.

Last week, EPA Administrator Scott Pruitt walked away from a previous move to gather public information on a proposed action to cut the RFS for biomass-based biodiesel and allow imported biodiesel to qualify for RFS credits. The move outraged alternative fuel interests, Sen. Charles Grassley (R, IA) and seven other farm state lawmakers, leading to Trump ordering Pruitt to meet with Grassley, the Senate group, and, ultimately to send a letter to the Senators allowing EPA supported the RFS, and would not move to cut the biodiesel RFS among several other hot-button RFS issues.

Roberts Warns White House on NAFTA; Survey Shows Stock Market Sell-Off

Senate Agriculture Committee Chair Pat Roberts (R, KS) says the apparent White House antipathy towards renegotiating NAFTA will lead to serious negative economic and social impact on rural America, and for President Trump to continue to talk about withdrawing from the trade treaty is a path "fraught with a lot of dangers." Roberts said the Senate Finance Committee, which has trade oversight, is talking about legislation to protect the 23-year-old trade treaty.

In a related development this week a new survey by the Trade Leadership Coalition (TLC), a group of associations, companies and others who support expanded U.S. trade, revealed that if Trump moves to withdraw from NAFTA, the stock market will react with a massive sell-off of shares in companies that rely on U.S./Canada/Mexico trade. The survey received responses from 97 "buy-side" investors, with 92% of the participants identifying themselves as portfolio managers representing an aggregate $2.3 trillion in assets.

TLC reported 61% believe a NAFTA withdrawal means stock market losses over two years, and 65% say the move would be negative on overall U.S. economic growth. However, only 32% believe Trump is serious about withdrawing from the treaty, compared with 55% who said the president's move is a bluff.

Trump's latest salvo came a week ago when he suggested he might send a formal notice to Congress of his intent to withdraw from NAFTA, reasoning the move would put pressure on

Mexico and Canada to accept several controversial U.S. positions currently on the table. The U.S. positions include a five-year sunset provision, limits on Canada's dairy supply/pricing policy, restrictions on Mexico and Canada's access to U.S. contracting and new dispute settlement mechanisms.

However, both Mexico and Canada say they'll walk away from the talks if Trump moved to withdraw from the treaty as a negotiating ploy. It's also known both nations are working to set up alternative suppliers for various commodities now imported from the U.S. Mexico inked a deal with Argentina to facilitate wheat imports by removing sanitary/phytosanitary barriers to such a deal, and Canada is known to be talking with China about a bilateral free trade deal.

Roberts' remarks to a U.S. Chamber of Commerce pro-NAFTA session this week come on the heels of more than 80 ag groups publicly expressing concern that Trump and his trade generals – notably Commerce Secretary Wilbur Ross and U.S. Special Trade Representative (USTR) Robert Lighthizer – don't truly understand the economic damage a NAFTA withdrawal would bring to agriculture. Ross last week referred to some of agriculture's warnings over the outcome of a withdrawal as an "empty threat," a statement that angered ag traders.

Roberts, who was joined in his warning by Sen. Ted Cruz (R, TX) who told the Chamber meeting nearly the entire GOP Senate caucus is pro-NAFTA, said he's personally talked with Trump on three separate occasions about the dangers of anti-NAFTA rhetoric. House Agriculture Committee Chair Mike Conaway (R, TX) and Agriculture Secretary Sonny Perdue area also outspoken critics of the apparent White House attitude, Roberts said.

Farm Bill Developments

EWG Says Farmers Got $14 Billion in Crop "Subsidies" in 2015, 2016 – The Environmental Working Group (EWG), developer of a data base that tracks both how much USDA paid to farmers in commodity support payments, as well to which farmers the payments were sent, this week announced its 2017 data shows farming operations "directly received more than $14 billion in taxpayer-funded commodity subsidies in 2015 and 2016." The group also reported farmers received over $11 billion in crop insurance premium support in 2015 and 2016, but it couldn't identify who the recipients were because federal law prohibits the USDA from disclosing crop insurance data by recipient. EWG's Farm Subsidy Database showed most of farm payments went to "covered commodities" like corn and soybeans. Between 1995 and 2016, the top 10% of farms got 77% percent of all "covered commodity" subsidies, with the top 1% receiving 26% of all subsidies, or $1.7 million per recipient. "If Congress is serious about reducing the deficit, reducing farm subsidies to millionaires would be a good place to start," said Anne Weir Schechinger, EWG's senior economics analyst. Sen. Jeff Flake (R, AZ) and Sen. Jeanne Shaheen (D, NH), along with Rep. Jim Sensenbrenner (R, WI) and Rep. Ron Kind (D, WI) have introduced bills to cap all farm subsidies, subject all farm subsidies to a means test, and require USDA to disclose the names of all farm subsidy recipients.

Bill to Allow More Produce Planting on Base Acres Introduced – A bill to allow farmers to plant more fruits and vegetables on farm program base acres was introduced this week by Rep. Robin Kelly (D, IL) and Rep. Mike Bost (R, IL). Grain farmers would be allowed to plant up to 5% more of their commodity crop base acres to produce if the production is sold or donated to areas called "food deserts," areas with a poverty rate of at least 20%. No reduction in payment acres would result if the produce is sold or donated "directly or indirectly by the producer, with or without processing, in a food desert." Farmers are currently allowed to plant up to 15% of base acres under the Price Loss Coverage (PLC) program, and up to 35% if in the ARC program.

Double Ag Research Budget, Say Groups – Ag research spending should be set at a minimum of $6 billion a year through FY2023 if the U.S. is committed to restoring full U.S. competitiveness in research and development, say 60 agricultural, environment and food groups in correspondence to the House and Senate Agriculture Committees sent in late October. The groups say the amount is roughly double what Congress currently authorizes USDA to spend, and that lawmakers' inability to adequately coordinate and fund ag research hurts farmers and processors, reduces productivity and ignores risks to production agriculture. Targeted would be the budgets for Agricultural Research Service (ARS), the National Institute for Food & Agriculture (NIFA), the Economic Research Service (ERS) and the National Agricultural Statistics Service (NASS), with each agency seeing an effective doubling of its budget. "At stake is our national security, economy, health and environment," the groups said. "The next Farm Bill represents a crucial opportunity to reverse these trends and reassert our nation's leadership in agriculture research and extension."

EPA Notes

Final RFS Mandates Sent to OMB – Mandates for how much alternative fuel must be blended with gasoline and other conventional fuels during 2018 and 2019 has been sent by EPA to the Office of Management & Budget (OMB) for final interagency review and OMB sign-off prior to the agency releasing the mandates by its November 30 deadline. The proposed RFS mandate left 2018 corn ethanol blending volumes at just over 15 billion gallons, the maximum allowed by law, and set biodiesel/renewable diesel/cellulosic ethanol at just over 4.6 billion gallons in total, of which biodiesel will make up 2.1 billion gallons for 2019.

Glyphosate Legal Wars, Fears Continue – While lawyers representing farmers who contend they got cancer from working with Roundup herbicide – its active ingredient is glyphosate – trading partners in Europe and South America expressed concern this week an all-out ban on the chemical would "disrupt" global grain, oilseed and food trade. In a class action suit brought by farmers being heard in U.S. District Court for Northern California, plaintiffs' attorneys argued Monsanto, owner of Roundup, ignored negative health effects of glyphosate, claiming "there is overwhelming evidence" that "glyphosate-based formulations cause non-Hodgkins lymphoma, the plaintiffs argued. A federal judge is currently reviewing all scientific evidence about the safety of glyphosate. In Europe, November 9 will see a meeting of experts prior to the European Commission's (EC) decision on renewing glyphosate's license for use in the European

Union (EU) for five more years. The EU license expires in about seven weeks, and trading partners are concerned that if not notified early enough and glyphosate's license is not renewed, the EU will begin rejecting grain, oilseed and food imports from nation's allowing glyphosate's use.

Dicamba Damage More than Thought? – EPA may be set to acknowledge that crop damage from dicamba application drift may be much worse than previously thought, according to reports this week. At a pesticide program dialogue committee session, EPA said more than 3 million acres of soybeans were hit by dicamba drift damage, adding, however, that likely only one in five cases of damage are officially reported to the states, EPA or other officials. The agency also reported tomatoes, watermelon, cantaloupe, vineyards and residential gardens have been damaged by dicamba "unintentionally drifting" into fields. EPA struck a deal in October with Monsanto and BASF, chief makers of dicamba, to reduce drift damage by requiring all applicators to be dicamba-specific trained; lowering the requirements for when the chemical can be applied to wind speeds below 10 mph, down from 15 mph, and allowing dicamba to only be applied between sunrise and sunset. Nearly 2,650 official dicamba-related crop injury investigations have been recorded by EPA though mid-September, the agency said.

Animal Waste Air Emissions Guidance Released – EPA this week released guidance for industry – in this case farmers and ranchers – on how to report air emissions of "hazardous substances" from on-farm animal waste. The guidance comes just ahead of the agency's November 19 deadline for farms to begin emissions reporting, with EPA saying it continues to study how best to report waste emissions. The agency, using the Emergency Planning & Community Right-to-Know Act (EPCRA) reporting exclusion for air emissions applying to farms and ranches, deems "manure-related activities" as "routine agricultural operations," and will begin a formal rulemaking on the tissue of exclusion. The exclusion, part of EPCRA Sec. 304, requires all facilities where a "hazardous chemical is produced, used or stored" to report releases of "extremely hazardous substances." The new reporting requirement comes on the heels of a federal court decision to vacate a 2008 agency action that exempted farms and ranches from the reporting requirement.

EPA Rolls Out New Advisory Scientist Policy – EPA published its new policy on the role of advisory scientists used by the agency, saying if a scientist receives a grant from EPA, he/she cannot serve on agency advisory boards. Critics attacked the move as "a war on independent science." The new policy will impact hundreds of scientists currently working on university environment and health programs, blocking them from serving on advisory boards, and could mean the boards will have to rely more heavily on private sector scientific expertise. EPA Administrator Scott Pruitt said the action is designed to curb conflicts of interest, and said he's hoping to get more state, local and tribal government scientists to participate in advisory boards.

"Safety Net" Enrollment Begins

As of November 1, farmers and ranchers with base acres in the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) income "safety net" programs began enrolling for the 2018 crop year, with sign-up ending August 1, 2018, USDA announced this week.

"Since share and ownership of a farm can change year to year, producers must enroll by signing a contract each program year," said the Farm Service Agency (FSA). If not enrolled, producers are not eligible for financial assistance from either ARC or PLC. Producers who made their election in previous years must still re-enroll, FSA said.

"The ARC and PLC programs were authorized by the 2014 Farm Bill and offer a safety net to agricultural producers when there is a substantial drop in prices or revenues for covered commodities. Covered commodities include barley, canola, large and small chickpeas, corn, crambe, flaxseed, grain sorghum, lentils, mustard seed, oats, peanuts, dry peas, rapeseed, long grain rice, medium grain rice (which includes short grain and sweet rice), safflower seed, sesame, soybeans, sunflower seed and wheat. Upland cotton is no longer a covered commodity," FSA said.