FARMER CO-OPS NEED SECTION 199A

NCFC POSITION:

NCFC urges Congress and the administration to account for the unique tax status of farmer cooperatives when developing and implementing tax reform proposals. Specifically, Section 199A, including provisions related to farmer co-ops (Section 199A(g)), should be made permanent to keep the competitive balance between corporate and noncorporate businesses.

ACTION:

Congress should stand up for agriculture and make this important tax provision permanent. Since farmers and their co-ops are not taxed like corporations, letting Section 199A expire will raise taxes on farmer co-ops and their member-owners, putting them at a disadvantage with competitors enjoying a corporate tax rate cut.

CURRENT STATUS:

The Section 199A levels the playing field between small businesses, co-ops, and large corporations, the last of which received a significant tax cut in 2017. It was a success and critical in seeing farmer co-ops and their members thrive through a pandemic, global unrest, and the highest inflation in a generation.

The co-op provisions under Section 199A(g) serve as a replacement for the previous Section 199, operating in the same manner. The deduction remains at 9% of a co-op's qualified production activities income (QPAI), limited to 50% of wages and not exceeding taxable income.

This benefits individual farmers who may lack wages to claim deductions on their own. Co-ops can retain or pass-through deductions to members. Co-ops pass 95% of the deduction back to farmers, who reinvest it in their operations. That benefits the economy through job creation, increased spending on agricultural production, and investment in rural communities. Among NCFC members alone, $2 billion was returned to farmers in 2022.

Despite corporate tax cuts being made permanent, Section 199A is set to expire in 2025. Congress must make it permanent to maintain fairness for farm families and small businesses.

BACKGROUND:

Farmer-owned co-ops have supported individual farmers for over a century, helping them compete through bargaining power, market intelligence, and value-added processing. These co-ops provide essential resources like credit, financing, and crop inputs while enabling farmers to participate in the entire food system, creating well-known brands.

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Beyond farming, co-ops strengthen rural America by generating 250,000 jobs with an $8 billion payroll and $12.1 billion in 2022 profits, which are reinvested or returned to members. They also support local communities through sponsorships and disaster relief.

Farmers face risks very few industries encounter. Investing in America's farming families and communities is a smart economic policy. For over 20 years, farmer co-ops benefited from a tax deduction (DPAD) to help U.S. farmers compete globally. Established in 2004, DPAD allowed co-ops to deduct income from agricultural production, boosting job creation and rural economies. It was repealed in 2017 and replaced by Section 199A(g), designed to function similarly.

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