

Tax Reform Update

Explaining key ramifications of the tax bill - what agricultural cooperatives should know.

The Conference Committee report of the tax reform bill was released at 5:30 PM on Friday, December 15, 2017. The House passed the sweeping tax changes on December 19, and the Senate passed the bill with three revisions on December 20. Final approval is expected.

The following are provisions in the new law which will significantly affect agricultural cooperatives:

Section 199 – the domestic production activities deduction – will be repealed after December 31, 2017

» As a result of the elimination of Section 199 after 2017, agricultural cooperatives that typically pass through the calculated Section 199 deduction to their members will need to quickly consider if the cooperative plans to pass through an amount of a Section 199 deduction for 2017.

»»»» If an amount of the Section 199 deduction will be passed out to members, the cooperative will need to endeavor to send written notification to its members by December 31, 2017 that includes the information necessary for the member to calculate an estimate of their Section 199 deduction that they may be able to claim on their 2017 tax returns.

The new tax bill includes a new Section 199A deduction which provides the following beginning in 2018:

» Farmer members of agricultural cooperatives will be able to claim a tax deduction generally equal to 20% of the qualified payments received from the cooperative, including patronage dividends, per unit retains paid in money (for product receipts) and qualified written notices of allocation.

»»»» This deduction is limited to the cooperative member's taxable income for the year.

» An agricultural cooperative may claim a deduction equal to the lesser of 20% of the cooperative's gross income less payments to patrons for the taxable year OR the greater of 50% of W-2 wages paid by the cooperative or the sum of 25% of W-2 wages plus 2.5% of the basis of property acquired by the cooperative.

»»»» Therefore, the 20% deduction cannot exceed the greater of 50% of W-2 wages paid by the cooperative or the sum of 25% of W-2 wages plus 2.5% of the basis of property acquired by the cooperative.

There is generally a limit on the deductibility of interest expense – however, farmer cooperatives and other farming businesses may elect to be exempt from the limitation if the business agrees to depreciate assets over 10 years.

Other pertinent provisions that could affect agricultural cooperatives – all effective beginning in 2018 - include:

» The top corporate tax rate is reduced from 35% to 21%.

» The top individual income tax rate is reduced from 39.6% to 37%.

» Alternative Minimum Tax ("AMT") is repealed for corporations and AMT for individuals is retained but modified to hopefully affect less taxpayers.

» Interest-Charge Domestic International Sales Corporations ("IC-DISCs"), which provide export tax incentives that some cooperatives utilize, was not repealed.

»»»» However, considering the reduction in tax rates and the potential effect of the new Section 199A deduction, the IC-DISC may be less popular and perhaps not desirable.



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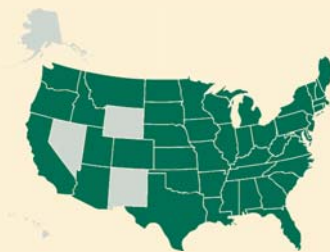
Our website - www.herbein.com - provides a great deal of information and recommendations on how to grow your business, minimize your taxes, and plan for your financial success.

Keeping up-to-date is simple: You can visit the Herbein Blog page to easily sign up for important updates and news items.

Herbein maintains a current listing of tax rates and planning tools on www.herbein.com. The Resources section of our website includes the following current 2017-18 tax information:

- » 2018 Payroll Tax Rates and Other Matters
- » 2017 Year End Tax Planning Guide
- » 2017 S Corporation Letter
- » 2017 Auto Letter

We haven't been everywhere yet, but we're working on it! We've done work in the following states which are shown in green.



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