NCFC (National Council of Farmer Cooperatives)

Max S. Baucus

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06/10/2002
Doug, thank you for that kind introduction. Before I begin, I would like to say hello to Richard and Chris Owens of Geraldine, Montana. I want to let them know that we’re finally getting some moisture in Montana. Some of it’s snow. But that will melt. And that’s good news for our ag producers who have been suffering through four years of drought.

I would like to give you a sense of what we have done and what is on the horizon for the Senate Finance Committee.

Farm Bill

As the United States looks to the 21st Century, cooperatives will play an increasingly vital role in the success of American agriculture. Through cooperatives, producers can operate more effectively in the marketplace, receive greater returns on what they raise, and maintain a unity of purpose.

Agriculture cooperatives also make important contributions to the rural areas they serve by providing jobs, contributing to the tax base, and helping to foster economic growth and development. More specifically, cooperatives often serve as a way for farmers to effectively transfer their expertise and knowledge to other rural business opportunities.

I’m pleased that I was able to work with cooperatives throughout the Farm Bill
process. By working together, we were able to achieve our goals. For example, we were successful in upgrading the U.S. Department of Agriculture’s Guaranteed Loan Program for farmer cooperatives. And we clarified the current USDA guaranteed loan program to allow producers to purchase stock in value-added businesses of both new and existing cooperatives.

In addition to the Farm Bill, I have been fighting for natural disaster assistance. Unfortunately in Montana, it is estimated that 40 percent of Montana’s agriculture producers will not receive operating loans for the 2002 crop. And too many of that 40 percent won't be able to hang on to participate in the new farm bill. I'm continuing to fight for natural disaster assistance. I was extremely disappointed when my amendment that passed with the support of 69 Senators was not included in the farm bill conference report. But like rural America, I will not give up. I will continue to fight for our farmers, ranchers, and rural communities until we are successful.

TPA

The Senate and House will begin conference shortly on Trade Promotion Authority. TPA will help agriculture businesses. Will open markets and help create jobs and opportunities for our farmers, ranchers and rural communities.

The United States agricultural industry relies heavily on international trade. In 2002, the U.S. will export more than $54 billion in agriculture products. One of every three acres of major crops is exported. The U.S. Department of Agriculture estimates that these exports account for about 20 percent of the value of farm production and 25 percent of farm income.
But the increasing importance of agriculture trade has created new challenges that have fundamentally changed the dynamic of the domestic industry. During the past decade, agriculture imports have increased by more than 70 percent — up from $22.7 billion in 1991 to $39 billion in 2001. American farmers have also had to face the effects of a strong U.S. dollar and low prices, which have drastically cut into profit margins.

As if all this were not enough, the ability of the U.S. industry to increase exports and expand into new markets has been hampered by a maze of protectionist barriers thrown up by governments in Europe, Japan, Korea and a host of other developed countries.

Some critics have looked at the challenges facing the U.S. agriculture industry as an excuse to throw up the same type of protective barriers we have criticized in our partner countries. But nothing could be more damaging to the long-term health of the industry. The United States must seek to expand our agriculture trade and knock down the barriers that restrict our access to foreign markets. Because the simple truth is -- trade benefits the United States and its farmers. It helps create jobs and boost our economy.

Energy bill

We're also preparing for conference on the Energy Bill. There are several provisions in that legislation that some of your members are interested in.
In the Senate, I moved the energy tax package through the Finance Committee. I included the cooperative pass-through provision for the small ethanol producers tax credit. I also fought for improvements to the House version of the expensing and production credit provisions for small refiners. Again, the Senate version allows cooperatives to apportion the credit to patrons.

So, what’s next for the Finance Committee.

TERFF

I am hopeful that we will have an opportunity this summer to move the agriculture tax package that Senator Grassley and I introduced last year. It is S. 312, the Tax Empowerment and Relief for Farmers and Fishermen Act.

This bill would include accounts to allow farmers to defer some income for up to five years. It excludes rental income and CRP payments from self-employment tax.

Under the bill, farmers would not be hit with the alternative minimum tax solely because they use income averaging. The TERFF ("TURF") Act also clarifies that cooperative marketing includes value-added processing of animals. And it would correct current problems with the dividend allocation rule.

Small Business Tax

Senator Kennedy recently introduced legislation to increase the minimum wage. I plan on putting together a small business tax relief package to complement that bill.
And I think this is a good place to put our TERFF provisions. In the coming weeks, I will be working together with my colleagues to craft legislation that can be enacted. And I believe that much of S. 312 should be part of that package.

Charitables

The Finance Committee is also working on legislation to encourage charitable giving. This is a top priority for the President. A popular proposal would allow taxpayers that do not itemize to take a deduction for charitable contributions.

This bill could offer us another opportunity to provide much-needed tax relief for agriculture. In S. 312, Senator Grassley and I propose to increase the deduction for farmers that donate food inventory to charity. The bill allows you to deduct an amount equal to the fair market value of the food as long as it does not exceed two times what it cost you to produce it. It's a common sense proposal that simplifies the tax code, and makes it easier for farmers to give to charity.

I have also sponsored S. 701, which would give a deduction for donation of conservation easements. The bill includes special provisions that benefit farmers and ranchers. The proposal allows a farmer or rancher to deduct up to 100 percent of their income for up to 15 years if they donate an easement over their land for conservation purposes. This helps farmers and ranchers that are pressured to sell to developers stay on their land and continue farming, while helping to protect our environment.

There's a lot more going on, too.
Tax Shelters and Inversions

On March 21st, the Finance Committee held a hearing on abusive tax shelters. We had Treasury and IRS officials testify. We heard some disappointing information.

Since the corporate tax returns filed in 2001 are the first returns under the new tax shelter disclosure requirements, this was the first opportunity for us to hear the Administration's review of those disclosures, including their analysis of what was not disclosed.

The Administration, as well as members of Congress, were disturbed to learn that only 272 transactions were disclosed by 99 corporate taxpayers. Larry Langdon, the IRS Commissioner in charge of the Large and Midsize Business Division, said that there were about 100,000 corporate taxpayers under his division. I think it is safe to say that the Administration and Congress thought the number of disclosures would be much greater.

The past method of reactive, ad-hoc closing down of abusive transactions does little to discourage the creation and exploitation of many shelters.

These transactions may be good for a corporation's bottom line. But they are bad for the economy. Here's why. Abusive corporate tax shelters create a tax benefit without any corresponding economic benefit. There's no new product. No technological innovation. Just a tax break.
Professor Michael Graetz once defined a tax shelter as a "deal done by very smart people, that, absent tax considerations, would be very stupid."

As a result of our hearing, I am working closely with Senator Grassley to put together bipartisan legislation to address the proliferation of abusive tax shelters. We have been working closely with the Administration, as well, to ensure that we have meaningful legislation that will be enacted into law by the end of the year.

During the March 21st hearing, we also heard about corporations inverting to foreign countries – that is, reincorporating to tax haven countries such as Bermuda and the Cayman Islands. On April 11, Senator Grassley and I introduced legislation, to take away the perverse incentive in our current tax system that encourages this corporate expatriation.

An illustration of the motivations behind some of these inversions and tax shelters may be found in the concept known as the "prisoner's dilemma." Professor Edward McCaffery of the University of Southern California Law Center, explains the prisoner's dilemma as "a race to the bottom that has no winners."

These abusive tax avoidance techniques place honest corporate citizens at a competitive disadvantage. They make taxpayers worried that they aren't doing one of these deals but the other guy is – and so these honest taxpayers feel like they are being exploited.
I understand that the corporate inversion issue is complex. I also understand that, over the long term, we may need to consider whether the structure of the U.S. international tax rules creates an incentive for U.S. corporations to shift their operations abroad to remain competitive.

But, in addition to the long term, we also have to think of the short term. We have to take away the incentives that are moving our U.S. corporations overseas – for no other reason than a smaller tax bill.

Alternative Minimum Tax

As you know, the Alternative Minimum Tax issue is expensive. That is, elimination of the corporate and the individual AMT are separately estimated to result in significantly lower tax receipts – and thus a downward impact on the federal budget.

Chances of passage: Well, let's just look at the elimination of the individual Alternative Minimum Tax. Many Members support repeal of this provision. The provision affects individuals. So, politically it is very attractive. But, in last year's tax bill, we devoted only $14 billion of $1.35 trillion to addressing the individual AMT with a temporary "fix." And we devoted $875 billion to rate cuts.

We did this even though we knew then it would cost hundreds of billions of dollars to fix the AMT then and will cost much more now. But rate cuts had momentum. Repeal of the individual AMT did not.
I don't mean to criticize the tax bill. I voted for it. I am proud of the bipartisan legislation we produced. But it helps to illustrate the difficulty with getting a resolution to the Alternative Minimum Tax issue – for individuals and for corporations.

**Estate Tax**

In the coming weeks, the Senate will discuss the permanent repeal of the estate tax. As you know, the estate tax is phased out and repealed in 2010. But it would come back into play in 2011 if we do nothing. The House has voted to make the repeal permanent. I support permanent repeal. Especially for my state – Montana, a small business and farm and ranch state. Permanent repeal would free up money, help boost our economy and create jobs. That's good for Montana, our agriculture producers, Main Street and small businesses.

By working together, we can do what's right for our country

I want to thank you for allowing me to speak to you.

Now I'll take any questions you may have.

Thank you.

Questions????