

106TH CONGRESS
2^D SESSION

S. 2422

To amend the Internal Revenue Code of 1986 to provide tax incentives for farm relief and economic development, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 13, 2000

Mr. CONRAD introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide tax incentives for farm relief and economic development, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; ETC.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Farm Relief and Economic Development Act of 2000”.

6 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—The table of contents for
 4 this Act is as follows:

- Sec. 1. Short title; etc.
- Sec. 2. Farm and ranch risk management accounts.
- Sec. 3. Lease agreement relating to exclusion of certain farm rental income from net earnings from self-employment.
- Sec. 4. Treatment of Conservation Reserve Program payments as rentals from real estate.
- Sec. 5. Exclusion of gain from sale of certain farmland.
- Sec. 6. Exemption of small issue agriculture bonds from State volume cap.
- Sec. 7. Capital gain realized from transfer of farm property in complete or partial satisfaction of qualified farm indebtedness excluded from gross income.
- Sec. 8. Exclusion of discharge of qualified farm indebtedness from gross income increased for certain solvent farmers.
- Sec. 9. Net operating loss of farmers.
- Sec. 10. Certain cash rentals of farmland not to cause recapture of special estate tax valuation.
- Sec. 11. Declaratory judgment remedy relating to status and classification of farmers' cooperatives.
- Sec. 12. Income averaging for farmers not to increase alternative minimum tax liability.

5 **SEC. 2. FARM AND RANCH RISK MANAGEMENT ACCOUNTS.**

6 (a) IN GENERAL.—Subpart C of part II of sub-
 7 chapter E of chapter 1 (relating to taxable year for which
 8 deductions taken) is amended by inserting after section
 9 468B the following:

10 **“SEC. 468C. FARM AND RANCH RISK MANAGEMENT AC-
 11 COUNTS.**

12 “(a) DEDUCTION ALLOWED.—In the case of an indi-
 13 vidual engaged in an eligible farming business, there shall
 14 be allowed as a deduction for any taxable year the amount
 15 paid in cash by the taxpayer during the taxable year to

1 a Farm and Ranch Risk Management Account (herein-
2 after referred to as the ‘FARRM Account’).

3 “(b) LIMITATION.—The amount which a taxpayer
4 may pay into the FARRM Account for any taxable year
5 shall not exceed 20 percent of so much of the taxable in-
6 come of the taxpayer (determined without regard to this
7 section) which is attributable (determined in the manner
8 applicable under section 1301) to any eligible farming
9 business.

10 “(c) ELIGIBLE FARMING BUSINESS.—For purposes
11 of this section, the term ‘eligible farming business’ means
12 any farming business (as defined in section 263A(e)(4))
13 which is not a passive activity (within the meaning of sec-
14 tion 469(c)) of the taxpayer.

15 “(d) FARRM ACCOUNT.—For purposes of this
16 section—

17 “(1) IN GENERAL.—The term ‘FARRM Ac-
18 count’ means a trust created or organized in the
19 United States for the exclusive benefit of the tax-
20 payer, but only if the written governing instrument
21 creating the trust meets the following requirements:

22 “(A) No contribution will be accepted for
23 any taxable year in excess of the amount al-
24 lowed as a deduction under subsection (a) for
25 such year.

1 “(B) The trustee is a bank (as defined in
2 section 408(n)) or another person who dem-
3 onstrates to the satisfaction of the Secretary
4 that the manner in which such person will ad-
5 minister the trust will be consistent with the re-
6 quirements of this section.

7 “(C) The assets of the trust consist en-
8 tirely of cash or of obligations which have ade-
9 quate stated interest (as defined in section
10 1274(c)(2)) and which pay such interest not
11 less often than annually.

12 “(D) All income of the trust is distributed
13 currently to the grantor.

14 “(E) The assets of the trust will not be
15 commingled with other property except in a
16 common trust fund or common investment
17 fund.

18 “(2) ACCOUNT TAXED AS GRANTOR TRUST.—
19 The grantor of a FARRM Account shall be treated
20 for purposes of this title as the owner of such Ac-
21 count and shall be subject to tax thereon in accord-
22 ance with subpart E of part I of subchapter J of
23 this chapter (relating to grantors and others treated
24 as substantial owners).

25 “(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

1 “(1) IN GENERAL.—Except as provided in para-
2 graph (2), there shall be includible in the gross in-
3 come of the taxpayer for any taxable year—

4 “(A) any amount distributed from a
5 FARRM Account of the taxpayer during such
6 taxable year, and

7 “(B) any deemed distribution under—

8 “(i) subsection (f)(1) (relating to de-
9 posits not distributed within 5 years),

10 “(ii) subsection (f)(2) (relating to ces-
11 sation in eligible farming business), and

12 “(iii) subparagraph (A) or (B) of sub-
13 section (f)(3) (relating to prohibited trans-
14 actions and pledging account as security).

15 “(2) EXCEPTIONS.—Paragraph (1)(A) shall not
16 apply to—

17 “(A) any distribution to the extent attrib-
18 utable to income of the Account, and

19 “(B) the distribution of any contribution
20 paid during a taxable year to a FARRM Ac-
21 count to the extent that such contribution ex-
22 ceeds the limitation applicable under subsection
23 (b) if requirements similar to the requirements
24 of section 408(d)(4) are met.

1 For purposes of subparagraph (A), distributions
2 shall be treated as first attributable to income and
3 then to other amounts.

4 “(f) SPECIAL RULES.—

5 “(1) TAX ON DEPOSITS IN ACCOUNT WHICH
6 ARE NOT DISTRIBUTED WITHIN 5 YEARS.—

7 “(A) IN GENERAL.—If, at the close of any
8 taxable year, there is a nonqualified balance in
9 any FARRM Account—

10 “(i) there shall be deemed distributed
11 from such Account during such taxable
12 year an amount equal to such balance, and

13 “(ii) the taxpayer’s tax imposed by
14 this chapter for such taxable year shall be
15 increased by 10 percent of such deemed
16 distribution.

17 The preceding sentence shall not apply if an
18 amount equal to such nonqualified balance is
19 distributed from such Account to the taxpayer
20 before the due date (including extensions) for
21 filing the return of tax imposed by this chapter
22 for such year (or, if earlier, the date the tax-
23 payer files such return for such year).

24 “(B) NONQUALIFIED BALANCE.—For pur-
25 poses of subparagraph (A), the term ‘non-

1 qualified balance' means any balance in the Ac-
2 count on the last day of the taxable year which
3 is attributable to amounts deposited in such Ac-
4 count before the 4th preceding taxable year.

5 “(C) ORDERING RULE.—For purposes of
6 this paragraph, distributions from a FARRM
7 Account (other than distributions of current in-
8 come) shall be treated as made from deposits in
9 the order in which such deposits were made, be-
10 ginning with the earliest deposits.

11 “(2) CESSATION IN ELIGIBLE FARMING BUSI-
12 NESS.—At the close of the first disqualification pe-
13 riod after a period for which the taxpayer was en-
14 gaged in an eligible farming business, there shall be
15 deemed distributed from the FARRM Account of the
16 taxpayer an amount equal to the balance in such Ac-
17 count (if any) at the close of such disqualification
18 period. For purposes of the preceding sentence, the
19 term ‘disqualification period’ means any period of 2
20 consecutive taxable years for which the taxpayer is
21 not engaged in an eligible farming business.

22 “(3) CERTAIN RULES TO APPLY.—Rules similar
23 to the following rules shall apply for purposes of this
24 section:

1 “(A) Section 220(f)(8) (relating to treat-
2 ment on death).

3 “(B) Section 408(e)(2) (relating to loss of
4 exemption of account where individual engages
5 in prohibited transaction).

6 “(C) Section 408(e)(4) (relating to effect
7 of pledging account as security).

8 “(D) Section 408(g) (relating to commu-
9 nity property laws).

10 “(E) Section 408(h) (relating to custodial
11 accounts).

12 “(4) TIME WHEN PAYMENTS DEEMED MADE.—
13 For purposes of this section, a taxpayer shall be
14 deemed to have made a payment to a FARRM Ac-
15 count on the last day of a taxable year if such pay-
16 ment is made on account of such taxable year and
17 is made on or before the due date (without regard
18 to extensions) for filing the return of tax for such
19 taxable year.

20 “(5) INDIVIDUAL.—For purposes of this sec-
21 tion, the term ‘individual’ shall not include an estate
22 or trust.

23 “(6) DEDUCTION NOT ALLOWED FOR SELF-EM-
24 PLOYMENT TAX.—The deduction allowable by reason
25 of subsection (a) shall not be taken into account in

1 determining an individual's net earnings from self-
 2 employment (within the meaning of section 1402(a))
 3 for purposes of chapter 2.

4 “(g) REPORTS.—The trustee of a FARRM Account
 5 shall make such reports regarding such Account to the
 6 Secretary and to the person for whose benefit the Account
 7 is maintained with respect to contributions, distributions,
 8 and such other matters as the Secretary may require
 9 under regulations. The reports required by this subsection
 10 shall be filed at such time and in such manner and fur-
 11 nished to such persons at such time and in such manner
 12 as may be required by such regulations.”

13 (b) TAX ON EXCESS CONTRIBUTIONS.—

14 (1) Subsection (a) of section 4973 (relating to
 15 tax on excess contributions to certain tax-favored ac-
 16 counts and annuities) is amended by striking “or”
 17 at the end of paragraph (3), by redesignating para-
 18 graph (4) as paragraph (5), and by inserting after
 19 paragraph (3) the following:

20 “(4) a FARRM Account (within the meaning of
 21 section 468C(d)), or”.

22 (2) Section 4973 is amended by adding at the
 23 end the following:

24 “(g) EXCESS CONTRIBUTIONS TO FARRM AC-
 25 COUNTS.—For purposes of this section, in the case of a

1 FARRM Account (within the meaning of section
2 468C(d)), the term ‘excess contributions’ means the
3 amount by which the amount contributed for the taxable
4 year to the Account exceeds the amount which may be con-
5 tributed to the Account under section 468C(b) for such
6 taxable year. For purposes of this subsection, any con-
7 tribution which is distributed out of the FARRM Account
8 in a distribution to which section 468C(e)(2)(B) applies
9 shall be treated as an amount not contributed.”

10 (c) TAX ON PROHIBITED TRANSACTIONS.—

11 (1) Subsection (c) of section 4975 (relating to
12 tax on prohibited transactions) is amended by add-
13 ing at the end the following:

14 “(6) SPECIAL RULE FOR FARRM ACCOUNTS.—

15 A person for whose benefit a FARRM Account
16 (within the meaning of section 468C(d)) is estab-
17 lished shall be exempt from the tax imposed by this
18 section with respect to any transaction concerning
19 such account (which would otherwise be taxable
20 under this section) if, with respect to such trans-
21 action, the account ceases to be a FARRM Account
22 by reason of the application of section 468C(f)(3)(A)
23 to such account.”

24 (2) Paragraph (1) of section 4975(e) is amend-
25 ed by redesignating subparagraphs (E) and (F) as

1 subparagraphs (F) and (G), respectively, and by in-
 2 serting after subparagraph (D) the following:

3 “(E) a FARRM Account described in sec-
 4 tion 468C(d),”.

5 (d) FAILURE TO PROVIDE REPORTS ON FARRM AC-
 6 COUNTS.—Paragraph (2) of section 6693(a) (relating to
 7 failure to provide reports on certain tax-favored accounts
 8 or annuities) is amended by redesignating subparagraphs
 9 (C) and (D) as subparagraphs (D) and (E), respectively,
 10 and by inserting after subparagraph (B) the following:

11 “(C) section 468C(g) (relating to FARRM
 12 Accounts),”.

13 (e) CLERICAL AMENDMENT.—The table of sections
 14 for subpart C of part II of subchapter E of chapter 1 is
 15 amended by inserting after the item relating to section
 16 468B the following:

“Sec. 468C. Farm and Ranch Risk Management Accounts.”

17 (f) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to taxable years beginning after
 19 December 31, 2000.

20 **SEC. 3. LEASE AGREEMENT RELATING TO EXCLUSION OF**
 21 **CERTAIN FARM RENTAL INCOME FROM NET**
 22 **EARNINGS FROM SELF-EMPLOYMENT.**

23 (a) INTERNAL REVENUE CODE.—Section
 24 1402(a)(1)(A) (relating to net earnings from self-employ-

1 ment) is amended by striking “an arrangement” and in-
 2 serting “a lease agreement”.

3 (b) SOCIAL SECURITY ACT.—Section 211(a)(1)(A) of
 4 the Social Security Act is amended by striking “an ar-
 5 rangement” and inserting “a lease agreement”.

6 (c) EFFECTIVE DATE.—The amendments made by
 7 this section shall apply to taxable years beginning after
 8 December 31, 2000.

9 **SEC. 4. TREATMENT OF CONSERVATION RESERVE PRO-**
 10 **GRAM PAYMENTS AS RENTALS FROM REAL**
 11 **ESTATE.**

12 (a) IN GENERAL.—Section 1402(a)(1) of the Internal
 13 Revenue Code of 1986 (defining net earnings from self-
 14 employment) is amended by inserting “and including pay-
 15 ments under section 1233(2) of the Food Security Act of
 16 1985 (16 U.S.C. 3833(2))” after “crop shares”.

17 (b) EFFECTIVE DATE.—The amendment made by
 18 this section shall apply to payments made before, on, or
 19 after the date of the enactment of this Act.

20 **SEC. 5. EXCLUSION OF GAIN FROM SALE OF CERTAIN**
 21 **FARMLAND.**

22 (a) IN GENERAL.—Part III of subchapter B of chap-
 23 ter 1 (relating to items specifically excluded from gross
 24 income) is amended by adding after section 121 the fol-
 25 lowing new section:

1 **“SEC. 121A. EXCLUSION OF GAIN FROM SALE OF QUALIFIED**
2 **FARM PROPERTY.**

3 “(a) EXCLUSION.—In the case of a natural person,
4 gross income shall not include gain from the sale or ex-
5 change of qualified farm property, to the extent such prop-
6 erty does not exceed 160 acres.

7 “(b) LIMITATION ON AMOUNT OF EXCLUSION.—

8 “(1) IN GENERAL.—The amount of gain ex-
9 cluded from gross income under subsection (a) with
10 respect to any taxable year shall not exceed
11 \$500,000 (\$250,000 in the case of a married indi-
12 vidual filing a separate return), reduced by the ag-
13 gregate amount of gain excluded under subsection
14 (a) for all preceding taxable years.

15 “(2) SPECIAL RULE FOR JOINT RETURNS.—The
16 amount of the exclusion under subsection (a) on a
17 joint return for any taxable year shall be allocated
18 equally between the spouses for purposes of applying
19 the limitation under paragraph (1) for any suc-
20 ceeding taxable year.

21 “(c) QUALIFIED FARM PROPERTY.—

22 “(1) QUALIFIED FARM PROPERTY.—For pur-
23 poses of this section, the term ‘qualified farm prop-
24 erty’ means real property located in the United
25 States if—

1 “(A) during periods aggregating 3 years or
2 more of the 5-year period ending on the date of
3 the sale or exchange of such real property—

4 “(i) such real property was used as a
5 farm for farming purposes by the taxpayer
6 or a member of the family of the taxpayer,
7 and

8 “(ii) there was material participation
9 by the taxpayer (or such a member) in the
10 operation of the farm, and

11 “(B) such real property is located contig-
12 uous to the principal residence of the taxpayer
13 which is sold or exchanged in the same taxable
14 year as such real property.

15 “(2) DEFINITIONS.—For purposes of this sub-
16 section, the terms ‘member of the family’, ‘farm’,
17 and ‘farming purposes’ have the respective meanings
18 given such terms by paragraphs (2), (4), and (5) of
19 section 2032A(e).

20 “(3) SPECIAL RULES.—For purposes of this
21 section, rules similar to the rules of paragraphs (4)
22 and (5) of section 2032A(b) and paragraphs (3) and
23 (6) of section 2032A(e) shall apply.

1 “(d) OTHER RULES.—For purposes of this section,
2 rules similar to the rules of subsection (e) and subsection
3 (f) of section 121 shall apply.”

4 (b) CONFORMING AMENDMENT.—The table of sec-
5 tions for part III of subchapter B of chapter 1 is amended
6 by adding after the item relating to section 121 the fol-
7 lowing new item:

“Sec. 121A. Exclusion of gain from sale of qualified farm property.”

8 (c) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to any sale or exchange after De-
10 cember 31, 2000, in taxable years ending after such date.

11 **SEC. 6. EXEMPTION OF SMALL ISSUE AGRICULTURE BONDS**
12 **FROM STATE VOLUME CAP.**

13 (a) IN GENERAL.—Section 146(g) (relating to excep-
14 tion for certain bonds) is amended by striking “and” at
15 the end of paragraph (3), by striking the period at the
16 end of paragraph (4) and inserting “, and”, and by insert-
17 ing after paragraph (4) the following:

18 “(5) any small issue bond described in section
19 144(a)(12)(B)(ii).”

20 (b) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to bonds issued after December
22 31, 2000.

1 **SEC. 7. CAPITAL GAIN REALIZED FROM TRANSFER OF**
 2 **FARM PROPERTY IN COMPLETE OR PARTIAL**
 3 **SATISFACTION OF QUALIFIED FARM INDEBT-**
 4 **EDNESS EXCLUDED FROM GROSS INCOME.**

5 (a) IN GENERAL.—Part III of subchapter B of chap-
 6 ter 1 (relating to items specifically excluded from gross
 7 income) is amended by redesignating section 139 as sec-
 8 tion 140 and by inserting after section 138 the following
 9 new section:

10 **“SEC. 139. CAPITAL GAIN REALIZED FROM TRANSFER OF**
 11 **FARM PROPERTY IN COMPLETE OR PARTIAL**
 12 **SATISFACTION OF QUALIFIED FARM INDEBT-**
 13 **EDNESS.**

14 “(a) IN GENERAL.—Gross income of any taxpayer
 15 described in subsection (d) does not include so much of
 16 the gain from the transfer of farm property in complete
 17 or partial satisfaction of qualified farm indebtedness as
 18 does not exceed \$300,000.

19 “(b) PRIOR GAINS AND DISCHARGES OF INDEBTED-
 20 NESS TAKEN INTO ACCOUNT.—

21 “(1) IN GENERAL.—If for any prior year—

22 “(A) gain from the transfer of farm prop-
 23 erty in complete or partial satisfaction of quali-
 24 fied farm indebtedness, or

25 “(B) a discharge of such indebtedness,

1 is excluded from the taxpayer's gross income under
2 subsection (a) of this section or section 108(g), re-
3 spectively, subsection (a) of this section shall be ap-
4 plied for the taxable year with respect to such gain
5 by reducing the dollar amount contained in such
6 subsection by the such excluded prior year gains and
7 discharges.

8 “(2) CURRENT YEAR COORDINATION WITH SEC-
9 TION 108.—Subsection (a) of this section shall be ap-
10 plied for the taxable year with respect to any gain
11 by reducing the dollar amount contained in such
12 subsection (after any reduction under paragraph
13 (1)) by any amount excluded from gross income
14 under section 108 for such year.

15 “(c) REDUCTION OF TAX ATTRIBUTES.—

16 “(1) IN GENERAL.—The amount excluded from
17 gross income under subsection (a) shall be applied to
18 reduce the tax attributes described under section
19 108(b)(2).

20 “(2) COORDINATION WITH SECTION 108.—For
21 purposes of this subsection, the amount of tax at-
22 tributes shall be determined after any reduction
23 under section 108(b) by reason of amounts excluded
24 from gross income under section 108(a)(1).

25 “(d) TAXPAYER DESCRIBED IN THIS SUBSECTION.—

1 “(1) IN GENERAL.—A taxpayer is described in
2 this subsection if—

3 “(A) more than 50 percent of the gross re-
4 cepts of the taxpayer for 6 of the 10 taxable
5 years preceding such taxable year are attrib-
6 utable to—

7 “(i) the trade or business of farming
8 (within the meaning of section
9 2032A(e)(5)), or

10 “(ii) the sale or lease of assets used in
11 such trade or business, or

12 “(iii) both, and

13 “(B) equity in all property held by the tax-
14 payer after such transfer is less than the great-
15 er of —

16 “(i) \$25,000, or

17 “(ii) 150 percent of the excess (if any)

18 of—

19 “(I) the tax imposed by this
20 chapter determined as if this section
21 and section 108 did not apply to the
22 transfer, over

23 “(II) the tax imposed by this
24 chapter determined with regard to

1 this section and section 108 (if appli-
2 cable).

3 “(2) MODIFIED ADJUSTED GROSS INCOME.—

4 For purposes of this subsection, the term ‘modified
5 adjusted gross income’ means adjusted gross
6 income—

7 “(A) determined with regard to this sec-
8 tion and section 108, and

9 “(B) increased by the amount of interest
10 received or accrued by the taxpayer during the
11 taxable year which is exempt from tax.

12 “(3) EQUITY.—For purposes of this subsection,
13 the term ‘equity’ means, with respect to all property
14 held by the taxpayer, an amount equal to—

15 “(A) the fair market value of such prop-
16 erty, minus

17 “(B) any indebtedness relating to such
18 property.

19 “(e) FARM PROPERTY.—For purposes of this section,
20 the term ‘farm property’ means real and personal property
21 used by the taxpayer in the trade or business of farming
22 (within the meaning of section 2032A(e)(5)).

23 “(f) QUALIFIED FARM INDEBTEDNESS.—For pur-
24 poses of this section, indebtedness of a taxpayer shall be
25 treated as qualified farm indebtedness if such indebted-

1 ness was incurred directly in connection with the operation
 2 by the taxpayer of the trade or business of farming (within
 3 the meaning of section 2032A(e)(5)) and when such tax-
 4 payer materially participated in such trade or business
 5 (within the meaning of section 2032A(e)(6)).

6 “(g) APPLICATION WITH RECAPTURE PROVISIONS.—
 7 In the case of any gain from the transfer of farm property
 8 in complete or partial satisfaction of qualified farm indebt-
 9 edness which is treated as ordinary income under section
 10 1245, 1250, 1252, or 1255, subsection (a) shall be applied
 11 for the taxable year by first reducing the dollar amount
 12 contained in such subsection by such gain.”

13 (b) CLERICAL AMENDMENT.—The table of sections
 14 for part III of subchapter B of chapter 1 is amended by
 15 striking out the item relating to section 139 and inserting
 16 in lieu thereof the following new items:

“Sec. 139. Capital gain realized from transfer of farm property in complete or
 partial satisfaction of qualified farm indebtedness.

“Sec. 140. Cross references to other Acts.”

17 (c) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to transfers occurring after Decem-
 19 ber 31, 2000, in taxable years ending after such date.

20 **SEC. 8. EXCLUSION OF DISCHARGE OF QUALIFIED FARM**
 21 **INDEBTEDNESS FROM GROSS INCOME IN-**
 22 **CREASED FOR CERTAIN SOLVENT FARMERS.**

23 (a) IN GENERAL.—Section 108(g) (relating to special
 24 rules for discharge of qualified farm indebtedness) is

1 amended by adding at the end thereof the following new
2 paragraph:

3 “(4) SPECIAL LIMITATIONS FOR CERTAIN
4 FARMERS.—

5 “(A) IN GENERAL.—With respect to a tax-
6 payer who is described in subparagraph (C) of
7 this paragraph and who elects the application of
8 this paragraph—

9 “(i) the amount excluded under sub-
10 paragraph (C) of subsection (a)(1) shall
11 not exceed \$300,000, and

12 “(ii) paragraph (2) of this subsection
13 shall be applied by amending such para-
14 graph to read as follows: ‘For purposes of
15 this section, indebtedness of a taxpayer
16 shall be treated as qualified farm indebted-
17 ness if such indebtedness was incurred di-
18 rectly in connection with the operation by
19 the taxpayer of the trade or business of
20 farming and when such taxpayer materially
21 participated in such trade or business
22 (within the meaning of section
23 2032A(e)(6)).’

1 “(B) PRIOR DISCHARGES OF INDEBTED-
2 NESS AND GAINS TAKEN INTO ACCOUNT.—If for
3 any prior year—

4 “(i) a discharge of qualified farm in-
5 debtedness, or

6 “(ii) gain from the transfer of farm
7 property in complete or partial satisfaction
8 of such indebtedness,

9 is excluded from the taxpayer’s gross income
10 under this subsection or section 139, respec-
11 tively, subparagraph (A) shall be applied for the
12 taxable year with respect to such discharge by
13 reducing the dollar amount contained in such
14 subparagraph by the such excluded prior year
15 discharges and gains.

16 “(C) TAXPAYER DESCRIBED IN THIS SUB-
17 PARAGRAPH.—A taxpayer is described in this
18 subparagraph if—

19 “(i) more than 50 percent of the gross
20 receipts of the taxpayer for 6 of the 10
21 taxable years preceding such taxable year
22 are attributable to—

23 “(I) the trade or business of
24 farming (within the meaning of sec-
25 tion 2032A(e)(5)), or

1 “(II) the sale or lease of assets
2 used in such trade or business, or

3 “(III) both,

4 “(ii) the indebtedness of the taxpayer
5 both before and after such discharge is
6 equal to 70 percent or more of the fair
7 market value in all property held by such
8 taxpayer, and

9 “(iii) equity in all property held by the
10 taxpayer after such discharge is less than
11 the greater of—

12 “(I) \$25,000, or

13 “(II) 150 percent of the excess
14 (if any) of the tax imposed by this
15 chapter determined as if this section
16 and section 139 did not apply to the
17 transfer, over the tax imposed by this
18 chapter determined with regard to
19 this section and section 139 (if appli-
20 cable).

21 “(D) DEFINITIONS.—For purposes of this
22 paragraph—

23 “(i) FARM PROPERTY.—The term
24 ‘farm property’ means real and personal
25 property used by the taxpayer in the trade

1 or business of farming (within the meaning
2 of section 2032A(e)(5)).

3 “(ii) MODIFIED ADJUSTED GROSS IN-
4 COME.—The term ‘modified adjusted gross
5 income’ means adjusted gross income—

6 “(I) determined with regard to
7 this section and section 139, and

8 “(II) increased by the amount of
9 interest received or accrued by the
10 taxpayer during the taxable year
11 which is exempt from tax.

12 “(iii) EQUITY.—The term ‘equity’
13 means, with respect to any property, an
14 amount equal to—

15 “(I) the fair market value of such
16 property, minus

17 “(II) any indebtedness relating to
18 such property.”

19 (b) CONFORMING AMENDMENT.—Subparagraph (A)
20 of section 108(g)(3) is amended by striking out “The
21 amount” and inserting in lieu thereof “Except as provided
22 in paragraph (4), the amount”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to any sale or exchange occurring

1 after December 31, 2000, in taxable years ending after
2 such date.

3 **SEC. 9. NET OPERATING LOSS OF FARMERS.**

4 (a) INCREASE IN CARRYBACK YEARS.—Paragraph
5 (1) of section 172(b) (relating to net operating loss
6 carrybacks and carryforwards) is amended by adding at
7 the end the following new subparagraph:

8 “(H) FARMING LOSSES.—Subparagraph
9 (A) shall be applied—

10 “(i) in the matter preceding clause (i),
11 by substituting ‘any taxable year beginning
12 with the 3rd taxable year after the taxable
13 year of such loss’ for ‘any taxable year’,
14 and

15 “(ii) in clause (i), by substituting ‘10
16 years’ for ‘2 years’,

17 with respect to the portion of the net operating
18 loss of an eligible taxpayer (as defined in sub-
19 section (i)) for any taxable year beginning after
20 December 31, 1997, and ending before January
21 1, 2001, which is a farming loss (as so defined)
22 with respect to the taxpayer.”

23 (b) DEFINITIONS AND RULES RELATING TO FARM-
24 ING LOSSES.—Section 172 is amended by redesignating

1 subsection (j) as subsection (k) and inserting after sub-
 2 section (i) the following new subsection:

3 “(j) DEFINITIONS AND RULES RELATING TO FARM-
 4 ING LOSSES.—For purposes of this section—

5 “(1) FARMING LOSS.—

6 “(A) IN GENERAL.—The term ‘farming
 7 loss’ means the lesser of—

8 “(i) the net operating loss of the tax-
 9 payer for the taxable year, or

10 “(ii) the net operating loss of the tax-
 11 payer for the taxable year determined by
 12 only taking into account items of income
 13 and deduction attributable to 1 or more
 14 qualified farming business of the taxpayer.

15 “(B) DOLLAR LIMITATION.—

16 “(i) IN GENERAL.—The farming loss
 17 of taxpayer for any taxable year shall not
 18 exceed \$200,000.

19 “(ii) AGGREGATION RULES.—

20 “(I) IN GENERAL.—All persons
 21 treated as 1 employer under sub-
 22 sections (a) or (b) of section 52 shall
 23 be treated as 1 person.

24 “(II) PASS-THRU ENTITY.—In
 25 the case of a partnership, trust, or

1 other pass-thru entity, the limitation
2 shall be applied at both the entity and
3 the owner level.

4 “(III) OWNER.—The limitation
5 shall be reduced by the amount of
6 farming loss determined for a cor-
7 poration for which the taxpayer is a
8 50 percent owner in the taxable year
9 of the corporation ending in the tax-
10 able year of the taxpayer owner.

11 “(2) ELIGIBLE TAXPAYER.—

12 “(A) IN GENERAL.—The term ‘eligible tax-
13 payer’ means a taxpayer which derives more
14 than 50 percent of its gross income for the 3-
15 year period beginning 2 years prior to the cur-
16 rent taxable year from qualified farming busi-
17 nesses.

18 “(B) QUALIFIED FARMING BUSINESS.—
19 The term ‘qualified farming business’ means a
20 trade or business of farming (within the mean-
21 ing of section 2032A)—

22 “(i) with respect to which—

23 “(I) the taxpayer or a member of
24 the family of the taxpayer materially

1 participates (within the meaning of
2 section 2032A(e)(6)), or

3 “(II) in the case of a taxpayer
4 other than an individual, a 20 percent
5 owner of the taxpayer or a member of
6 the owner’s family materially partici-
7 pates (as so defined), and

8 “(ii) which does not receive in excess
9 of \$7,000,000 for sales in a taxable year.

10 For purposes of clause (i)(II), owners which are
11 members of a single family shall be treated as
12 a single owner.

13 “(3) OWNER.—

14 “(A) 20 PERCENT OWNER.—The term ‘20
15 percent owner’ means any person who would be
16 described in section 416(i)(1)(B)(i) if ‘20 per-
17 cent’ were substituted for ‘5 percent’ each place
18 it appears in such section.

19 “(B) 50 PERCENT OWNER.—The term ‘50
20 percent owner’ means any person who would be
21 described in section 416(i)(1)(B)(i) if ‘50 per-
22 cent’ were substituted for ‘5 percent’ each place
23 it appears in such section.

24 “(4) COORDINATION WITH SUBSECTION
25 (b)(2).—For purposes of applying subsection (b)(2),

1 a farming loss for any taxable year shall be treated
 2 as a separate net operating loss for such taxable
 3 year to be taken into account for the remaining por-
 4 tion of the net operating loss for such taxable year.

5 “(5) ELECTION.—Any taxpayer entitled to a
 6 10-year carryback under subsection (b)(1)(G) from
 7 any loss year may elect to have the carryback period
 8 with respect to such loss year, and any portion of
 9 the farming loss for such year, determined without
 10 regard to subsection (b)(1)(G). Such election shall
 11 be made in such manner as may be prescribed by
 12 the Secretary and shall be made by the due date (in-
 13 cluding extensions of time) for filing the taxpayer’s
 14 return for the taxable year of the net operating loss.
 15 Such election, once made for any taxable year, shall
 16 be irrevocable for the taxable year.”

17 **SEC. 10. CERTAIN CASH RENTALS OF FARMLAND NOT TO**
 18 **CAUSE RECAPTURE OF SPECIAL ESTATE TAX**
 19 **VALUATION.**

20 (a) IN GENERAL.—Subparagraph (E) of section
 21 2032A(c)(7) (relating to special rules) is amended to read
 22 as follows:

23 “(E) CERTAIN CASH RENTAL NOT TO
 24 CAUSE RECAPTURE.—For purposes of this sub-
 25 section, a qualified heir shall not be treated as

1 failing to use property in a qualified use solely
2 because such heir rents such property on a net
3 cash basis to a member of the decedent's fam-
4 ily, but only if, during the period of the lease,
5 such member of the decedent's family uses such
6 property in a qualified use."

7 (b) EFFECTIVE DATE.—The amendment made by
8 subsection (a) shall apply with respect to rentals occurring
9 after December 31, 1976.

10 **SEC. 11. DECLARATORY JUDGMENT REMEDY RELATING TO**
11 **STATUS AND CLASSIFICATION OF FARMERS'**
12 **COOPERATIVES.**

13 (a) IN GENERAL.—Paragraph (1) of section 7428(a)
14 (relating to creation of remedy) is amended by striking
15 "or" at the end of subparagraph (B), and by inserting
16 after subparagraph (C) the following new subparagraph:

17 "(D) with respect to the initial qualifica-
18 tion or continuing qualification of an organiza-
19 tion as a cooperative described in section
20 521(b) which is exempt from tax under section
21 521(a), or".

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply with respect to pleadings filed with
24 the United States Tax Court, the district court of the
25 United States for the District of Columbia, or the United

1 States Court of Federal Claims after the date of enact-
 2 ment of this Act but only with respect to determinations
 3 (or requests for determinations) made after January 1,
 4 1998.

5 **SEC. 12. INCOME AVERAGING FOR FARMERS NOT TO IN-**
 6 **CREASE ALTERNATIVE MINIMUM TAX LIABIL-**
 7 **ITY.**

8 (a) **IN GENERAL.**—Section 55(c) (defining regular
 9 tax) is amended by redesignating paragraph (2) as para-
 10 graph (3) and by inserting after paragraph (1) the fol-
 11 lowing:

12 “(2) **COORDINATION WITH INCOME AVERAGING**
 13 **FOR FARMERS.**—Solely for purposes of this section,
 14 section 1301 (relating to averaging of farm income)
 15 shall not apply in computing the regular tax.”

16 (b) **EFFECTIVE DATE.**—The amendments made by
 17 this section shall apply to taxable years beginning after
 18 December 31, 1997.

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