National Grain and Feed Association
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Description of Section 199A Tax Fix

Included in the Omnibus Spending Bill signed into law on March 23, 2018

What does this fix do, and what does it mean to a farmer?

- The fix corrects the unintended consequences of Section 199A of the Tax Cuts and Jobs Act of 2017. It restores the competitive landscape of the marketplace as it existed prior to December 2017. The tax code no longer provides an incentive for producers to do business with a company based solely on how it is organized.
- The fix replicates to the greatest extent possible the tax benefits accorded to cooperatives and their farmer-patrons under the previous Section 199 (also known as the Domestic Production Activities Deduction, which was in effect prior to its repeal on Dec. 23, 2017).
- The fix is retroactive to Jan. 1, 2018 (effective for taxable years beginning after Dec. 31, 2017).

How is the new Section 199A deduction calculated?

Cooperative-level deduction

A cooperative is permitted to calculate an entity-level Section 199A deduction, which it then can utilize on its tax return. The cooperative also can choose to pass through some or all of the deduction to its farmer-patrons. The Section 199A deduction calculated at the cooperative level is substantially similar to the deduction under prior Section 199 in previous years.

Farmer-level deduction

If a farmer sells product <u>to a cooperative:</u>

- The producer can claim a deduction for the Section 199A deduction that is passed through (if any) from the cooperative to the farmer-patron.
- The farmer also can claim a Section 199A deduction equal to 20% of his/her qualified business income (net income). There are certain limitations for farmers with high taxable income. This 20% deduction is reduced by the lesser of:
  - 9% of the qualified business income as is properly allocable to such sales; ***<u>or</u>***
  - 50% of the W-2 wages paid by farmer that are allocable to such sales.
    - The above reduction applies even if the cooperative does not pass through any Section 199A deduction to the farmer-patron.
    - This modified 20% deduction is limited to 20% of the farmer’s taxable income (excluding capital gains).
- A farmer-patron’s total combined Section 199A deduction for the year amounts to the pass-through deduction (if any) from the cooperative, plus the modified 20% deduction, as described above. This could result in the farmer having a total combined deduction that is less than 20%, equal to 20%, or greater than 20% of their qualified business income (net income).

If a farmer sells product <u>to a private/independent company:</u>

- The farmer can claim a Section 199A deduction equal to 20% of his/her qualified business income (net income). There are certain limitations for farmers with high taxable income.
  - This 20% deduction is limited to 20% of the farmer's taxable income (excluding capital gains).

If a farmer sells product <u>to both a cooperative and a private company:</u>

- The farmer needs to bifurcate his/her net business income and W-2 wage expense, as he/she will need to calculate a separate Section 199A deduction with respect to sales to cooperatives, and a separate Section 199A deduction with respect to sales to private/independent companies.