

106TH CONGRESS  
1ST SESSION

# S. 1861

To amend the Internal Revenue Code of 1986 to provide comprehensive tax relief for small family farmers, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

NOVEMBER 4, 1999

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

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## A BILL

To amend the Internal Revenue Code of 1986 to provide comprehensive tax relief for small family farmers, 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 “Farmer Tax Relief Act of 1999”.

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. Increase in deduction for health insurance costs of self-employed individuals.
- Sec. 4. Increase in unified estate and gift tax credits.
- Sec. 5. Inclusion of farmland as part of principal residence.
- Sec. 6. Averaging of farm income.
- Sec. 7. Exemption for farm income from unincorporated farm businesses from alternative minimum tax.
- Sec. 8. Capital gain realized from transfer of farm property in complete or partial satisfaction of qualified farm indebtedness excluded from gross income.
- Sec. 9. Exclusion of farm rental income in connection with certain lease agreements from net earnings from self-employment.
- Sec. 10. Agricultural program improvements.
- Sec. 11. Cooperative marketing includes value-added processing through animals.
- Sec. 12. Declaratory judgment relief for section 521 cooperatives.
- Sec. 13. Increase in threshold amount for cash remuneration for purposes of payroll tax.

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 “(3) EXCLUSION FROM SELF-EMPLOYMENT  
5 TAX.—Amounts included in gross income under this  
6 subsection shall not be included in determining net  
7 earnings from self-employment under section 1402.

8 “(f) SPECIAL RULES.—

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

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

14 “(i) there shall be deemed distributed  
15 from such Account during such taxable  
16 year an amount equal to such balance, and

17 “(ii) the taxpayer’s tax imposed by  
18 this chapter for such taxable year shall be  
19 increased by 10 percent of such deemed  
20 distribution.

21 The preceding sentence shall not apply if an  
22 amount equal to such nonqualified balance is  
23 distributed from such Account to the taxpayer  
24 before the due date (including extensions) for  
25 filing the return of tax imposed by this chapter

1 for such year (or, if earlier, the date the tax-  
2 payer files such return for such year).

3 “(B) NONQUALIFIED BALANCE.—For pur-  
4 poses of subparagraph (A), the term ‘non-  
5 qualified balance’ means any balance in the Ac-  
6 count on the last day of the taxable year which  
7 is attributable to amounts deposited in such Ac-  
8 count before the 4th preceding taxable year.

9 “(C) ORDERING RULE.—For purposes of  
10 this paragraph, distributions from a FARRM  
11 Account shall be treated as made from deposits  
12 in the order in which such deposits were made,  
13 beginning with the earliest deposits. For pur-  
14 poses of the preceding sentence, income of such  
15 an Account shall be treated as a deposit made  
16 on the date such income is received by the Ac-  
17 count.

18 “(2) CESSATION IN ELIGIBLE FARMING BUSI-  
19 NESS.—At the close of the first disqualification pe-  
20 riod after a period for which the taxpayer was en-  
21 gaged in an eligible farming business, there shall be  
22 deemed distributed from the FARRM Account of the  
23 taxpayer an amount equal to the balance in such Ac-  
24 count (if any) at the close of such disqualification  
25 period. For purposes of the preceding sentence, the

1 term ‘disqualification period’ means any period of 2  
2 consecutive taxable years for which the taxpayer is  
3 not engaged in an eligible farming business.

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

7 “(A) Section 408(e)(2) (relating to loss of  
8 exemption of account where individual engages  
9 in prohibited transaction).

10 “(B) Section 408(e)(4) (relating to effect  
11 of pledging account as security).

12 “(C) Section 408(g) (relating to commu-  
13 nity property laws).

14 “(D) Section 408(h) (relating to custodial  
15 accounts).

16 “(4) TIME WHEN PAYMENTS DEEMED MADE.—  
17 For purposes of this section, a taxpayer shall be  
18 deemed to have made a payment to a FARRM Ac-  
19 count on the last day of a taxable year if such pay-  
20 ment is made on account of such taxable year and  
21 is made within 3½ months after the close of such  
22 taxable year.

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

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

10           (b) DEDUCTION ALLOWED IN COMPUTING AD-  
11 JUSTED GROSS INCOME.—Subsection (a) of section 62  
12 (defining adjusted gross income) is amended by inserting  
13 after paragraph (17) the following:

14                   “(18) CONTRIBUTIONS TO FARM AND RANCH  
15 RISK MANAGEMENT ACCOUNTS.—The deduction al-  
16 lowed by section 468C(a).”

17           (c) TAX ON EXCESS CONTRIBUTIONS.—

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

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

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

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

14           (3) The section heading for section 4973 is  
15           amended to read as follows:

16 **“SEC. 4973. EXCESS CONTRIBUTIONS TO CERTAIN AC-**  
17 **COUNTS, ANNUITIES, ETC.”**

18           (4) The table of sections for chapter 43 is  
19           amended by striking the item relating to section  
20           4973 and inserting the following:

“Sec. 4973. Excess contributions to certain accounts, annuities,  
etc.”

21           (d) **TAX ON PROHIBITED TRANSACTIONS.**—

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

1           “(6) SPECIAL RULE FOR FARRM ACCOUNTS.—  
2     A person for whose benefit a FARRM Account  
3     (within the meaning of section 468C(d)) is estab-  
4     lished shall be exempt from the tax imposed by this  
5     section with respect to any transaction concerning  
6     such account (which would otherwise be taxable  
7     under this section) if, with respect to such trans-  
8     action, the account ceases to be a FARRM Account  
9     by reason of the application of section 468C(f)(3)(A)  
10    to such account.”

11           (2) Paragraph (1) of section 4975(e) is amend-  
12    ed by redesignating subparagraphs (E) and (F) as  
13    subparagraphs (F) and (G), respectively, and by in-  
14    serting after subparagraph (D) the following:

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

17           (e) FAILURE TO PROVIDE REPORTS ON FARRM AC-  
18    COUNTS.—Paragraph (2) of section 6693(a) (relating to  
19    failure to provide reports on certain tax-favored accounts  
20    or annuities) is amended by redesignating subparagraphs  
21    (C) and (D) as subparagraphs (D) and (E), respectively,  
22    and by inserting after subparagraph (B) the following:

23           “(C) section 468C(g) (relating to FARRM  
24           Accounts),”.

1 (f) CLERICAL AMENDMENT.—The table of sections  
 2 for subpart C of part II of subchapter E of chapter 1 is  
 3 amended by inserting after the item relating to section  
 4 468B the following:

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

5 (g) EFFECTIVE DATE.—The amendments made by  
 6 this section shall apply to taxable years beginning after  
 7 the date of the enactment of this Act.

8 **SEC. 3. INCREASE IN DEDUCTION FOR HEALTH INSURANCE**

9 **COSTS OF SELF-EMPLOYED INDIVIDUALS.**

10 (a) IN GENERAL.—Section 162(l)(1) (relating to spe-  
 11 cial rules for health insurance costs of self-employed indi-  
 12 viduals) is amended to read as follows:

13 “(1) ALLOWANCE OF DEDUCTION.—In the case  
 14 of an individual who is an employee within the  
 15 meaning of section 401(c)(1), there shall be allowed  
 16 as a deduction under this section an amount equal  
 17 to the amount paid during the taxable year for in-  
 18 surance which constitutes medical care for the tax-  
 19 payer, the taxpayer’s spouse, and dependents.”

20 (b) CLARIFICATION OF LIMITATIONS ON OTHER COV-  
 21 ERAGE.—The first sentence of section 162(l)(2)(B) of the  
 22 Internal Revenue Code of 1986 is amended to read as fol-  
 23 lows: “Paragraph (1) shall not apply to any taxpayer for  
 24 any calendar month for which the taxpayer participates  
 25 in any subsidized health plan maintained by any employer

1 (other than an employer described in section 401(c)(4))  
 2 of the taxpayer or the spouse of the taxpayer.”

3 (c) EFFECTIVE DATE.—The amendments made by  
 4 this section apply to taxable years beginning after Decem-  
 5 ber 31, 1999.

6 **SEC. 4. INCREASE IN UNIFIED ESTATE AND GIFT TAX**  
 7 **CREDITS.**

8 (a) IN GENERAL.—Section 2010(c) (relating to appli-  
 9 cable credit amount) is amended to read as follows:

10 “(c) APPLICABLE CREDIT AMOUNT.—For purposes  
 11 of this section, the applicable credit amount is the amount  
 12 of the tentative tax which would be determined under the  
 13 rate schedule set forth in section 2001(c) if the amount  
 14 with respect to which such tentative tax is to be computed  
 15 were the applicable exclusion amount determined in ac-  
 16 cordance with the following table:

<b>“In the case of estates of decedents dying, and gifts made, during:</b>	<b>The applicable exclusion amount is:</b>
2000 or thereafter .....	\$5,000,000.”

17 (b) EFFECTIVE DATE.—The amendments made by  
 18 this section shall apply to estates of decedents dying, and  
 19 gifts made, after December 31, 1999.

20 **SEC. 5. INCLUSION OF FARMLAND AS PART OF PRINCIPAL**  
 21 **RESIDENCE.**

22 (a) IN GENERAL.—Subsection (d) of section 121 (re-  
 23 lating to special rules concerning the exclusion of gain

1 from sale of principal residence) is amended by adding at  
 2 the end the following:

3           “(9) FARMLAND.—If, for each of the 5 taxable  
 4 years preceding the taxable year in which the sale or  
 5 exchange of a principal residence occurs, amounts  
 6 were includible in gross income of the taxpayer from  
 7 a farming business conducted by the taxpayer on  
 8 real property contiguous to the principal residence,  
 9 then such real property shall, at the election of the  
 10 taxpayer, be treated as part of the principal resi-  
 11 dence for purposes of this section. For purposes of  
 12 the preceding sentence, the term ‘contiguous’ means  
 13 adjacent or adjoining (at 1 or more corners), not  
 14 taking into account any road right-of-way.”

15           (b) EFFECTIVE DATE.—The amendment made by  
 16 this section shall apply to sales and exchanges occurring  
 17 after the date of the enactment of this Act.

18 **SEC. 6. AVERAGING OF FARM INCOME.**

19           (a) IN GENERAL.—Section 1301 (relating to aver-  
 20 aging of farm income) is amended by redesignating sub-  
 21 sections (b) and (c) as subsections (c) and (d), respec-  
 22 tively, and by inserting after subsection (a) the following  
 23 new subsection:

24           “(b) ELECTION TO TRANSFER FARM INCOME AMONG  
 25 TAXABLE YEARS.—

1           “(1) IN GENERAL.—In lieu of the election  
2           under subsection (a) for a taxable year, a taxpayer  
3           may elect to increase or decrease taxable income for  
4           the taxable year and the 3 previous taxable years by  
5           transferring elected farm income from any of such  
6           taxable years to any other of such taxable years.

7           “(2) APPLICATION TO SUBSEQUENT YEARS.—  
8           Any adjustment under this subsection for any tax-  
9           able year shall be taken into account in applying this  
10          section for any subsequent taxable year.

11          “(3) INTEREST.—For purposes of applying sec-  
12          tions 6601 and 6611 to returns modified under  
13          paragraph (1), the filing date (as defined in section  
14          6611(f)(4)(A)) for a returned modified by reason of  
15          paragraph (1) shall be the same as the filing date  
16          of the return for the current taxable year.”.

17          (b) CONFORMING AMENDMENTS.—

18                 (1) The last sentence of subsection (a) of sec-  
19                 tion 1301 is amended by striking “section” the first  
20                 place it appears and inserting “subsection”.

21                 (2) Clause (ii) of section 1301(b)(1)(A) is  
22                 amended by inserting “or (b)” after “subsection  
23                 (a)”.

1 (c) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to taxable years beginning after  
 3 December 31, 1999.

4 **SEC. 7. EXEMPTION FOR FARM INCOME FROM UNINCOR-**  
 5 **PORATED FARM BUSINESSES FROM ALTER-**  
 6 **NATIVE MINIMUM TAX.**

7 (a) IN GENERAL.—Section 55 (relating to alternative  
 8 minimum tax imposed) is amended by adding at the end  
 9 the following:

10 “(f) EXEMPTION FOR UNINCORPORATED FARMING  
 11 BUSINESS INCOME.—

12 “(1) IN GENERAL.—In the case of a taxpayer  
 13 (other than a corporation) described in paragraph  
 14 (2), income from a farming business engaged in by  
 15 the taxpayer, and deductions relating to the produc-  
 16 tion of such income, shall not be taken into account  
 17 in determining alternative minimum taxable income  
 18 for the taxable year.

19 “(2) GROSS RECEIPTS TEST.—A taxpayer is de-  
 20 scribed in this paragraph if the gross receipts of the  
 21 taxpayer attributable to such farming business—

22 “(A) meet the \$5,000,000 gross receipts  
 23 test of section 448(c) for the first taxable year  
 24 of the taxpayer beginning after December 31,  
 25 1999, and

1           “(B) would meet such test for the taxable  
2           year and each of the prior taxable years begin-  
3           ning after such first taxable year if such test  
4           were applied by substituting ‘\$7,500,000’ for  
5           ‘\$5,000,000’.

6           “(3) PROSPECTIVE APPLICATION OF MINIMUM  
7           TAX IF INCOME FROM A FARMING BUSINESS CEASES  
8           TO BE SMALL.—In the case of a taxpayer whose in-  
9           come from a farming business is not taken into ac-  
10          count for any prior taxable year by reason of para-  
11          graph (1), the application of this part for taxable  
12          years beginning with the first taxable year for which  
13          farming income of the taxpayer is so taken into ac-  
14          count shall be determined in accordance with rules  
15          similar to the rules of subparagraphs (A) through  
16          (G) of subsection (e)(2).

17          “(4) FARMING BUSINESS.—For purposes of this  
18          subsection, the term ‘farming business’ has the  
19          meaning given such term by section 263A(e)(4).

20          “(5) AGGREGATION RULES.—For purposes of  
21          determining gross receipts under paragraph (2)—

22                 “(A) all related persons engaged in a farm-  
23                 ing business shall be treated as 1 person, and

24                 “(B) a person is related to another person  
25                 if the related person bears a relationship to

1           such person specified in section 147(a)(2) or  
2           the related person and such person are engaged  
3           in trades or businesses under common control  
4           (within the meaning of subsections (a) and (b)  
5           of section 52).

6           For purposes of the preceding sentence, in applying  
7           section 267(b) or 707(b)(1) by reason of section  
8           147(a)(2)(A), ‘10 percent’ shall be substituted for  
9           ‘50 percent.’”

10          (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 1999.

13 **SEC. 8. CAPITAL GAIN REALIZED FROM TRANSFER OF**  
14                           **FARM PROPERTY IN COMPLETE OR PARTIAL**  
15                           **SATISFACTION OF QUALIFIED FARM INDEBT-**  
16                           **EDNESS EXCLUDED FROM GROSS INCOME.**

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

1 **“SEC. 139. CAPITAL GAIN REALIZED FROM TRANSFER OF**  
2 **FARM PROPERTY IN COMPLETE OR PARTIAL**  
3 **SATISFACTION OF QUALIFIED FARM INDEBT-**  
4 **EDNESS.**

5 “(a) IN GENERAL.—Gross income of any taxpayer  
6 described in subsection (d) does not include so much of  
7 the gain from the transfer of farm property in complete  
8 or partial satisfaction of qualified farm indebtedness as  
9 does not exceed \$350,000.

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

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

13 “(A) gain from the transfer of farm prop-  
14 erty in complete or partial satisfaction of quali-  
15 fied farm indebtedness, or

16 “(B) a discharge of such indebtedness,  
17 is excluded from the taxpayer’s gross income under  
18 subsection (a) of this section or section 108(g), re-  
19 spectively, subsection (a) of this section shall be ap-  
20 plied for the taxable year with respect to such gain  
21 by reducing the dollar amount contained in such  
22 subsection by such excluded prior year gains and  
23 discharges.

24 “(2) CURRENT YEAR COORDINATION WITH SEC-  
25 TION 108.—Subsection (a) of this section shall be ap-  
26 plied for the taxable year with respect to any gain

1 by reducing the dollar amount contained in such  
2 subsection (after any reduction under paragraph  
3 (1)) by any amount excluded from gross income  
4 under section 108 for such year.

5 “(c) REDUCTION OF TAX ATTRIBUTES.—

6 “(1) IN GENERAL.—The amount excluded from  
7 gross income under subsection (a) shall be applied to  
8 reduce the tax attributes described under section  
9 108(b)(2).

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

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

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

18 “(A) such taxpayer’s modified adjusted  
19 gross income for the taxable year in which the  
20 transfer of farm property in complete or partial  
21 satisfaction of qualified farm indebtedness oc-  
22 curs is less than 100 percent of the national  
23 median adjusted gross income for such year,

24 “(B) more than 50 percent of the gross re-  
25 ceipts of the taxpayer for 6 of the 10 taxable

1 years preceding such taxable year are attrib-  
2 utable to—

3 “(i)(I) the trade or business of farm-  
4 ing (within the meaning of section  
5 2032A(e)(5)), or

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

8 “(ii) the activities described in both  
9 subclauses (I) and (II) of clause (i),

10 “(C) such taxpayer materially participates  
11 (within the meaning of section 2032A(e)(6)) in  
12 the trade or business described in subparagraph  
13 (B)(i)(I), and

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

17 “(i) \$25,000, or

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

19 of—

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

24 “(II) the tax imposed by this  
25 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 any prop-  
14                  erty, 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)).”

4 (b) CLERICAL AMENDMENT.—The table of sections  
 5 for part III of subchapter B of chapter 1 is amended by  
 6 striking the item relating to section 139 and inserting the  
 7 following:

“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.”.

8 (c) EFFECTIVE DATE.—The amendments made by  
 9 this section shall apply to transfers occurring after Decem-  
 10 ber 31, 1999, in taxable years ending after such date.

11 **SEC. 9. EXCLUSION OF FARM RENTAL INCOME IN CONNEC-**  
 12 **TION WITH CERTAIN LEASE AGREEMENTS**  
 13 **FROM NET EARNINGS FROM SELF-EMPLOY-**  
 14 **MENT.**

15 (a) IN GENERAL.—Section 1402(a)(1)(A) (relating  
 16 to net earnings from self-employment) is amended by  
 17 striking “an arrangement” and inserting “a lease agree-  
 18 ment”.

19 (b) AMENDMENT TO SOCIAL SECURITY ACT.—Sec-  
 20 tion 211(a)(1)(A) of the Social Security Act (42 U.S.C.  
 21 411(a)(1)(A)) is amended by striking “an arrangement”  
 22 and inserting “a lease agreement”.

1           (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to income received in taxable years  
3 beginning after December 31, 1999.

4 **SEC. 10. AGRICULTURAL PROGRAM IMPROVEMENTS.**

5           (a) VALUE-ADDED AGRICULTURAL PRODUCTS.—  
6 Section 310B of the Consolidated Farm and Rural Devel-  
7 opment Act (7 U.S.C. 1932) is amended by adding at the  
8 end the following:

9           “(h) VALUE-ADDED AGRICULTURAL PRODUCTS.—In  
10 approving applications for loans and grants authorized  
11 under this section, section 306(a)(11), and other applica-  
12 ble provisions of this title (as determined by the Sec-  
13 retary), the Secretary shall provide a high priority to  
14 projects that encourage the creation of farmer-owned fa-  
15 cilities that process value-added agricultural products.”.

16           (b) TECHNICAL ASSISTANCE.—Section 793(c)(1) of  
17 the Federal Agriculture Improvement and Reform Act of  
18 1996 (7 U.S.C. 2204f(c)(1)) is amended by adding at the  
19 end the following:

20                       “(E) TECHNICAL ASSISTANCE.—The Sec-  
21                       retary may use funds in the Account to provide  
22                       technical assistance to carry out any rural de-  
23                       velopment activity for which funds may be used  
24                       under this paragraph.”.

1           (c) EXTENSION PROGRAMS FOR SMALL- AND ME-  
2 DIUM-SIZED FARMING OPERATIONS.—Section 502(d) of  
3 the Rural Development Act of 1972 (7 U.S.C. 2662(d))  
4 is amended—

5           (1) by inserting before “Small farm” the fol-  
6 lowing:

7           “(1) IN GENERAL.—”; and

8           (2) by adding at the end the following:

9           “(2) MARKET DEVELOPMENT EDUCATION AND  
10 TECHNICAL ASSISTANCE.—To ensure the continued  
11 viability of small- and medium-sized farming oper-  
12 ations, extension programs shall, to the maximum  
13 extent practicable, provide education and technical  
14 assistance to owners and operators of small- and me-  
15 dium-sized farming operations that is directed  
16 toward—

17           “(A) expanding marketing opportunities  
18 for the farming operations through activities  
19 such as direct farm-to-consumer markets, local  
20 value-added processing, and farmer-owned co-  
21 operatives; and

22           “(B) providing entrepreneurial training  
23 and development assistance relating to natural  
24 resource-based activities.”.

1 **SEC. 11. COOPERATIVE MARKETING INCLUDES VALUE-**  
 2 **ADDED PROCESSING THROUGH ANIMALS.**

3 (a) IN GENERAL.—Section 1388 (relating to defini-  
 4 tions and special rules) is amended by adding at the end  
 5 the following:

6 “(k) COOPERATIVE MARKETING INCLUDES VALUE-  
 7 ADDED PROCESSING THROUGH ANIMALS.—For purposes  
 8 of section 521 and this subchapter, the term ‘marketing  
 9 the products of members or other producers’ includes feed-  
 10 ing the products of members or other producers to cattle,  
 11 hogs, fish, chickens, or other animals and selling the re-  
 12 sulting animals or animal products.”

13 (b) EFFECTIVE DATE.—The amendment made by  
 14 this section shall apply to taxable years beginning after  
 15 the date of the enactment of this Act.

16 **SEC. 12. DECLARATORY JUDGMENT RELIEF FOR SECTION**  
 17 **521 COOPERATIVES.**

18 (a) IN GENERAL.—Subsection (a)(1) of section 7428  
 19 (relating to declaratory judgments relating to status and  
 20 classification of organizations under section 501(c)(3),  
 21 etc.) is amended by striking “or” at the end of subpara-  
 22 graph (B) and by adding at the end the following:

23 “(D) with respect to the initial qualifica-  
 24 tion or continuing qualification of a cooperative  
 25 (described in section 521(b)) which is exempt  
 26 from tax under section 521(a), or”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply with respect to pleadings filed after  
3 the date of the enactment of this Act but only with respect  
4 to determinations (or requests for determinations) made  
5 after January 1, 1999.

6 **SEC. 13. INCREASE IN THRESHOLD AMOUNT FOR CASH RE-**  
7 **MUNERATION FOR PURPOSES OF PAYROLL**  
8 **TAX.**

9 (a) IN GENERAL.—Paragraph (8)(B) of section  
10 3121(a) (relating to definition of wages) is amended—

11 (1) in clause (i), by striking “\$150” and insert-  
12 ing “\$3,000”, and

13 (2) in clause (ii), by striking “\$2,500” and in-  
14 serting “\$15,000”.

15 (b) CONFORMING AMENDMENT.—The second sen-  
16 tence of section 3102(a) is amended by striking “\$150”  
17 and inserting “\$3,000”.

18 (c) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to amounts paid in taxable years  
20 beginning after December 31, 1999.

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