

108TH CONGRESS
1ST SESSION

S. 1464

To amend the Internal Revenue Code of 1986 to provide an exclusion for gain from the sale of farmland to encourage the continued use of the property for farming, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 25 (legislative day, JULY 21), 2003

Mr. HAGEL (for himself and Mr. DORGAN) 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 an exclusion for gain from the sale of farmland to encourage the continued use of the property for farming, 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.**

4 This Act may be cited as the “Beginning Farmers
5 and Ranchers Tax Incentive Act of 2003”.

1 **SEC. 2. EXCLUSION OF GAIN FROM SALE OF CERTAIN**
 2 **FARMLAND.**

3 (a) IN GENERAL.—Part III of subchapter B of chap-
 4 ter 1 of the Internal Revenue Code of 1986 (relating to
 5 items specifically excluded from gross income) is amended
 6 by adding after section 121 the following new section:

7 **“SEC. 121A. EXCLUSION OF GAIN FROM SALE OF QUALIFIED**
 8 **FARM PROPERTY.**

9 “(a) EXCLUSION.—In the case of a natural person,
 10 gross income shall not include—

11 “(1) 100 percent of the gain from the sale or
 12 exchange of qualified farm property to a first-time
 13 farmer (as defined in section 147(c)(2)(C) (deter-
 14 mined without regard to clause (i)(II) thereof)) who
 15 certifies that the use of such property shall be as a
 16 farm for farming purposes for not less than 10 years
 17 after such sale or exchange,

18 “(2) 50 percent of the gain from the sale or ex-
 19 change of qualified farm property to any other per-
 20 son who certifies that the use of such property shall
 21 be as a farm for farming purposes for not less than
 22 10 years after such sale or exchange, and

23 “(3) 25 percent of the gain from the sale or ex-
 24 change of qualified farm property to any other per-
 25 son for any other use.

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

1 “(1) IN GENERAL.—The amount of gain ex-
2 cluded from gross income under subsection (a) with
3 respect to any taxable year shall not exceed
4 \$500,000 (\$250,000 in the case of a married indi-
5 vidual filing a separate return), reduced by the ag-
6 gregate amount of gain excluded under subsection
7 (a) for all preceding taxable years.

8 “(2) SPECIAL RULE FOR JOINT RETURNS.—The
9 amount of the exclusion under subsection (a) on a
10 joint return for any taxable year shall be allocated
11 equally between the spouses for purposes of applying
12 the limitation under paragraph (1) for any suc-
13 ceeding taxable year.

14 “(c) QUALIFIED FARM PROPERTY.—

15 “(1) QUALIFIED FARM PROPERTY.—For pur-
16 poses of this section, the term ‘qualified farm prop-
17 erty’ means real property located in the United
18 States if, during periods aggregating 3 years or
19 more of the 5-year period ending on the date of the
20 sale or exchange of such real property—

21 “(A) such real property was used as a
22 farm for farming purposes by the taxpayer or
23 a member of the family of the taxpayer, and

1 “(B) there was material participation by
2 the taxpayer (or such a member) in the oper-
3 ation of the farm.

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

9 “(3) SPECIAL RULES.—For purposes of this
10 section, rules similar to the rules of paragraphs (4)
11 and (5) of section 2032A(b) and paragraphs (3) and
12 (6) of section 2032A(e) shall apply.

13 “(d) OTHER RULES.—For purposes of this section,
14 rules similar to the rules of subsection (e) and subsection
15 (f) of section 121 shall apply.

16 “(e) TREATMENT OF DISPOSITION OR CHANGE IN
17 USE OF PROPERTY.—

18 “(1) IN GENERAL.—If, as of the close of any
19 taxable year, there is a recapture event with respect
20 to any qualified farm property transferred to the
21 taxpayer in a sale or exchange described in para-
22 graph (1) or (2) of subsection (a), then the tax of
23 the taxpayer under this chapter for such taxable
24 year shall be increased by an amount equal to the
25 product of—

1 “(A) the applicable recapture percentage,
2 and

3 “(B) 10 percent of the taxpayer’s adjusted
4 basis in the property on the date such property
5 was transferred to the taxpayer.

6 “(2) APPLICABLE RECAPTURE PERCENTAGE.—

7 “(A) IN GENERAL.—For purposes of this
8 subsection, the applicable recapture percentage
9 shall be determined from the following table:

“If the recapture event oc- curs in:	The applicable recapture per- centage is:	
Years 1 through 5		100
Year 6		80
Year 7		60
Year 8		40
Year 9		20
Years 10 and thereafter		0.

10 “(B) YEARS.—For purposes of subpara-
11 graph (A), year 1 shall begin on the date of the
12 sale or exchange described in paragraph (1) or
13 (2) of subsection (a).

14 “(3) RECAPTURE EVENT DEFINED.—For pur-
15 poses of this subsection, the term ‘recapture event’
16 means—

17 “(A) CESSATION OF OPERATION.—The
18 cessation of the operation of any property the
19 sale or exchange of which to the taxpayer is de-
20 scribed in paragraph (1) or (2) of subsection
21 (a) as a farm for farming purposes.

1 “(B) CHANGE IN OWNERSHIP.—

2 “(i) IN GENERAL.—Except as pro-
3 vided in clause (ii), the disposition of a
4 taxpayer’s interest in any property the sale
5 or exchange of which to the taxpayer is de-
6 scribed in paragraph (1) or (2) of sub-
7 section (a).

8 “(ii) AGREEMENT TO ASSUME RECAP-
9 TURE LIABILITY.—Clause (i) shall not
10 apply if the person acquiring such interest
11 in the property agrees in writing to assume
12 the recapture liability of the person dis-
13 posing of such interest in effect imme-
14 diately before such disposition. In the
15 event of such an assumption, the person
16 acquiring the interest in the property shall
17 be treated as the taxpayer for purposes of
18 assessing any recapture liability (computed
19 as if there had been no change in owner-
20 ship).

21 “(4) SPECIAL RULES.—

22 “(A) NO CREDITS AGAINST TAX.—Any in-
23 crease in tax under this subsection shall not be
24 treated as a tax imposed by this chapter for

1 purposes of determining the amount of any
2 credit under subpart A, B, or D of this part.

3 “(B) NO RECAPTURE BY REASON OF
4 HARDSHIP.—The increase in tax under this
5 subsection shall not apply to any disposition of
6 property or cessation of the operation of any
7 property as a farm for farming purposes by rea-
8 son of any hardship as determined by the Sec-
9 retary.”.

10 (b) CONFORMING AMENDMENT.—The table of sec-
11 tions for part III of subchapter B of chapter 1 of the In-
12 ternal Revenue Code of 1986 is amended by adding after
13 the item relating to section 121 the following new item:

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

14 (c) EFFECTIVE DATE.—The amendment made by
15 this section shall apply to any sale or exchange on or after
16 the date of the enactment of this Act, in taxable years
17 ending after such date.

○