

AG-LAND FS, INC

www.aglandfs.com

INSIGHT

April, 2018

Volume 15, Issue 2

From the Manager's Desk

Floyd Heller

Section 199 Amendment Signed into Law

President Trump signed into law the omnibus government spending bill Friday March 23. Included in the new law are changes to IRS Code Section 199A, the deduction enacted as part of the tax reform package that went into effect on January 1.

The changes are the result of negotiations between the National Council of Farmer Cooperatives and the National Grain and Feed Association, and are intended to address perceived marketplace impacts of the new deduction.

The full text of the bill is available [here](#). See pages 2033-2049 for the relevant provisions.

Section 199A as modified includes the following:

- Restores prior-law Section 199 provisions -- Treasury is instructed to base new guidance on regulations under prior-law Section 199.
- Allows patrons to claim a deduction passed through from a cooperative.
- Changes the farmer-level deduction to 20% of taxable income or qualified business income (in line with all other non-corporate taxpayers), with limitations for farmers with high taxable incomes or capital gains.

Farmers who transact with a cooperative will also be subject to the following:

- The 20% deduction will be reduced by the lesser of (1) 9% of qualified business income allocable to such sales, or (2) 50% of wages allocable to such sales.
- This reduction applies regardless of the amount of Section 199A deduction passed through by the cooperative and is intended to replicate the deduction the farmer had foregone by dealing with the cooperative under prior-law section 199.
- The co-op member's total deduction for the year will be the pass-through deduction plus the modified 20% deduction.

C Corporations: Taxpayers structured as C corporations are not eligible for the 199A deduction. Click [here](#) for a checklist for producers considering ownership restructuring in light of this restriction.

Effective Date: The changes to Section 199A are retroactive to January 1, 2018. Section 199 deductions attributable to taxable years beginning before January 1, 2018, may be utilized by taxpayers.

Examples for Calculation of the Deduction: The Technical Explanation includes two useful examples for how to calculate the deduction. Click [here](#) to view the examples.

