

JAN 15 1997

STATE GOVERNMENT

1 HOUSE CONCURRENT RESOLUTION NO. 3

2 BY WEIGEL

3 A Concurrent Resolution to request that the United States
4 Internal Revenue Service and the United States Congress act to
5 allow farmers to use deferred payment contracts without being
6 subject to alternative tax liability.

7 WHEREAS, farmers are forced to face volatile income
8 swings that result from unpredictable and
9 uncontrollable weather and markets; and

10 WHEREAS, a deferred payment contract is a legal
11 instrument allowing farmers to sell a commodity for a
12 fixed price in a tax year for payment in a later tax
13 year; and

14 WHEREAS, United States tax code provisions have
15 allowed farmers to manage their tax burden in order to
16 evenly spread income over a period of years to
17 mitigate against the effects caused by volatile swings
18 of income; and

19 WHEREAS, under the regular income tax the income
20 from deferred payment contracts is allowed to be
21 reported in the tax year the cash is received; and

22 WHEREAS, the federal alternative minimum tax is a
23 separate tax that parallels the regular income tax and
24 applies to ensure that at least a minimum amount of
25 income tax is paid by corporate and high-income
26 noncorporate taxpayers who reap large tax savings by
27 making use of certain tax deductions and exemptions,
28 such as accelerated depreciation, tax credits, or
29 itemized deductions; and

30 WHEREAS, the Internal Revenue Service is asserting

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1 that for alternative minimum tax purposes, deferred
2 payment commodity contracts of farmers who report
3 their income on a cash basis are installment sales and
4 the income from these contracts should be taxed in the
5 year of sale, not when the cash is received by the
6 farmer in the following tax year; and

7 WHEREAS, for a farmer who uses deferred payment
8 contracts this policy may create a substantial tax
9 burden in one tax year from which it is difficult or
10 impossible to recover in subsequent tax years; and

11 WHEREAS, farmers who have entered into deferred
12 sales contracts to lock in high prices of the recent
13 market may be subject to alternative tax liability
14 before any income is received on the sale of their
15 crop; and

16 WHEREAS, this places a potentially crippling
17 penalty on farmers, and especially small farmers, who
18 oftentimes have difficulty maintaining cash on hand;
19 and

20 WHEREAS, the position of the Internal Revenue
21 Service is based on a reading of the Tax Reform Act of
22 1986 which is contrary to the intentions of the United
23 States Congress and four decades of case law and
24 revenue rulings supporting the deferral of income
25 through deferred payment and deferred pricing
26 contracts; NOW THEREFORE,

27 BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES, THE
28 SENATE CONCURRING, That the United States Internal
29 Revenue Service immediately reexamine its position
30 regarding deferred payment contracts; and

1 BE IT FURTHER RESOLVED, That the United States
2 Congress provide a permanent solution to this problem
3 by enacting legislation similar to HR 4072 introduced
4 in 1996, in order to clarify the law and
5 unquestionably allow farmers to continue to use
6 deferred payment contracts while recognizing income
7 when they receive payment; and

8 BE IT FURTHER RESOLVED, That copies of this
9 Resolution be sent by the Chief Clerk of the House of
10 Representatives to the President of the United States;
11 the Commissioner of Internal Revenue, United States
12 Internal Revenue Service; the Office of Taxpayer
13 Advocate, United States Internal Revenue Service; the
14 President of the United States Senate; the Speaker of
15 the United States House of Representatives; and Iowa's
16 congressional delegation.

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