

105TH CONGRESS
2D SESSION

S. 2078

To amend the Internal Revenue Code of 1986 to provide for Farm and Ranch Risk Management Accounts, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 13, 1998

Mr. GRASSLEY (for himself, Mr. BAUCUS, Mr. ROBERTS, Mr. KERREY, Ms. MOSELEY-BRAUN, Mr. ALLARD, and Mr. HAGEL) 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 for Farm and Ranch Risk Management Accounts, 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 “Farm and Ranch Risk
5 Management Act”.

6 **SEC. 2. FARM AND RANCH RISK MANAGEMENT ACCOUNTS.**

7 (a) IN GENERAL.—Subpart C of part II of sub-
8 chapter E of chapter 1 of the Internal Revenue Code of
9 1986 (relating to taxable year for which deductions taken)

1 is amended by inserting after section 468B the following
 2 new section:

3 **“SEC. 468C. FARM AND RANCH RISK MANAGEMENT AC-**
 4 **COUNTS.**

5 “(a) DEDUCTION ALLOWED.—In the case of an indi-
 6 vidual engaged in an eligible farming business, there shall
 7 be allowed as a deduction for any taxable year the amount
 8 paid in cash by the taxpayer during the taxable year to
 9 a Farm and Ranch Risk Management Account (herein-
 10 after referred to as the ‘FARRM Account’).

11 “(b) LIMITATION.—The amount which a taxpayer
 12 may pay into the FARRM Account for any taxable year
 13 shall not exceed 20 percent of so much of the taxable in-
 14 come of the taxpayer (determined without regard to this
 15 section) which is attributable (determined in the manner
 16 applicable under section 1301) to any eligible farming
 17 business.

18 “(c) ELIGIBLE FARMING BUSINESS.—For purposes
 19 of this section, the term ‘eligible farming business’ means
 20 any farming business (as defined in section 263A(e)(4))
 21 which is not a passive activity (within the meaning of sec-
 22 tion 469(c)) of the taxpayer.

23 “(d) FARRM ACCOUNT.—For purposes of this sec-
 24 tion—

1 “(1) IN GENERAL.—The term ‘FARRM Ac-
2 count’ means a trust created or organized in the
3 United States for the exclusive benefit of the tax-
4 payer, but only if the written governing instrument
5 creating the trust meets the following requirements:

6 “(A) No contribution will be accepted for
7 any taxable year in excess of the amount al-
8 lowed as a deduction under subsection (a) for
9 such year.

10 “(B) The trustee is a bank (as defined in
11 section 408(n)) or another person who dem-
12 onstrates to the satisfaction of the Secretary
13 that the manner in which such person will ad-
14 minister the trust will be consistent with the re-
15 quirements of this section.

16 “(C) The assets of the trust consist en-
17 tirely of cash or of obligations which have ade-
18 quate stated interest (as defined in section
19 1274(c)(2)) and which pay such interest not
20 less often than annually.

21 “(D) All income of the trust is distributed
22 currently to the grantor.

23 “(E) The assets of the trust will not be
24 commingled with other property except in a

1 common trust fund or common investment
2 fund.

3 “(2) ACCOUNT TAXED AS GRANTOR TRUST.—

4 The grantor of a FARRM Account shall be treated
5 for purposes of this title as the owner of such Ac-
6 count and shall be subject to tax thereon in accord-
7 ance with subpart E of part I of subchapter J of
8 this chapter (relating to grantors and others treated
9 as substantial owners).

10 “(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

11 “(1) IN GENERAL.—Except as provided in para-
12 graph (2), there shall be includible in the gross in-
13 come of the taxpayer for any taxable year—

14 “(A) any amount distributed from a
15 FARRM Account of the taxpayer during such
16 taxable year, and

17 “(B) any deemed distribution under—

18 “(i) subsection (f)(1) (relating to de-
19 posits not distributed within 5 years),

20 “(ii) subsection (f)(2) (relating to ces-
21 sation in eligible farming business), and

22 “(iii) subparagraph (A) or (B) of sub-
23 section (f)(3) (relating to prohibited trans-
24 actions and pledging account as security).

1 “(2) EXCEPTIONS.—Paragraph (1)(A) shall not
2 apply to—

3 “(A) any distribution to the extent attrib-
4 utable to income of the Account, and

5 “(B) the distribution of any contribution
6 paid during a taxable year to a FARRM Ac-
7 count to the extent that such contribution ex-
8 ceeds the limitation applicable under subsection
9 (b) if requirements similar to the requirements
10 of section 408(d)(4) are met.

11 For purposes of subparagraph (A), distributions
12 shall be treated as first attributable to income and
13 then to other amounts.

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

18 “(f) SPECIAL RULES.—

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

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

1 “(i) there shall be deemed distributed
2 from such Account during such taxable
3 year an amount equal to such balance, and

4 “(ii) the taxpayer’s tax imposed by
5 this chapter for such taxable year shall be
6 increased by 10 percent of such deemed
7 distribution.

8 The preceding sentence shall not apply if an
9 amount equal to such nonqualified balance is
10 distributed from such Account to the taxpayer
11 before the due date (including extensions) for
12 filing the return of tax imposed by this chapter
13 for such year (or, if earlier, the date the tax-
14 payer files such return for such year).

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

21 “(C) ORDERING RULE.—For purposes of
22 this paragraph, distributions from a FARRM
23 Account shall be treated as made from deposits
24 in the order in which such deposits were made,
25 beginning with the earliest deposits. For pur-

1 poses of the preceding sentence, income of such
2 an Account shall be treated as a deposit made
3 on the date such income is received by the Ac-
4 count.

5 “(2) CESSATION IN ELIGIBLE FARMING BUSI-
6 NESS.—At the close of the first disqualification pe-
7 riod after a period for which the taxpayer was en-
8 gaged in an eligible farming business, there shall be
9 deemed distributed from the FARRM Account (if
10 any) of the taxpayer an amount equal to the balance
11 in such Account at the close of such disqualification
12 period. For purposes of the preceding sentence, the
13 term ‘disqualification period’ means any period of 2
14 consecutive taxable years for which the taxpayer is
15 not engaged in an eligible farming business.

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

19 “(A) Section 408(e)(2) (relating to loss of
20 exemption of account where individual engages
21 in prohibited transaction).

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

24 “(C) Section 408(g) (relating to commu-
25 nity property laws).

1 “(D) Section 408(h) (relating to custodial
2 accounts).

3 “(4) TIME WHEN PAYMENTS DEEMED MADE.—
4 For purposes of this section, a taxpayer shall be
5 deemed to have made a payment to a FARRM Ac-
6 count on the last day of a taxable year if such pay-
7 ment is made on account of such taxable year and
8 is made within 3½ months after the close of such
9 taxable year.

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

13 “(g) REPORTS.—The trustee of a FARRM Account
14 shall make such reports regarding such Account to the
15 Secretary and to the person for whose benefit the Account
16 is maintained with respect to contributions, distributions,
17 and such other matters as the Secretary may require
18 under regulations. The reports required by this subsection
19 shall be filed at such time and in such manner and fur-
20 nished to such persons at such time and in such manner
21 as may be required by those regulations.”.

22 (b) DEDUCTION ALLOWED IN COMPUTING AD-
23 JUSTED GROSS INCOME.—Subsection (a) of section 62 of
24 such Code (defining adjusted gross income) is amended

1 by inserting after paragraph (17) the following new para-
2 graph:

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

6 (c) TAX ON EXCESS CONTRIBUTIONS.—

7 (1) Subsection (a) of section 4973 of such Code
8 (relating to tax on certain excess contributions) is
9 amended by striking “or” at the end of paragraph
10 (3), by redesignating paragraph (4) as paragraph
11 (5), and by inserting after paragraph (3) the follow-
12 ing new paragraph:

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

15 (2) Section 4973 of such Code is amended by
16 adding at the end the following new subsection:

17 “(g) EXCESS CONTRIBUTIONS TO FARRM AC-
18 COUNTS.—For purposes of this section, in the case of a
19 FARRM Account (within the meaning of section
20 468C(d)), the term ‘excess contributions’ means the
21 amount by which the amount contributed for the taxable
22 year to the Account exceeds the amount which may be con-
23 tributed to the Account under section 468C(b) for such
24 taxable year. For purposes of this subsection, any con-
25 tribution which is distributed out of the FARRM Account

1 in a distribution to which section 468C(e)(2)(B) applies
 2 shall be treated as an amount not contributed.”.

3 (3) The section heading for section 4973 of
 4 such Code is amended to read as follows:

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

7 (4) The table of sections for chapter 43 of such
 8 Code is amended by striking the item relating to sec-
 9 tion 4973 and inserting the following new item:

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

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

11 (1) Subsection (c) of section 4975 of such Code
 12 (relating to prohibited transactions) is amended by
 13 adding at the end the following new paragraph:

14 **“(6) SPECIAL RULE FOR FARRM ACCOUNTS.—**
 15 A person for whose benefit a FARRM Account
 16 (within the meaning of section 468C(d)) is estab-
 17 lished shall be exempt from the tax imposed by this
 18 section with respect to any transaction concerning
 19 such Account (which would otherwise be taxable
 20 under this section) if, with respect to such trans-
 21 action, the account ceases to be a FARRM Account
 22 by reason of the application of section 468C(f)(3)(A)
 23 to such Account.”.

1 (2) Paragraph (1) of section 4975(e) of such
2 Code is amended by redesignating subparagraphs
3 (E) and (F) as subparagraphs (F) and (G), respec-
4 tively, and by inserting after subparagraph (D) the
5 following new subparagraph:

6 “(E) a FARRM Account described in sec-
7 tion 468C(d).”.

8 (e) FAILURE TO PROVIDE REPORTS ON FARRM AC-
9 COUNTS.—Paragraph (2) of section 6693(a) of such Code
10 (relating to failure to provide reports on certain tax-fa-
11 vored accounts or annuities) is amended by redesignating
12 subparagraphs (C) and (D) as subparagraphs (D) and
13 (E), respectively, and by inserting after subparagraph (B)
14 the following new subparagraph:

15 “(C) section 468C(g) (relating to FARRM
16 Accounts).”.

17 (f) CLERICAL AMENDMENT.—The table of sections
18 for subpart C of part II of subchapter E of chapter 1 of
19 such Code is amended by inserting after the item relating
20 to section 468B the following new item:

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

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

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