

106TH CONGRESS  
1ST SESSION

# H. R. 957

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

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 3, 1999

Mr. HULSHOF (for himself, Mrs. THURMAN, Mr. COMBEST, Mr. HOUGHTON, Mr. HERGER, Mr. MCCRERY, Mr. NUSSLE, Mr. ENGLISH, Mr. WATKINS, Mr. HAYWORTH, Mr. WELLER, Mr. FOLEY, Mr. LEWIS of Kentucky, Mr. BARRETT of Nebraska, Mr. CONDIT, Mr. BOEHNER, Mr. DOOLEY of California, Mr. EWING, Mr. MINGE, Mr. POMBO, Mr. BALDACCI, Mr. SMITH of Michigan, Mr. HOSTETTLER, Mr. MORAN of Kansas, Mr. THUNE, Mr. JENKINS, Mr. CALVERT, Mr. GUTKNECHT, Mr. OSE, Mr. HAYES, Mr. TALENT, Ms. DANNER, Mrs. EMERSON, Mr. GORDON, Mrs. BONO, Mr. SHOWS, Mr. NETHERCUTT, Mr. ISTOOK, Mr. SNYDER, Mr. BEREUTER, Ms. WOOLSEY, Mr. PAUL, Mr. BOUCHER, Mr. DOOLITTLE, Mr. MURTHA, Mr. HILL of Montana, Mr. SANDLIN, Mr. HILLEARY, Mr. FROST, Mr. STEARNS, Mrs. CAPPS, Mr. MCHUGH, Mr. CLYBURN, Mr. HUTCHINSON, Mr. HOLDEN, Mr. LATHAM, Mr. LAFALCE, Mr. SCARBOROUGH, Mr. KLINK, Mr. BACHUS, Mr. TAYLOR of Mississippi, Mr. CALLAHAN, Mr. BLUNT, Mr. SISISKY, Mr. REYNOLDS, Mr. HUNTER, Mr. BURTON of Indiana, Mr. PITTS, Mr. HASTINGS of Washington, Mr. LEACH, Mr. RADANOVICH, Mr. COOK, Mr. ADERHOLT, Mr. METCALF, Mr. SOUDER, Mr. TERRY, Mr. WALSH, Mr. QUINN, Mr. BONILLA, Mr. WHITFIELD, Mr. CUNNINGHAM, Mr. RYUN of Kansas, Mr. DICKEY, Mr. MCINTOSH, and Mr. BARTLETT of Maryland) introduced the following bill; which was referred to the Committee on Ways and Means

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## 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)  
10 is amended by inserting after section 468B the following  
11 new section:

12 **“SEC. 468C. FARM AND RANCH RISK MANAGEMENT AC-**  
13 **COUNTS.**

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

20 “(b) LIMITATION.—The amount which a taxpayer  
21 may pay into the FARRM Account for any taxable year  
22 shall not exceed 20 percent of so much of the taxable in-  
23 come of the taxpayer (determined without regard to this  
24 section) which is attributable (determined in the manner

1 applicable under section 1301) to any eligible farming  
2 business.

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

8 “(d) FARRM ACCOUNT.—For purposes of this  
9 section—

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

15 “(A) No contribution will be accepted for  
16 any taxable year in excess of the amount al-  
17 lowed as a deduction under subsection (a) for  
18 such year.

19 “(B) The trustee is a bank (as defined in  
20 section 408(n)) or another person who dem-  
21 onstrates to the satisfaction of the Secretary  
22 that the manner in which such person will ad-  
23 minister the trust will be consistent with the re-  
24 quirements of this section.

1           “(C) The assets of the trust consist en-  
2           tirely of cash or of obligations which have ade-  
3           quate stated interest (as defined in section  
4           1274(c)(2)) and which pay such interest not  
5           less often than annually.

6           “(D) All income of the trust is distributed  
7           currently to the grantor.

8           “(E) The assets of the trust will not be  
9           commingled with other property except in a  
10          common trust fund or common investment  
11          fund.

12          “(2) ACCOUNT TAXED AS GRANTOR TRUST.—  
13          The grantor of a FARRM Account shall be treated  
14          for purposes of this title as the owner of such Ac-  
15          count and shall be subject to tax thereon in accord-  
16          ance with subpart E of part I of subchapter J of  
17          this chapter (relating to grantors and others treated  
18          as substantial owners).

19          “(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

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

23                         “(A) any amount distributed from a  
24                         FARRM Account of the taxpayer during such  
25                         taxable year, and

1 “(B) any deemed distribution under—

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

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

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

9 “(2) EXCEPTIONS.—Gross income shall not in-  
10 clude the distribution of any contribution paid dur-  
11 ing a taxable year to a FARRM Account to the ex-  
12 tent that such contribution exceeds the limitation  
13 applicable under subsection (b) if requirements simi-  
14 lar to the requirements of section 408(d)(4) are met.

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

19 “(f) SPECIAL RULES.—

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

22 “(A) IN GENERAL.—If, at the close of any  
23 taxable year, there is a nonqualified balance in  
24 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.

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

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

15                   “(A) Section 408(e)(2) (relating to loss of  
16                   exemption of account where individual engages  
17                   in prohibited transaction).

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

20                   “(C) Section 408(g) (relating to commu-  
21                   nity property laws).

22                   “(D) Section 408(h) (relating to custodial  
23                   accounts).

24           “(4) TIME WHEN PAYMENTS DEEMED MADE.—  
25          For purposes of this section, a taxpayer shall be

1       deemed to have made a payment to a FARRM Ac-  
2       count on the last day of a taxable year if such pay-  
3       ment is made on account of such taxable year and  
4       is made within 3½ months after the close of such  
5       taxable year.

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

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

18               (b) DEDUCTION ALLOWED IN COMPUTING AD-  
19       JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
20       such Code (defining adjusted gross income) is amended  
21       by inserting after paragraph (17) the following new para-  
22       graph:

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

1 (c) TAX ON EXCESS CONTRIBUTIONS.—

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

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

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

12 “(g) EXCESS CONTRIBUTIONS TO FARRM AC-  
13 COUNTS.—For purposes of this section, in the case of a  
14 FARRM Account (within the meaning of section  
15 468C(d)), the term ‘excess contributions’ means the  
16 amount by which the amount contributed for the taxable  
17 year to the Account exceeds the amount which may be con-  
18 tributed to the Account under section 468C(b) for such  
19 taxable year. For purposes of this subsection, any con-  
20 tribution which is distributed out of the FARRM Account  
21 in a distribution to which section 468C(e)(2)(B) applies  
22 shall be treated as an amount not contributed.”.

23 (d) TAX ON PROHIBITED TRANSACTIONS.—

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

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

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

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

21          (e) FAILURE TO PROVIDE REPORTS ON FARRM AC-  
22          COUNTS.—Paragraph (2) of section 6693(a) of such Code  
23          (relating to failure to provide reports on certain tax-fa-  
24          vored accounts or annuities) is amended by redesignating  
25          subparagraphs (C) and (D) as subparagraphs (D) and

1 (E), respectively, and by inserting after subparagraph (B)  
2 the following new subparagraph:

3                   “(C) section 468C(g) (relating to FARRM  
4                   Accounts),”.

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

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

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

○