



Since 1894

KLA Tax Committee Meeting

Tuesday, December 8, 2020

1:00 pm – 2:00 pm

WEBINAR

Chairman: **Dirck Hoagland**, Leavenworth
Vice Chairman: **Matthew Welsh**, Ingalls

*** AGENDA ***

1. Introductions– Dirck Hoagland
2. Panel on Agricultural Lending
 - a. Doug Wareham – President and CEO of the Kansas Bankers Association
 - b. Greg Reno – Senior Vice President of American AgCredit
3. Policy Resolutions- Resolutions with a 2018 date will expire unless amended or reaffirmed.
 - a. 1. TAXES (2018) **EXPIRING – PROPOSED AMENDMENT**
 - b. 2. CONSTITUTIONAL AMENDMENT FOR SCHOOL FINANCE (2019)
 - c. 3. TAXATION OF WIND POWER (2020)
 - d. 4. FAIRER AND SIMPLER TAX CODE (2020)
 - e. 5. FEDERAL DEFICIT/BALANCED BUDGET (2018) **EXPIRING**
 - f. 6. CAPITAL GAINS ROLLOVER (2019)
 - g. 7. TAX CREDIT FOR PRE-HARVEST INTERVENTIONS (2020)
4. New Policy Discussion
5. Other business?
6. Adjournment

*The Tax Committee Meeting is sponsored by:
Coffman, DeFries & Nothern, P.A.*

**COFFMAN,
DeFRIES
& NOTHERN**

ATTORNEYS

A Professional Association

1. TAXES (2018) EXPIRING – proposed amendment

WHEREAS, Kansas is a state blessed with many natural resources, including prime agricultural land, and

WHEREAS, the production and sale of agricultural products composes a major portion of the economy of the United States and Kansas, and

WHEREAS, the members of the Kansas Livestock Association rely on these resources for their livelihoods.

THEREFORE BE IT RESOLVED, the Kansas Livestock Association urges property, sales, income, and inheritance and gift tax policies that encourage, promote, preserve, and protect agricultural activities and provide a favorable business climate for agricultural businesses and livestock operations in particular.

With regard to property taxes:

1. The Kansas Livestock Association supports the appropriate implementation of use-value appraisal and opposes efforts to modify the use-value appraisal methodology that would be detrimental to agriculture.
2. The Kansas Livestock Association opposes the full funding of schools through property taxes and supports increased reliance on income tax and other non-property tax sources for support of local school districts.
3. The Kansas Livestock Association supports local government funding through the use of sales and/or income tax rather than property taxes.
4. The Kansas Livestock Association opposes the funding of community colleges and vo-tech schools with a statewide levy or regional mill levy property tax.

With regard to sales taxes:

1. The Kansas Livestock Association supports continued sales tax exemptions for inputs and livestock.
2. The Kansas Livestock Association supports the continued sales tax exemption for new and used farm machinery; farm equipment; grain storage, drying, and cleaning equipment repair parts; and the service and labor of repairs.

With regard to income taxes:

1. The Kansas Livestock Association supports the adoption of statutory changes that allow carry-back losses, income averaging, cash basis accounting, deductibility of interest payments, prepayment of expense deductions, deferral of income through the use of deferred payment contracts, the use of 1031 exchanges, income deferral provisions to apply to situations occurring from all types of natural disasters, or other means to reduce the volatility of agricultural income.
2. The Kansas Livestock Association supports a state income tax credit for investment in an agricultural marketing cooperative.
3. The Kansas Livestock Association supports state and federal income tax credits or exemptions for private investment in agricultural operations.
4. The Kansas Livestock Association supports amendments to the federal tax code that provide full deductibility for donated conservation easements from landowners whose income is predominantly from farming and ranching.

5. The Kansas Livestock Association does not support limiting or restricting statutory authority allowing cash basis of accounting for agricultural entities.
6. **The Kansas Livestock Association supports deductions or exemptions that ensure equal competition among agricultural lenders and equal access to credit for agricultural borrowers.**

With regard to inheritance and gift taxes:

1. The Kansas Livestock Association supports the reduction, and ultimately the elimination, of the federal estate and gift tax.
2. The Kansas Livestock Association opposes any effort to increase estate taxes, to reduce the unified credit, to eliminate “stepped- up basis” provisions, or otherwise increase by tax rate change the burden of estate and/or gift taxes on family farms, ranches and businesses.

2. CONSTITUTIONAL AMENDMENT FOR SCHOOL FINANCE (2019)

WHEREAS, the Kansas Livestock Association and its members support K-12 public education, and

WHEREAS, the Kansas Livestock Association is concerned that the constant cycle of education funding litigation jeopardizes other important spending priorities within the state, risks massive future tax increases, and interferes with the local school districts’ ability to make timely decisions, and

WHEREAS, Kansas legislators are elected to make decisions about how much revenue to raise and how to spend that revenue.

THEREFORE BE IT RESOLVED, the Kansas Livestock Association supports a constitutional amendment that ensures elected legislators have sole authority to appropriate the total amount of funds for K-12 education.

BE IT FURTHER RESOLVED, the Kansas Livestock Association supports a constitutional amendment that ensures and specifies the judiciary retains the authority to review whether the funds appropriated by the Legislature for K-12 education are equitably distributed among the school districts.

BE IT FURTHER RESOLVED, the Kansas Livestock Association does not support the repeal of Article 6, paragraph 6(b) of the Kansas Constitution.

3. TAXATION OF WIND POWER (2020)

WHEREAS, farm and ranch land in Kansas has been identified as an ideal location for the development of large-scale commercial wind-powered electric generating facilities, and

WHEREAS, Kansas law exempts such facilities from ad valorem taxation, and

WHEREAS, wind power development companies have offered in lieu of tax payments to local units of government and schools where such facilities are proposed, and

WHEREAS, property taxes on agricultural land have become a significant financial burden for landowners in many rural areas of Kansas.

THEREFORE BE IT RESOLVED, the Kansas Livestock Association supports legislation to require wind power facilities to pay local property taxes.

BE IT FURTHER RESOLVED, the state should develop an appraisal or assessment procedure, such as a graduated schedule over a ten-year period, which encourages development in Kansas.

4. FAIRER AND SIMPLER TAX CODE (2020)

WHEREAS, the current federal tax system is complex and may distort business decisions.

THEREFORE BE IT RESOLVED, the Kansas Livestock Association supports the implementation of a fairer and simpler tax code.

5. FEDERAL DEFICIT/BALANCED BUDGET (2018) EXPIRING

BE IT RESOLVED, the Kansas Livestock Association strongly urges Congress and the administration to work toward a balanced federal budget by cutting government spending and/or freezing federal budgets.

BE IT FURTHER RESOLVED, the Kansas Livestock Association supports the adoption of statutory and/or constitutional limitations on federal government spending to require a balanced federal budget.

6. CAPITAL GAINS ROLLOVER (2019)

WHEREAS, many farmers and ranchers are dependent on their land, livestock, and machinery to fund their retirement, and

WHEREAS, the accumulated estate is significantly reduced by income taxes upon liquidation.

THEREFORE BE IT RESOLVED, the Kansas Livestock Association supports tax law changes to (1) allow agricultural operators a tax-free capital gains rollover from the sale of agricultural assets into an IRA, Keough Plan, or similar retirement account to be taxed at time of withdrawal; and (2) establish a reduced capital gains tax rate on other sales of capital assets.

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. We are a nationwide network of customer-owned financial institutions that provide loans and financial services to farmers and ranchers, farmer-owned cooperatives, rural homebuyers, agribusinesses and rural infrastructure providers.

KANSAS

**344**

EMPLOYEES

**24,326**

CUSTOMER-OWNERS

**\$ 8,566,236,000**

TOTAL LOAN VOLUME

**\$ 66,447,805**RETURNED TO
CUSTOMER-OWNERS

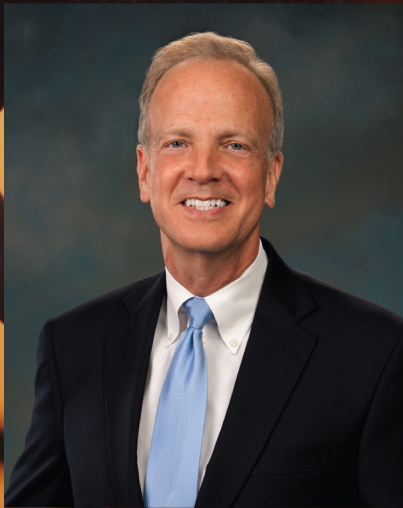
As customer-owned cooperatives, the net income Farm Credit institutions generate can be used in only two ways: retained within a Farm Credit institution as capital to build financial strength that ensures continued lending or passed to customer-owners by way of patronage (cooperative dividends).

Kansas Farm Credit Associations quickly responded to the Paycheck Protection Program (PPP) and became SBA Approved Lenders within days of the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020. More than 300 Kansas Farmers and Ranchers chose to access PPP funds thus far in 2020 through the Farm Credit System.

FARM CREDIT INSTITUTIONS



The **KANSAS BANKER**



U.S. SENATOR JERRY MORAN (R-KAN.)

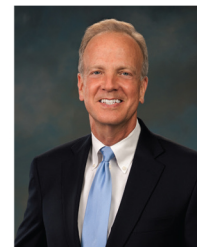
**STRONG COMMUNITY
BANKS ARE VITAL TO
RURAL KANSAS**

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STRONG COMMUNITY BANKS ARE VITAL TO RURAL KANSAS

Guest Column By U.S. Senator Jerry Moran (R-Kan.)



Growing up in Plainville, Kansas gave me a genuine appreciation for the special way of life found in Kansas. The selflessness of Kansans surfaces every time a community is faced with adversity ranging from tornadoes, wildfires and floods to a neighbor's loss of a loved one. Kansans stick together; they work together and in rural communities; they live their lives together.

In Congress, I represented one of the most rural Congressional districts in America. Throughout this time, I worked to protect and enhance that special way of life we enjoy. There are key ingredients needed to sustain a vibrant rural community – great schools, hospitals, healthcare providers and high-speed internet – that are necessary in any community but especially in rural America. Another requirement for the well-being of small communities and the future of rural Kansas is the presence of a strong community bank.

While traveling across Kansas, I've seen that the best sign of economic success in rural towns is the existence of a local grocery store. I also recognize those same grocery stores often wouldn't exist without financing from a local "relationship" bank that has provided the capital necessary for that store's continued existence. From short-term emergency loans to

future-building investments like a home mortgage or small business loan, Kansas community banks support and advance our communities across the state.

I sponsored the *Enhancing Credit Opportunities for Rural America Act (ECORA)*, which will benefit rural borrowers of agricultural credit and rural home mortgage loans through lower interest rates and greater access to credit. Specifically, when community banks provide loans to farmers and ranchers secured by agricultural real estate, the interest from those loans would be exempt from federal income tax. Likewise, this exemption would apply to single family home mortgage loans in rural Kansas communities with a population of 2,500 or less.

The *ECORA Act* will promote business growth, stimulate job creation and serve as an incentive for community banks to invest in rural housing. It will provide lower interest rates for Kansas farmers and ranchers struggling with low commodity prices. The act will also help sustain the presence of rural community banks by making them more competitive and able to meet the financing needs of their customers. It is time for Congress to take action on this measure, and I will continue to push for access to credit that strengthens the special way of life found in Kansas and rural America. 🍌



KBA Mission Statement: Together we support our member banks and bankers with leadership, advocacy and education to benefit the communities and customers they serve.

Promoting Tax Equity & Sustaining Local Access to Credit for Rural Kansans

Overview

The fact that the taxation of income does NOT apply uniformly to all financial institutions creates an unlevel playing field that discriminates against community banks and community bank customers. This unlevel tax policy is not only a threat to the community bank model, but a threat to every single Kansan that relies upon their local community bank for financial services.

The Kansas Bankers Association (KBA) supports state and federal legislation which will help level the playing field between Kansas banks and competing financial institutions that enjoy preferential tax treatment. Kansas banks, unlike the Farm Credit System, are saddled with paying state and federal income taxes. KBA supports establishing a targeted exemption from income taxation for bank interest income generated from agricultural real estate loans, as well as rural housing loans in communities with populations of 2,500 or less.

Why is tax equity needed?

1. **Kansas borrowers will ultimately benefit if tax equity legislation is adopted.** Tax equity will allow community banks to be more competitive with non-bank competitors by enabling them to offer lower interest rates for agricultural real estate and rural housing borrowers across Kansas.
2. Tax equity legislation will help sustain local access to credit in rural and urban communities across Kansas by enabling community banks to compete on a more level playing field. During the past decade alone, the number of bank charters in Kansas has plummeted from 325 to 220, a 32% reduction.
3. Tax equity legislation will help stabilize rural Kansas communities by preserving the leadership presence and local investment provided by local community banks. Tax equity will benefit the ag sector and serve as an incentive for investments in rural housing by providing lower cost for credit.

How can you help?

Contact your state and federal lawmakers and encourage them to support tax equity!

For more information, contact:

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