

107TH CONGRESS  
1ST SESSION

# S. 312

To amend the Internal Revenue Code of 1986 to provide tax relief for farmers and fishermen, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

FEBRUARY 13, 2001

Mr. GRASSLEY (for himself, Mr. BAUCUS, Mr. ROBERTS, Mr. CONRAD, Mr. BROWNBACK, Mrs. LINCOLN, Mr. BURNS, Mr. CRAIG, Mr. LUGAR, Mr. ENZI, Mr. NELSON of Nebraska, and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide tax relief for farmers and fishermen, 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; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Tax Empowerment and Relief for Farmers and Fisher-  
6 men (TERFF) Act”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-  
8 wise expressly provided, whenever in this Act an amend-  
9 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference  
 2 shall be considered to be made to a section or other provi-  
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—

- Sec. 1. Short title; etc.
- Sec. 2. Farm, fishing, and ranch risk management accounts.
- Sec. 3. Written agreement relating to exclusion of certain farm rental income  
from net earnings from self-employment.
- Sec. 4. Treatment of conservation reserve program payments as rentals from  
real estate.
- Sec. 5. Exemption of agricultural bonds from State volume cap.
- Sec. 6. Modifications to section 512(b)(13).
- Sec. 7. Charitable deduction for contributions of food inventory.
- Sec. 8. Income averaging for farmers and fishermen not to increase alternative  
minimum tax liability.
- Sec. 9. Cooperative marketing includes value-added processing through animals.
- Sec. 10. Declaratory judgment relief for section 521 cooperatives.
- Sec. 11. Small ethanol producer credit.
- Sec. 12. Payment of dividends on stock of cooperatives without reducing pa-  
tronage dividends.

5 **SEC. 2. FARM, FISHING, AND RANCH RISK MANAGEMENT**  
 6 **ACCOUNTS.**

7 (a) IN GENERAL.—Subpart C of part II of sub-  
 8 chapter E of chapter 1 (relating to taxable year for which  
 9 deductions taken) is amended by inserting after section  
 10 468B the following new section:

11 **“SEC. 468C. FARM, FISHING, AND RANCH RISK MANAGE-**  
 12 **MENT ACCOUNTS.**

13 “(a) DEDUCTION ALLOWED.—In the case of an indi-  
 14 vidual engaged in an eligible farming business or commer-  
 15 cial fishing, there shall be allowed as a deduction for any  
 16 taxable year the amount paid in cash by the taxpayer dur-  
 17 ing the taxable year to a Farm, Fishing, and Ranch Risk

1 Management Account (hereinafter referred to as the  
2 ‘FFARRM Account’).

3 “(b) LIMITATION.—

4 “(1) CONTRIBUTIONS.—The amount which a  
5 taxpayer may pay into the FFARRM Account for  
6 any taxable year shall not exceed 20 percent of so  
7 much of the taxable income of the taxpayer (deter-  
8 mined without regard to this section) which is at-  
9 tributable (determined in the manner applicable  
10 under section 1301) to any eligible farming business  
11 or commercial fishing.

12 “(2) DISTRIBUTIONS.—Distributions from a  
13 FFARRM Account may not be used to purchase,  
14 lease, or finance any new fishing vessel, add capacity  
15 to any fishery, or otherwise contribute to the over-  
16 capitalization of any fishery. The Secretary of Com-  
17 merce shall implement regulations to enforce this  
18 paragraph.

19 “(c) ELIGIBLE BUSINESSES.—For purposes of this  
20 section—

21 “(1) ELIGIBLE FARMING BUSINESS.—The term  
22 ‘eligible farming business’ means any farming busi-  
23 ness (as defined in section 263A(e)(4)) which is not  
24 a passive activity (within the meaning of section  
25 469(c)) of the taxpayer.

1           “(2) COMMERCIAL FISHING.—The term ‘com-  
2       mercial fishing’ has the meaning given such term by  
3       section (3) of the Magnuson-Stevens Fishery Con-  
4       servation and Management Act (16 U.S.C. 1802)  
5       but only if such fishing is not a passive activity  
6       (within the meaning of section 469(c)) of the tax-  
7       payer.

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

10           “(1) IN GENERAL.—The term ‘FFARRM 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 FFARRM 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                         FFARRM 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 (B) or (C) of sub-  
7 section (f)(3) (relating to prohibited trans-  
8 actions and pledging account as security).

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

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

13 “(B) the distribution of any contribution  
14 paid during a taxable year to a FFARRM Ac-  
15 count to the extent that such contribution ex-  
16 ceeds the limitation applicable under subsection  
17 (b) if requirements similar to the requirements  
18 of section 408(d)(4) are met.

19 For purposes of subparagraph (A), distributions  
20 shall be treated as first attributable to income and  
21 then to other amounts.

22 “(f) SPECIAL RULES.—

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

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

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

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

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

“(B) NONQUALIFIED BALANCE.—For purposes of subparagraph (A), the term ‘nonqualified balance’ means any balance in the Account on the last day of the taxable year which is attributable to amounts deposited in such Account before the 4th preceding taxable year.

“(C) ORDERING RULE.—For purposes of this paragraph, distributions from a FFARRM

1 Account (other than distributions of current in-  
 2 come) shall be treated as made from deposits in  
 3 the order in which such deposits were made, be-  
 4 ginning with the earliest deposits.

5 “(2) CESSATION IN ELIGIBLE BUSINESS.—At  
 6 the close of the first disqualification period after a  
 7 period for which the taxpayer was engaged in an eli-  
 8 gible farming business or commercial fishing, there  
 9 shall be deemed distributed from the FFARRM Ac-  
 10 count of the taxpayer an amount equal to the bal-  
 11 ance in such Account (if any) at the close of such  
 12 disqualification period. For purposes of the pre-  
 13 ceding sentence, the term ‘disqualification period’  
 14 means any period of 2 consecutive taxable years for  
 15 which the taxpayer is not engaged in an eligible  
 16 farming business or commercial fishing.

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

20 “(A) Section 220(f)(8) (relating to treat-  
 21 ment on death).

22 “(B) Section 408(e)(2) (relating to loss of  
 23 exemption of account where individual engages  
 24 in prohibited transaction).



1           “(C) Section 408(e)(4) (relating to effect  
2           of pledging account as security).

3           “(D) Section 408(g) (relating to commu-  
4           nity property laws).

5           “(E) Section 408(h) (relating to custodial  
6           accounts).

7           “(4) TIME WHEN PAYMENTS DEEMED MADE.—  
8           For purposes of this section, a taxpayer shall be  
9           deemed to have made a payment to a FFARRM Ac-  
10          count on the last day of a taxable year if such pay-  
11          ment is made on account of such taxable year and  
12          is made on or before the due date (without regard  
13          to extensions) for filing the return of tax for such  
14          taxable year.

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

18          “(6) DEDUCTION NOT ALLOWED FOR SELF-EM-  
19          PLOYMENT TAX.—The deduction allowable by reason  
20          of subsection (a) shall not be taken into account in  
21          determining an individual’s net earnings from self-  
22          employment (within the meaning of section 1402(a))  
23          for purposes of chapter 2.

24          “(g) REPORTS.—The trustee of a FFARRM Account  
25          shall make such reports regarding such Account to the

1 Secretary and to the person for whose benefit the Account  
 2 is maintained with respect to contributions, distributions,  
 3 and such other matters as the Secretary may require  
 4 under regulations. The reports required by this subsection  
 5 shall be filed at such time and in such manner and fur-  
 6 nished to such persons at such time and in such manner  
 7 as may be required by such regulations.”.

8 (b) TAX ON EXCESS CONTRIBUTIONS.—

9 (1) Subsection (a) of section 4973 (relating to  
 10 tax on excess contributions to certain tax-favored ac-  
 11 counts and annuities) is amended by striking “or”  
 12 at the end of paragraph (3), by redesignating para-  
 13 graph (4) as paragraph (5), and by inserting after  
 14 paragraph (3) the following new paragraph:

15 “(4) a FFARRM Account (within the meaning  
 16 of section 468C(d)), or”.

17 (2) Section 4973 is amended by adding at the  
 18 end the following new subsection:

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

1 taxable year. For purposes of this subsection, any con-  
 2 tribution which is distributed out of the FFARRM Ac-  
 3 count in a distribution to which section 468C(e)(2)(B) ap-  
 4 plies shall be treated as an amount not contributed.”.

5 (3) The section heading for section 4973 is  
 6 amended to read as follows:

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

9 (4) The table of sections for chapter 43 is  
 10 amended by striking the item relating to section  
 11 4973 and inserting the following new item:

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

12 (c) TAX ON PROHIBITED TRANSACTIONS.—

13 (1) Subsection (c) of section 4975 (relating to  
 14 tax on prohibited transactions) is amended by add-  
 15 ing at the end the following new paragraph:

16 “(6) SPECIAL RULE FOR FFARRM ACCOUNTS.—

17 A person for whose benefit a FFARRM Account  
 18 (within the meaning of section 468C(d)) is estab-  
 19 lished shall be exempt from the tax imposed by this  
 20 section with respect to any transaction concerning  
 21 such account (which would otherwise be taxable  
 22 under this section) if, with respect to such trans-  
 23 action, the account ceases to be a FFARRM Ac-

1 count by reason of the application of section  
2 468C(f)(3)(A) to such account.”.

3 (2) Paragraph (1) of section 4975(e) is amend-  
4 ed by redesignating subparagraphs (E) and (F) as  
5 subparagraphs (F) and (G), respectively, and by in-  
6 serting after subparagraph (D) the following new  
7 subparagraph:

8 “(E) a FFARRM Account described in  
9 section 468C(d),”.

10 (d) FAILURE TO PROVIDE REPORTS ON FFARRM  
11 ACCOUNTS.—Paragraph (2) of section 6693(a) (relating  
12 to failure to provide reports on certain tax-favored ac-  
13 counts or annuities) is amended by redesignating subpara-  
14 graphs (C) and (D) as subparagraphs (D) and (E), re-  
15 spectively, and by inserting after subparagraph (B) the  
16 following new subparagraph:

17 “(C) section 468C(g) (relating to  
18 FFARRM Accounts),”.

19 (e) CLERICAL AMENDMENT.—The table of sections  
20 for subpart C of part II of subchapter E of chapter 1 is  
21 amended by inserting after the item relating to section  
22 468B the following new item:

“Sec. 468C. Farm, Fishing and Ranch Risk Management Ac-  
counts.”.

1 (f) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to taxable years beginning after  
 3 December 31, 2001.

4 **SEC. 3. WRITTEN AGREEMENT RELATING TO EXCLUSION**  
 5 **OF CERTAIN FARM RENTAL INCOME FROM**  
 6 **NET EARNINGS FROM SELF-EMPLOYMENT.**

7 (a) INTERNAL REVENUE CODE.—Section  
 8 1402(a)(1)(A) (relating to net earnings from self-employ-  
 9 ment) is amended by striking “an arrangement” and in-  
 10 serting “a lease agreement”.

11 (b) SOCIAL SECURITY ACT.—Section 211(a)(1)(A) of  
 12 the Social Security Act is amended by striking “an ar-  
 13 rangement” and inserting “a lease agreement”.

14 (c) EFFECTIVE DATE.—The amendments made by  
 15 this section shall apply to taxable years beginning after  
 16 December 31, 2001.

17 **SEC. 4. TREATMENT OF CONSERVATION RESERVE PRO-**  
 18 **GRAM PAYMENTS AS RENTALS FROM REAL**  
 19 **ESTATE.**

20 (a) IN GENERAL.—Section 1402(a)(1) (defining net  
 21 earnings from self-employment) is amended by inserting  
 22 “and including payments under section 1233(2) of the  
 23 Food Security Act of 1985 (16 U.S.C. 3833(2))” after  
 24 “crop shares”.

1 (b) EFFECTIVE DATE.—The amendment made by  
 2 this section shall apply to payments made after December  
 3 31, 2001.

4 **SEC. 5. EXEMPTION OF AGRICULTURAL BONDS FROM**  
 5 **STATE VOLUME CAP.**

6 (a) IN GENERAL.—Section 146(g) (relating to excep-  
 7 tion for certain bonds) is amended by striking “and” at  
 8 the end of paragraph (3), by striking the period at the  
 9 end of paragraph (4) and inserting “, and”, and by insert-  
 10 ing after paragraph (4) the following new paragraph:

11 “(5) any qualified small issue bond described in  
 12 section 144(a)(12)(B)(ii).”.

13 (b) EFFECTIVE DATE.—The amendments made by  
 14 this section shall apply to bonds issued after December  
 15 31, 2001.

16 **SEC. 6. MODIFICATIONS TO SECTION 512(b)(13).**

17 (a) IN GENERAL.—Paragraph (13) of section 512(b)  
 18 is amended by redesignating subparagraph (E) as sub-  
 19 paragraph (F) and by inserting after subparagraph (D)  
 20 the following new paragraph:

21 “(E) PARAGRAPH TO APPLY ONLY TO EX-  
 22 CESS PAYMENTS.—

23 “(i) IN GENERAL.—Subparagraph (A)  
 24 shall apply only to the portion of a speci-  
 25 fied payment received by the controlling

1 organization that exceeds the amount  
2 which would have been paid if such pay-  
3 ment met the requirements prescribed  
4 under section 482.

5 “(ii) ADDITION TO TAX FOR VALU-  
6 ATION MISSTATEMENTS.—The tax imposed  
7 by this chapter on the controlling organiza-  
8 tion shall be increased by an amount equal  
9 to 20 percent of such excess.”.

10 (b) EFFECTIVE DATE.—

11 (1) IN GENERAL.—The amendment made by  
12 this section shall apply to payments received or ac-  
13 crued after December 31, 2000.

14 (2) PAYMENTS SUBJECT TO BINDING CONTRACT  
15 TRANSITION RULE.—If the amendments made by  
16 section 1041 of the Taxpayer Relief Act of 1997 did  
17 not apply to any amount received or accrued in the  
18 first 2 taxable years beginning on or after the date  
19 of the enactment of this Act under any contract de-  
20 scribed in subsection (b)(2) of such section, such  
21 amendments also shall not apply to amounts re-  
22 ceived or accrued under such contract before Janu-  
23 ary 1, 2001.

1 **SEC. 7. CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF**  
 2 **FOOD INVENTORY.**

3 (a) IN GENERAL.—Subsection (e) of section 170 (re-  
 4 lating to certain contributions of ordinary income and cap-  
 5 ital gain property) is amended by adding at the end the  
 6 following new paragraph:

7 “(7) SPECIAL RULE FOR CONTRIBUTIONS OF  
 8 FOOD INVENTORY.—For purposes of this section—

9 “(A) CONTRIBUTIONS BY NON-CORPORATE  
 10 TAXPAYERS.—In the case of a charitable con-  
 11 tribution of food by a taxpayer, paragraph  
 12 (3)(A) shall be applied without regard to wheth-  
 13 er or not the contribution is made by a corpora-  
 14 tion.

15 “(B) LIMIT ON REDUCTION.—In the case  
 16 of a charitable contribution of food which is a  
 17 qualified contribution (within the meaning of  
 18 paragraph (3)(A), as modified by subparagraph  
 19 (A) of this paragraph)—

20 “(i) paragraph (3)(B) shall not apply,  
 21 and

22 “(ii) the reduction under paragraph  
 23 (1)(A) for such contribution shall be no  
 24 greater than the amount (if any) by which  
 25 the amount of such contribution exceeds  
 26 twice the basis of such food.



1           “(C) DETERMINATION OF BASIS.—For  
 2           purposes of this paragraph, if a taxpayer uses  
 3           the cash method of accounting, the basis of any  
 4           qualified contribution of such taxpayer shall be  
 5           deemed to be 50 percent of the fair market  
 6           value of such contribution.

7           “(D) DETERMINATION OF FAIR MARKET  
 8           VALUE.—In the case of a charitable contribu-  
 9           tion of food which is a qualified contribution  
 10          (within the meaning of paragraph (3), as modi-  
 11          fied by subparagraphs (A) and (B) of this para-  
 12          graph) and which, solely by reason of internal  
 13          standards of the taxpayer, lack of market, or  
 14          similar circumstances, or which is produced by  
 15          the taxpayer exclusively for the purposes of  
 16          transferring the food to an organization de-  
 17          scribed in paragraph (3)(A), cannot or will not  
 18          be sold, the fair market value of such contribu-  
 19          tion shall be determined—

20                 “(i) without regard to such internal  
 21                 standards, such lack of market, such cir-  
 22                 cumstances, or such exclusive purpose, and

23                 “(ii) if applicable, by taking into ac-  
 24                 count the price at which the same or simi-  
 25                 lar food items are sold by the taxpayer at

1           the time of the contribution (or, if not so  
2           sold at such time, in the recent past).

3           “(E) TERMINATION.—This paragraph  
4           shall not apply to any contribution made during  
5           any taxable year beginning after December 31,  
6           2004.”.

7           (b) EFFECTIVE DATE.—The amendment made by  
8           subsection (a) shall apply to taxable years beginning after  
9           December 31, 2001.

10 **SEC. 8. INCOME AVERAGING FOR FARMERS AND FISHER-**  
11 **MEN NOT TO INCREASE ALTERNATIVE MIN-**  
12 **IMUM TAX LIABILITY.**

13           (a) IN GENERAL.—Section 55(c) (defining regular  
14           tax) is amended by redesignating paragraph (2) as para-  
15           graph (3) and by inserting after paragraph (1) the fol-  
16           lowing new paragraph:

17           “(2) COORDINATION WITH INCOME AVERAGING  
18           FOR FARMERS AND FISHERMEN.—Solely for pur-  
19           poses of this section, section 1301 (relating to aver-  
20           aging of farm and fishing income) shall not apply in  
21           computing the regular tax.”.

22           (b) ALLOWING INCOME AVERAGING FOR FISHER-  
23           MEN.—

1           (1) IN GENERAL.—Section 1301(a) is amended  
 2       by striking “farming business” and inserting “farm-  
 3       ing business or fishing business”.

4           (2) DEFINITION OF ELECTED FARM INCOME.—

5               (A) IN GENERAL.—Clause (i) of section  
 6       1301(b)(1)(A) is amended by inserting “or fish-  
 7       ing business” before the semicolon.

8               (B) CONFORMING AMENDMENT.—Subpara-  
 9       graph (B) of section 1301(b)(1) is amended by  
 10      inserting “or fishing business” after “farming  
 11      business” both places it occurs.

12          (3) DEFINITION OF FISHING BUSINESS.—Sec-  
 13      tion 1301(b) is amended by adding at the end the  
 14      following new paragraph:

15          “(4) FISHING BUSINESS.—The term ‘fishing  
 16      business’ means the conduct of commercial fishing  
 17      as defined in section 3 of the Magnuson-Stevens  
 18      Fishery Conservation and Management Act (16  
 19      U.S.C. 1802).”.

20          (c) EFFECTIVE DATE.—The amendments made by  
 21      this section shall apply to taxable years beginning after  
 22      December 31, 2001.

1 **SEC. 9. COOPERATIVE MARKETING INCLUDES VALUE-**  
 2 **ADDED PROCESSING THROUGH ANIMALS.**

3 (a) IN GENERAL.—Section 1388 (relating to defini-  
 4 tions and special rules) is amended by adding at the end  
 5 the following new subsection:

6 “(k) COOPERATIVE MARKETING INCLUDES VALUE-  
 7 ADDED PROCESSING THROUGH ANIMALS.—For purposes  
 8 of section 521 and this subchapter, the term ‘marketing  
 9 the products of members or other producers’ includes feed-  
 10 ing the products of members or other producers to cattle,  
 11 hogs, fish, chickens, or other animals and selling the re-  
 12 sulting animals or animal products.”.

13 (b) EFFECTIVE DATE.—The amendment made by  
 14 this section shall apply to taxable years beginning after  
 15 the date of the enactment of this Act.

16 **SEC. 10. DECLARATORY JUDGMENT RELIEF FOR SECTION**  
 17 **521 COOPERATIVES.**

18 (a) IN GENERAL.—Section 7428(a)(1) (relating to  
 19 declaratory judgments of tax exempt organizations) is  
 20 amended by striking “or” at the end of subparagraph (B)  
 21 and by adding at the end the following new subparagraph:

22 “(D) with respect to the initial qualifica-  
 23 tion or continuing qualification of a cooperative  
 24 as described in section 521(b) which is exempt  
 25 from tax under section 521(a), or”.

1       (b) **EFFECTIVE DATE.**—The amendments made by  
 2 this section shall apply with respect to pleadings filed after  
 3 the date of the enactment of this Act but only with respect  
 4 to determinations (or requests for determinations) made  
 5 after January 1, 2001.

6 **SEC. 11. SMALL ETHANOL PRODUCER CREDIT.**

7       (a) **ALLOCATION OF ALCOHOL FUELS CREDIT TO**  
 8 **PATRONS OF A COOPERATIVE.**—Section 40(g) (relating to  
 9 alcohol used as fuel) is amended by adding at the end the  
 10 following new paragraph:

11               “(6) **ALLOCATION OF SMALL ETHANOL PRO-**  
 12 **DUCE CREDIT TO PATRONS OF COOPERATIVE.**—

13                       “(A) **ELECTION TO ALLOCATE.**—

14                               “(i) **IN GENERAL.**—In the case of a  
 15 cooperative organization described in sec-  
 16 tion 1381(a), any portion of the credit de-  
 17 termined under subsection (a)(3) for the  
 18 taxable year may, at the election of the or-  
 19 ganization, be apportioned pro rata among  
 20 patrons of the organization on the basis of  
 21 the quantity or value of business done with  
 22 or for such patrons for the taxable year.

23                               “(ii) **FORM AND EFFECT OF ELEC-**  
 24 **TION.**—An election under clause (i) for any  
 25 taxable year shall be made on a timely

1 filed return for such year. Such election,  
 2 once made, shall be irrevocable for such  
 3 taxable year.

4 “(B) TREATMENT OF ORGANIZATIONS AND  
 5 PATRONS.—The amount of the credit appor-  
 6 tioned to patrons under subparagraph (A)—

7 “(i) shall not be included in the  
 8 amount determined under subsection (a)  
 9 with respect to the organization for the  
 10 taxable year,

11 “(ii) shall be included in the amount  
 12 determined under subsection (a) for the  
 13 taxable year of each patron for which the  
 14 patronage dividends for the taxable year  
 15 described in subparagraph (A) are included  
 16 in gross income, and

17 “(iii) shall be included in gross income  
 18 of such patrons for the taxable year in the  
 19 manner and to the extent provided in sec-  
 20 tion 87.

21 “(C) SPECIAL RULES FOR DECREASE IN  
 22 CREDITS FOR TAXABLE YEAR.—If the amount  
 23 of the credit of a cooperative organization de-  
 24 termined under subsection (a)(3) for a taxable  
 25 year is less than the amount of such credit

shown on the return of the cooperative organization for such year, an amount equal to the excess of—

“(i) such reduction, over

“(ii) the amount not apportioned to such patrons under subparagraph (A) for the taxable year,

shall be treated as an increase in tax imposed by this chapter on the organization. Such increase shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit under this subpart or subpart A, B, E, or G.”.

(b) IMPROVEMENTS TO SMALL ETHANOL PRODUCER CREDIT.—

(1) DEFINITION OF SMALL ETHANOL PRODUCER.—Section 40(g) (relating to definitions and special rules for eligible small ethanol producer credit) is amended by striking “30,000,000” each place it appears and inserting “60,000,000”.

(2) SMALL ETHANOL PRODUCER CREDIT NOT A PASSIVE ACTIVITY CREDIT.—Clause (i) of section 469(d)(2)(A) is amended by striking “subpart D” and inserting “subpart D, other than section 40(a)(3),”.

1           (3) ALLOWING CREDIT AGAINST MINIMUM  
2 TAX.—

3           (A) IN GENERAL.—Subsection (c) of sec-  
4 tion 38 (relating to limitation based on amount  
5 of tax) is amended by redesignating paragraph  
6 (3) as paragraph (4) and by inserting after  
7 paragraph (2) the following new paragraph:

8           “(3) SPECIAL RULES FOR SMALL ETHANOL  
9 PRODUCER CREDIT.—

10           “(A) IN GENERAL.—In the case of the  
11 small ethanol producer credit—

12           “(i) this section and section 39 shall  
13 be applied separately with respect to the  
14 credit, and

15           “(ii) in applying paragraph (1) to the  
16 credit—

17           “(I) subparagraphs (A) and (B)  
18 thereof shall not apply, and

19           “(II) the limitation under para-  
20 graph (1) (as modified by subclause  
21 (I)) shall be reduced by the credit al-  
22 lowed under subsection (a) for the  
23 taxable year (other than the small  
24 ethanol producer credit).



1           “(B) SMALL ETHANOL PRODUCER CRED-  
 2           IT.—For purposes of this subsection, the term  
 3           ‘small ethanol producer credit’ means the credit  
 4           allowable under subsection (a) by reason of sec-  
 5           tion 40(a)(3).”.

6           (B) CONFORMING AMENDMENT.—Sub-  
 7           clause (II) of section 38(c)(2)(A)(ii) is amended  
 8           by striking “(other” and all that follows  
 9           through “credit)” and inserting “(other than  
 10          the empowerment zone employment credit or  
 11          the small ethanol producer credit)”.

12          (4) SMALL ETHANOL PRODUCER CREDIT NOT  
 13          ADDED BACK TO INCOME UNDER SECTION 87.—Sec-  
 14          tion 87 (relating to income inclusion of alcohol fuel  
 15          credit) is amended to read as follows:

16      **“SEC. 87. ALCOHOL FUEL CREDIT.**

17          “Gross income includes an amount equal to the sum  
 18          of—

19               “(1) the amount of the alcohol mixture credit  
 20               determined with respect to the taxpayer for the tax-  
 21               able year under section 40(a)(1), and

22               “(2) the alcohol credit determined with respect  
 23               to the taxpayer for the taxable year under section  
 24               40(a)(2).”.

1 (c) CONFORMING AMENDMENT.—Section 1388 (re-  
 2 lating to definitions and special rules for cooperative orga-  
 3 nizations), as amended by section 9, is amended by adding  
 4 at the end the following new subsection:

5 “(1) CROSS REFERENCE.—For provisions relating to  
 6 the apportionment of the alcohol fuels credit between coop-  
 7 erative organizations and their patrons, see section  
 8 40(g)(6).”.

9 (d) 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.

12 **SEC. 12. PAYMENT OF DIVIDENDS ON STOCK OF COOPERA-**  
 13 **TIVES WITHOUT REDUCING PATRONAGE**  
 14 **DIVIDENDS.**

15 (a) IN GENERAL.—Subsection (a) of section 1388  
 16 (relating to patronage dividend defined) is amended by  
 17 adding at the end the following new sentence: “For pur-  
 18 poses of paragraph (3), net earnings shall not be reduced  
 19 by amounts paid during the year as dividends on capital  
 20 stock or other proprietary capital interests of the organiza-  
 21 tion to the extent that the articles of incorporation or by-  
 22 laws of such organization or other contract with patrons  
 23 provide that such dividends are in addition to amounts  
 24 otherwise payable to patrons which are derived from busi-  
 25 ness done with or for patrons during the taxable year.”.

1       (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to distributions in taxable years  
3 beginning after the date of the enactment of this Act.

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