

108TH CONGRESS
1ST SESSION

H. R. 927

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

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 26, 2003

Mr. HULSHOF (for himself and Mr. SANDLIN) introduced the following bill;
which was referred to the Committee on Ways and Means

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:

1 **“SEC. 468C. FARM AND RANCH RISK MANAGEMENT AC-**
2 **COUNTS.**

3 “(a) DEDUCTION ALLOWED.—In the case of an indi-
4 vidual engaged in an eligible farming business or commer-
5 cial fishing, there shall be allowed as a deduction for any
6 taxable year the amount paid in cash by the taxpayer dur-
7 ing the taxable year to a Farm and Ranch Risk Manage-
8 ment Account (hereinafter referred to as the ‘FARRM Ac-
9 count’).

10 “(b) LIMITATION.—

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

19 “(2) DISTRIBUTIONS.—Distributions from a
20 FARRM Account may not be used to purchase,
21 lease, or finance any new fishing vessel, add capacity
22 to any fishery, or otherwise contribute to the over-
23 capitalization of any fishery. The Secretary of Com-
24 merce shall implement regulations to enforce this
25 paragraph.

1 “(c) ELIGIBLE BUSINESSES.—For purposes of this
2 section—

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

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

15 “(d) FARRM ACCOUNT.—For purposes of this sec-
16 tion—

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

22 “(A) No contribution will be accepted for
23 any taxable year in excess of the amount al-
24 lowed as a deduction under subsection (a) for
25 such year.

1 “(B) The trustee is a bank (as defined in
2 section 408(n)) or another person who dem-
3 onstrates to the satisfaction of the Secretary
4 that the manner in which such person will ad-
5 minister the trust will be consistent with the re-
6 quirements of this section.

7 “(C) The assets of the trust consist en-
8 tirely of cash or of obligations which have ade-
9 quate stated interest (as defined in section
10 1274(c)(2)) and which pay such interest not
11 less often than annually.

12 “(D) All income of the trust is distributed
13 currently to the grantor.

14 “(E) The assets of the trust will not be
15 commingled with other property except in a
16 common trust fund or common investment
17 fund.

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

25 “(e) INCLUSION OF AMOUNTS DISTRIBUTED.—

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

4 “(A) any amount distributed from a
5 FARRM Account of the taxpayer during such
6 taxable year, and

7 “(B) any deemed distribution under—

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

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

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

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

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

19 “(B) the distribution of any contribution
20 paid during a taxable year to a FARRM Ac-
21 count to the extent that such contribution ex-
22 ceeds the limitation applicable under subsection
23 (b) if requirements similar to the requirements
24 of section 408(d)(4) are met.

1 For purposes of subparagraph (A), distributions
2 shall be treated as first attributable to income and
3 then to other amounts.

4 “(f) SPECIAL RULES.—

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

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

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

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

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

24 “(B) NONQUALIFIED BALANCE.—For pur-
25 poses of subparagraph (A), the term ‘non-

1 qualified balance' means any balance in the Ac-
2 count on the last day of the taxable year which
3 is attributable to amounts deposited in such Ac-
4 count before the 4th preceding taxable year.

5 “(C) ORDERING RULE.—For purposes of
6 this paragraph, distributions from a FARRM
7 Account (other than distributions of current in-
8 come) shall be treated as made from deposits in
9 the order in which such deposits were made, be-
10 ginning with the earliest deposits.

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

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

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

3 “(B) Section 408(e)(2) (relating to loss of
4 exemption of account where individual engages
5 in prohibited transaction).

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

8 “(D) Section 408(g) (relating to commu-
9 nity property laws).

10 “(E) Section 408(h) (relating to custodial
11 accounts).

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

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

23 “(6) DEDUCTION NOT ALLOWED FOR SELF-EM-
24 PLOYMENT TAX.—The deduction allowable by reason
25 of subsection (a) shall not be taken into account in

1 determining an individual's net earnings from self-
2 employment (within the meaning of section 1402(a))
3 for purposes of chapter 2.

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

13 (b) TAX ON EXCESS CONTRIBUTIONS.—

14 (1) Subsection (a) of section 4973 of such Code
15 (relating to tax on excess contributions to certain
16 tax-favored accounts and annuities) is amended by
17 striking “or” at the end of paragraph (3), by redesi-
18 gnating paragraph (4) as paragraph (5), and by in-
19 serting after paragraph (3) the following:

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

22 (2) Section 4973 of such Code is amended by
23 adding at the end the following:

24 “(g) EXCESS CONTRIBUTIONS TO FARRM AC-
25 COUNTS.—For purposes of this section, in the case of a

1 FARRM Account (within the meaning of section
 2 468C(d)), the term ‘excess contributions’ means the
 3 amount by which the amount contributed for the taxable
 4 year to the Account exceeds the amount which may be con-
 5 tributed to the Account under section 468C(b) for such
 6 taxable year. For purposes of this subsection, any con-
 7 tribution which is distributed out of the FARRM Account
 8 in a distribution to which section 468C(e)(2)(B) applies
 9 shall be treated as an amount not contributed.”.

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

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

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

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

17 (c) TAX ON PROHIBITED TRANSACTIONS.—

18 (1) Subsection (c) of section 4975 of such Code
 19 (relating to tax on prohibited transactions) is
 20 amended by adding at the end the following:

21 “(6) SPECIAL RULE FOR FARRM ACCOUNTS.—

22 A person for whose benefit a FARRM Account
 23 (within the meaning of section 468C(d)) is estab-
 24 lished shall be exempt from the tax imposed by this

1 section with respect to any transaction concerning
2 such account (which would otherwise be taxable
3 under this section) if, with respect to such trans-
4 action, the account ceases to be a FARRM Account
5 by reason of the application of section
6 468C(f)(3)(A) to such account.”.

7 (2) Paragraph (1) of section 4975(e) of such
8 Code is amended by redesignating subparagraphs
9 (E) and (F) as subparagraphs (F) and (G), respec-
10 tively, and by inserting after subparagraph (D) the
11 following:

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

14 (d) FAILURE TO PROVIDE REPORTS ON FARRM AC-
15 COUNTS.—Paragraph (2) of section 6693(a) of such Code
16 (relating to failure to provide reports on certain tax-fa-
17 vored accounts or annuities) is amended by redesignating
18 subparagraphs (C) and (D) as subparagraphs (D) and
19 (E), respectively, and by inserting after subparagraph (B)
20 the following:

21 “(C) section 468C(g) (relating to FARRM
22 Accounts),”.

23 (e) CLERICAL AMENDMENT.—The table of sections
24 for subpart C of part II of subchapter E of chapter 1 of

1 such Code is amended by inserting after the item relating
2 to section 468B the following:

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

3 (f) **EFFECTIVE DATE.**—The amendments made by
4 this section shall apply to taxable years beginning after
5 the date of the enactment of this Act.

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