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114TH CONGRESS
2D SESSION

H. R. 6167

To amend the Internal Revenue Code of 1986 to authorize agricultural producers to establish and contribute to tax-exempt farm risk management accounts.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 26, 2016

Mr. CRAWFORD (for himself, Mr. WESTERMAN, Mr. ABRAHAM, Mr. HILL, Mr. LUETKEMEYER, Mr. CONAWAY, Mr. PALAZZO, Mr. CRAMER, Mr. THOMPSON of Pennsylvania, and Mr. NEWHOUSE) 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 authorize agricultural producers to establish and contribute to tax-exempt farm risk management accounts.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Farm Risk Abatement and Mitigation Election Act of 2016'' or the ''FRAME Act of 2016''.

SEC. 2. FARM RISK MANAGEMENT ACCOUNTS.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by redesignating section 224 as section 225 and by inserting after section 223 the following new section:

"SEC. 224. FRAME ACCOUNTS.

"(a) DEDUCTION ALLOWED.—In the case of a qualified farmer, there shall be allowed as a deduction for the taxable year an amount equal to the aggregate amount paid in cash during such taxable year by or on behalf of such individual to a FRAME account of such individual.

"(b) LIMITATION.—The amount allowable as a deduction under subsection (a) shall not exceed the least of the following:

"(1) The taxable income of the taxpayer for the taxable year which is attributable to farming and ranching.

"(2) $50,000.

"(3) $500,000 reduced by the aggregate contributions of the taxpayer to all FRAME accounts of the taxpayer for all taxable years.

"(c) QUALIFIED FARMER.—For purposes of this section, the term 'qualified farmer' means, with respect to any taxable year, any individual who, during such year—

"(1) was actively engaged in the trade or business of farming or ranching, and

"(2) has in effect an agreement with the Secretary of Agriculture with respect to each FRAME account of which the individual is an account beneficiary.

"(d) FRAME ACCOUNT.—For purposes of this section—

"(1) IN GENERAL.—The term 'FRAME account' means a trust created or organized in the United States as a FRAME account exclusively for the purpose of making qualified distributions, but only if the written governing instrument creating the trust meets the following requirements:

"(A) No contribution will be accepted unless it is in cash.

"(B) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which such person will administer the trust will be consistent with the requirements of this section.

"(C) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

"(D) The interest of an individual in the balance in his account is nonforfeitable.

"(2) QUALIFIED DISTRIBUTION.—The term 'qualified distribution' means any of the following amounts paid from a FRAME account to the account beneficiary:

"(A) Any distributions in a taxable year during which the gross income attributable to farm to which the FRAME account relates is less than 95 percent of the average gross income attributable to such farm for the 5 preceding taxable years, but only so much as does not exceed such difference.

"(B) Any distributions to the extent such distribution does not exceed amounts necessary to protect the solvency of the farm to which the FRAME account relates, as determined by the Secretary.

"(C) Any distributions to the extent such distributions do not exceed amounts paid or incurred to procure revenue or crop insurance with respect to the farm to which the FRAME account relates.

"(3) ACCOUNT BENEFICIARY.—The term 'account beneficiary' means the individual on whose behalf the FRAME account was established.

"(4) ACCOUNTS PER FARM LIMITATION.—The Secretary of Agriculture shall have in effect not more than 4 agreements for FRAME accounts with respect to any farm. The Secretary of Agriculture shall by regulation prescribe rules preventing the avoidance of the preceding limitation through use of multiple entities, related parties, division of farms, or de minimis ownership.

"(5) OTHER RULES.—Rules similar to the following rules shall apply for purposes of this section:

"(A) Section 219(d)(2) (relating to no deduction for rollovers).

"(B) Section 219(f)(3) (relating to time when contributions deemed made).

"(C) Section 408(g) (relating to community property laws).

"(D) Section 408(h) (relating to custodial accounts).

"(e) TAX TREATMENT OF ACCOUNTS.—

"(1) IN GENERAL.—A FRAME account is exempt from taxation under this subtitle unless such account has ceased to be a FRAME account. Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations).

"(2) TERMINATION OF ACCOUNTS.—If the account beneficiary ceases to engage in the trade or business of farming or ranching—

"(A) all FRAME accounts of such individual shall cease to be such accounts, and

"(B) the balance of all such accounts shall be treated as—

"(i) distributed to such individual, and

"(ii) not paid in a qualified distribution.

"(f) TAX TREATMENT OF DISTRIBUTIONS.—

"(1) IN GENERAL.—Any amount paid or distributed out of a FRAME account (other than a rollover contribution described in paragraph (4)) shall be included in gross income.

"(2) ADDITIONAL TAX ON NON-QUALIFIED DISTRIBUTIONS.—

"(A) IN GENERAL.—The tax imposed by this chapter on the account beneficiary for any taxable year in which there is a payment or distribution from a FRAME account of such beneficiary which is not a qualified distribution shall be increased by 20 percent of the amount of such payment or distribution which is not a qualified distribution.

"(B) EXCEPTION FOR DISABILITY OR DEATH.—Subparagraph (A) shall not apply if the payment or distribution is made after the account beneficiary becomes disabled within the meaning of section 72(m)(7) or dies.

"(3) EXCESS CONTRIBUTIONS RETURNED BEFORE DUE DATE OF RETURN.—

"(A) IN GENERAL.—If any excess contribution is contributed for a taxable year to a FRAME account of an individual, paragraph (2) shall not apply to distributions from the FRAME accounts of such individual (to the extent such distributions do not exceed the aggregate excess contributions to all such accounts of such individual for such year) if—

"(i) such distribution is received by the individual on or before the last day prescribed by law (including extensions of time) for filing such individual's return for such taxable year, and "(ii) such distribution is accompanied by the amount of net income attributable to such excess contribution.

Any net income described in clause (ii) shall be included in the gross income of the individual for the taxable year in which it is received.

"(B) EXCESS CONTRIBUTION.—For purposes of subparagraph (A), the term 'excess contribution' means any contribution (other than a rollover contribution) which is not deductible under this section.

"(4) ROLLOVER CONTRIBUTION.—An amount is described in this paragraph as a rollover contribution if it meets the requirements of subparagraphs (A) and (B).

"(A) IN GENERAL.—For purposes of this section, any amount paid or distributed from a FRAME account to the account beneficiary shall be treated as a qualified distribution to the extent the amount received is paid into a FRAME account for the benefit of such beneficiary not later than the 60th day after the day on which the beneficiary receives the payment or distribution.

"(B) LIMITATION.—This paragraph shall not apply to any amount described in subparagraph (A) received by an individual from a FRAME account if, at any time during the 1-year period ending on the day of such receipt, such individual received any other amount described in subparagraph (A) from a FRAME account which was not included in the individual's gross income because of the application of this paragraph.

"(5) TRANSFER OF ACCOUNT INCIDENT TO DIVORCE.—The transfer of an individual's interest in a FRAME account to an individual's spouse or former spouse under a divorce or separation instrument described in subparagraph (A) of section 71(b)(2) shall not be considered a taxable transfer made by such individual notwithstanding any other provision of this subtitle, and such interest shall, after such transfer, be treated as a FRAME account with respect to which such spouse is the account beneficiary.

"(6) TREATMENT AFTER DEATH OF ACCOUNT BENEFICIARY.—

"(A) TREATMENT IN CASE OF INDIVIDUAL DESIGNATED BENEFICIARY.—If any individual acquires such beneficiary's interest in a FRAME account by reason of being the designated beneficiary of such account at the death of the account beneficiary, such FRAME account shall be treated as if such individual were the account beneficiary.

"(B) OTHER CASES.—

"(i) IN GENERAL.—If, by reason of the death of the account beneficiary, any person acquires the account beneficiary's interest in a FRAME account in a case to which subparagraph (A) does not apply—

"(I) such account shall cease to be a FRAME account as of the date of death, and

"(II) an amount equal to the fair market value of the assets in such account on such date shall be included if such person is not the estate of such beneficiary, in such person's gross income for the taxable year which includes such date, or if such person is the estate of such beneficiary, in such beneficiary's gross income for the last taxable year of such beneficiary.

"(ii) DEDUCTION FOR ESTATE TAXES.—An appropriate deduction shall be allowed under section 691(c) to any person (other than the decedent or the decedent's spouse) with respect to amounts included in gross income under clause (i) by such person.

"(g) REPORTS.—The Secretary may require the trustee of a FRAME account to make such reports regarding such account to the Secretary and to the account beneficiary with respect to contributions, distributions, and such other matters as the Secretary determines appropriate. The reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required by the Secretary.".

(b) DEDUCTION ALLOWED WHETHER OR NOT INDIVIDUAL ITEMIZES OTHER DEDUCTIONS.—Subsection (a) of section 62 of such Code is amended by inserting after paragraph (21) the following new paragraph:

"(22) FRAME ACCOUNTS.—The deduction allowed by section 224.".

(c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973 of such Code is amended—

(1) by striking "or" at the end of subsection (a)(4), by inserting "or" at the end of subsection (a)(5), and by inserting after subsection (a)(5) the following new paragraph:

"(6) a FRAME account (within the meaning of section 224(d)),", and

(2) by adding at the end the following new subsection:

"(h) EXCESS CONTRIBUTIONS TO FRAME ACCOUNTS.—For purposes of this section, in the case of FRAME accounts (within the meaning of section 224(d)), the term 'excess contribution' means the sum of—

"(1) the aggregate amount contributed for the taxable year to the accounts (other than rollover contributions described in section 224(f)(4)) which is not allowable as a deduction under section 224 for such year, and

"(2) the amount determined under this subsection for the preceding taxable year, reduced by the sum of—

"(A) the distributions out of the accounts with respect to which additional tax was imposed under section 224(f)(2), and

"(B) the excess (if any) of—

"(i) the maximum amount allowable as a deduction under section 224(b) for the taxable year, over

"(ii) the amount contributed to the accounts for the taxable year.

For purposes of this subsection, any contribution which is distributed out of the FRAME account in a distribution to which section 224(f)(3) applies shall be treated as an amount not contributed.".

(d) TAX ON PROHIBITED TRANSACTIONS.—

(1) Section 4975(c) of such Code is amended by adding at the end the following new paragraph:

"(7) SPECIAL RULE FOR FRAME ACCOUNTS.—An individual for whose benefit a FRAME account (within the meaning of section 224(d)) is established shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a FRAME account by reason of the application of section 224(e)(2) to such account.".

(2) Section 4975(e)(1) of such Code is amended by redesignating subparagraphs (F) and (G) as sub-

paragraphs (G) and (H), respectively, and by inserting after subparagraph (E) the following new subparagraph:

"(F) a FRAME account described in section 224(d),".

(e) FAILURE TO PROVIDE REPORTS ON FRAME ACCOUNTS.—Section 6693(a)(2) of such Code is amended by redesignating subparagraphs (D) and (E) as subparagraphs (E) and (F), respectively, and by inserting after subparagraph (C) the following new subparagraph:

"(D) section 224(g) (relating to FRAME accounts),".

(f) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the last item and inserting the following:

"Sec. 224. FRAME accounts.
"Sec. 225. Cross reference.".

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

SEC. 3. FRAME CONTRIBUTION CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

"SEC. 45S. FRAME CONTRIBUTION CREDIT.

"(a) GENERAL RULE.—For purposes of section 38, in the case of a qualified farmer (as defined in section 224(c)), the FRAME contribution credit determined under this section for any taxable year is an amount equal to the applicable percentage of the taxpayer's contributions to any FRAME account of the taxpayer.

"(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the applicable percentage is—

"(1) in the case of the taxable year during which the first FRAME account of the taxpayer is established, and the 2nd and 3rd taxable years thereafter, 10 percent,

"(2) in the case of the 4th through 5th taxable years thereafter, 5 percent, and

"(3) in the case of the 7th through 9th taxable years thereafter, 3.5 percent.

"(c) LIMITATION.—Only contributions for which a deduction is allowed under section 224 shall be taken into account under this section.".

(b) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—Subsection (b) of section 38 of such Code is amended by striking "plus" at the end of paragraph (35), by striking the period at the end of paragraph (36) and inserting ", plus", and by adding at the end the following new paragraph:

"(37) the FRAME contribution credit determined under section 45S(a).".

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code is amended by adding at the end the following new item:

"Sec. 45S. FRAME contribution credit.".

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

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