ANALYSIS OF AN AGRICULTURAL SOURCING TAX CREDIT

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EXECUTIVE SUMMARY

Following the U.S. trade war with China and the global supply disruptions caused by COVID-19, there has been growing interest in domestically sourced agricultural products. One potential avenue to achieve greater domestic supplies is to establish a tax credit to incentivize and reward purchases of domestically grown U.S. agricultural products. The Ag Investment for America coalition has proposed a new domestic agricultural tax credit to increase demand for American farm products while providing food and beverage manufacturers new motivation to shift more of their supply chain to domestic sources. In this report, we provide an overview of the tax credit, explore the need for such a credit, and provide an initial look at the potential impact on various segments of the agricultural supply chain.

As proposed by the coalition, the benefit would be conferred to qualifying businesses through a new tax credit for purchasing raw agricultural commodities sourced from American growers that are then used in domestic production and manufacturing processes. The credit is equal to 25% multiplied by the ratio between: (1) the business's costs incurred in the purchase of American-grown raw agricultural commodities for the purposes of manufacturing, and (2) the business's total costs incurred in the purchase of raw agricultural commodities used in its production process (i.e., total costs incurred for U.S. agricultural products plus total costs incurred on purchases of foreign agricultural imports).

In August 2022, we were asked by early coalition supporters to analyze a conceptional framework. Our analysis found that the conceptual tax credit essentially serves to increase output. Holding all else equal, increasing output is achieved by increasing use of all inputs. In other words, the concept's stated goal of expanding use of domestic inputs would very likely be achieved.

Interestingly, while the design of the conceptual tax credit might intuitively be expected to decrease use of imported raw agricultural commodities in manufacturing food products, this expected decrease in foreign agricultural commodity purchases is not realized. One vulnerability of the concept was that it may lead to the displacement of imported inputs, drawing the ire of international competitors. According to our analysis, the after-tax profits are expected to be deployed in the additional use of *all* inputs. In other words, a rising tide lifts all boats. We also observe that the incentive design rewards existing domestic consumers of U.S. agricultural commodities while also incentivizing additional purchases, avoiding competitive conflict between current consumers of U.S. agricultural commodities and new entrants. We also note the connection to ongoing concerns about greenhouse gas mitigation and the impact this proposal could have on reducing supply chain footprints due to reduced need for international transport.

Finally, while our analysis focused on the aggregate impact of the conceptual tax policy change to the industry as a whole, it is also important to note that the change could have significant differential impacts on the individual firms involved. For those firms directly impacted by the conceptual tax change, increased production would lead to other economic benefits in turn – for example, an increase in capital investment, additional investments in workforce and job creation and retention, and a new effort to onshore critical portions of supply chains. In addition, the newly spurred production could also have various indirect ripple effects throughout the economy as well, impacts that are currently being evaluated and are due for release in Fall 2024.

TAX CREDIT OVERVIEW

Over time, various parties have explored the possibility of establishing a tax credit to incentivize/reward purchases of domestically grown U.S. agricultural products. The most recent version is a proposal brought forward by the Ag Investment for America coalition. This report provides an overview of the coalition's proposal, a summary of research on similar proposals, a discussion of the justification and need for such a proposal, and an overview of the potential impact on various segments of the agricultural supply chain.

PURPOSE

The purpose of a domestic agricultural tax credit is to provide a behavioral/financial incentive for businesses who operate in U.S. markets to maintain and increase investment in domestic sourcing of agricultural inputs from U.S. growers. This concept is designed to increase demand for American farm products, while providing the business community new motivation to shift more of their supply chain to domestic sources. Onshoring a greater portion of agricultural production materials and food/beverage ingredients brings with it many benefits, including:

- Less volatility across agricultural sectors by providing a boost in demand here at home.
- A reason to shift from foreign investment to domestic investment, including CAPEX expansion.
- Reduced need for utilization of imports from foreign markets, which increases our ability to ensure the security of our food supply chain through increased domestic sourcing.
- Eased supply chain pressures resulting from an over-reliance on or over-utilization of foreign markets.
- Greater certainty regarding the practices and inputs used to produce commodities including crop protection products, technology, and sustainability practices.
- Increased direct, indirect, and induced impacts including increased domestic economic output and U.S. jobs.

These are discussed in greater detail later in this report. Regarding economic impacts – including direct, indirect, and induced impacts – that analysis is ongoing with completion slated for Fall 2024.

STRUCTURE

The benefit would be conferred to qualifying businesses through a new tax credit for purchasing raw agricultural commodities sourced from American growers that are then used in domestic production/manufacturing processes. A qualifying business is any business that uses raw agricultural inputs in their production and/or manufacturing process to create a final product that is intended for human consumption (i.e., food and beverage).

The credit is equal to 25% multiplied by the ratio between: (1) the business's costs incurred in the purchase of American-grown raw agricultural commodities for the purposes of manufacturing, and (2) the business's total costs incurred in the purchase of agricultural commodities used in its production process (i.e., total costs incurred for U.S. agricultural products + total costs incurred on purchases of foreign agricultural imports). The credit is then multiplied by the total costs incurred for agricultural products to derive the dollar value of the credit.

Total costs incurred excludes any costs for products that the business demonstrates could not have been substituted with a similar American-grown product. This ensures that a business is not penalized for purchasing products that have no domestic equivalent, and thus the business has no choice but to source from foreign markets. This comes into play with specialized products with limited cultivation in the United States (e.g., coffee and bananas) or that have geographical indicators (i.e., some sort of specialized hops that can only be grown in a certain area).

A business/taxpayer shall not be eligible for the credit if 50% or more of total costs incurred are excluded because it demonstrates that they could not have been substituted with a similar made American-grown agriculture input (i.e., to qualify, you must source over 50% of the materials used in your production process from domestic growers).

Finally, the credit:

- May be used against a business's federal tax liability.
- Is limited to $100 million for any taxpayer for any one year. Effectively, if you are purchasing exclusively domestic commodities (i.e., maximizing the 25% credit), anyone purchasing more than $400 million annually will be limited by this provision (i.e., $400 million x 25% = $100 million).
- 50% must be purchased domestically to be eligible.
- Can be used to offset up to 50% of the business's federal tax liability after all other credits and deductions have been taken.
- Unused credits may be carried forward for up to five years.

EXAMPLE

A business buys $1,000,000 worth of agricultural commodities for their production process, $800,000 of which is sourced from U.S. growers, with the remaining $200,000 from purchases of imports. In this year, the business easily meets the requirement that at least 50% of its agricultural purchases come from domestic growers, allowing it to qualify for the credit. In this case, the business takes the $800,000 domestic cost and divides it by its $1,000,000 overall cost to get 0.8. It then multiplies 0.8 by the 25% credit resulting in a 20% credit that can be used against its total tax liability.

Mathematically, this would look like:

- 25% x (value of domestically sourced agricultural inputs/value of total agricultural inputs) = credit value
- 25% x ($800,000/$1,000,000) = an 20% tax credit
- 20% x $1,000,000 = $200,000

The descriptive example above attempts to demonstrate the compelling design feature of a credit structured in this manner, in that it becomes more valuable to the business the more it invests in domestic agricultural sources. To maximize the 25% credit, a business must purchase 100% of the agricultural inputs it uses in its production process from domestic sources. Thus, the credit is intended to create a strong financial motivator for businesses to shift their behavior as it relates to where they source their ingredients. It rewards those that choose to source the bulk of their raw agricultural materials from American growers, while fostering more demand for the crops grown by American farmers.

$1,000,000	×	**25%**	×	**$800,000/ $1,000,000**	=	**$200,000**
total agriculture purchases		maximum credit amount		ratio of US to non-US agriculture purchases		Tax Credit

QUANTITATIVE IMPACTS

The details of the concept presented a number of challenges to traditional applied quantitative approaches to policy analysis. The concept fundamentally consisted of a non-linear, quantity-based tax credit, which will change the behavior of food and beverage manufacturers in a manner not reflected in historical data. The large-scale structural models (e.g., those operated by the Food and Ag Policy Research Institute (FAPRI) at the University of Missouri and USDA's Economic Research Service) often used for policy analysis were not able to adequately capture the effect of a new tax credit on quantities of raw agricultural commodities demanded by food and beverage manufacturers. Such an approach would require overly simplistic assumptions regarding shifts in derived demand for raw agricultural commodities.

As a result, we specified a theoretical model of an aggregate food and beverage products industry profit maximization. This general model reflected, as special cases, the current and concept scenarios. This model was calibrated under the current policy using then-current data. Then, the model was solved under the alternative policy scenario, with the solution reflecting changes in quantities of aggregate domestic and imported raw agricultural commodities. The following outlines the quantitative results of our analysis under the highest confidence parameterization of the model (changes in per annum values):

Table 1. Summary of Annual Impacts of Conceptual 25% Agricultural Supply Chain Tax Credit.

25% Tax Credit Scenario	U.S Dollar ($)	Percent (%)
Domestic raw ag commodity purchases	+$16.8M	+0.02%
Foreign raw ag commodity purchases	-$0.00091M	
Food and beverage products output	+$20.1M	+0.002%
After-tax profits of F&B manufacturers	+$1,123.6M	+2.11%
Gov. tax revenue (from this source)	-$1,318.6M	-22.28%

Source. Fischer, B.L., J.L. Outlaw, and H.L. Bryant. "Evaluating a Domestic Agricultural Tax Credit Concept." August 2022.

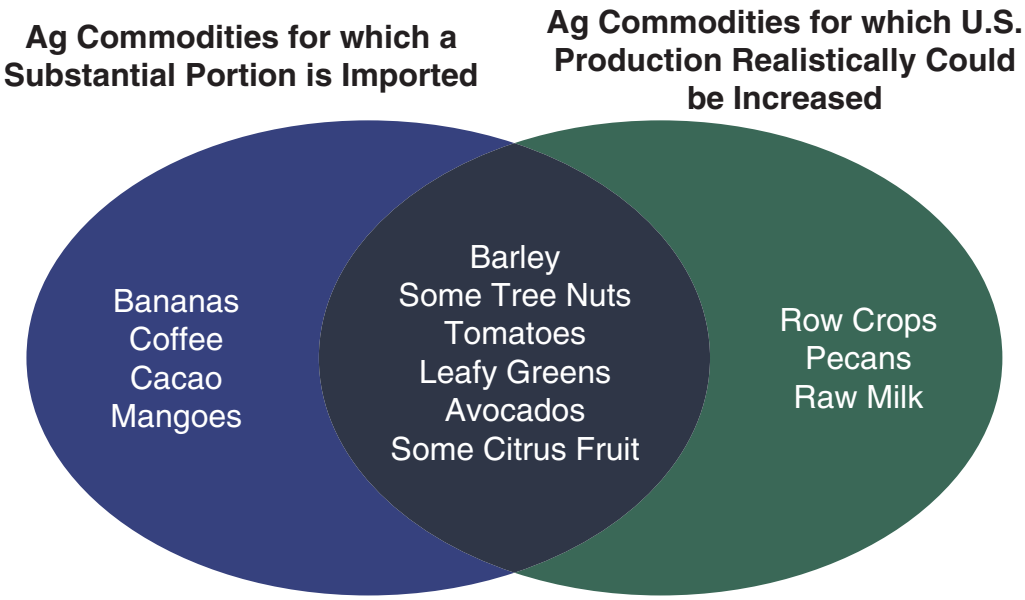
The changes in raw agricultural commodities purchases projected above are mediated mostly by increases in quantities of food products manufactured and marketed. One benefit of the conceptual tax credit comes from the increase in realized after-tax profits for a given level of production, which would free up resources for further capital investment and result in additional positive effects on our economic projections. The consequence of this is that, after adjustments to a new equilibrium (including a return to an equilibrium rate of return for the industry), the food product manufacturing industry will increase output. Holding all else equal, increasing output is achieved by increasing use of all inputs. In other words, the concept's stated goal of expanding use of domestic inputs would very likely be achieved, leading to positive economic impacts for direct and indirect beneficiaries of the credit along the entirety of the production and manufacturing supply chain.

Despite extensive efforts, the model used in this analysis simply is not appropriate for quantifying the increases in quantities employed of individual domestic raw ag commodities. However, because of the combined effects of the phenomena described above, we know that:

- The largest increases would accrue to commodities that are already largely domestically sourced, such as raw milk.
- The smallest increases would be for commodities that are already largely foreign sourced, such as certain fruits and vegetables, and tropical commodities. Indeed, the incentives will be the smallest for firms that heavily use such commodities. Moreover, such commodities were likely largely foreign sourced because foreign producers have a competitive advantage in their production, and food product manufacturers probably have limited ability to substitute with a domestic source.
- There will be a sweet spot for increasing the *proportion* of a raw agricultural commodity that is domestically sourced, lying at the intersection of the set of raw agricultural commodities for which U.S. food product manufacturers import a significant fraction, and the set of raw agricultural commodities for which U.S. production could realistically be increased (Figure 1).

While our analysis focused on the aggregate impact of the conceptual tax policy change to the industry as a whole, it is also important to note that the change could have a significant impact on the individual firms involved. For those firms who utilize (or intend to utilize) the list of products in Figure 1 for which U.S. production realistically could be increased, this change would likely incentivize additional production. That production would lead to other economic benefits in turn, both direct and indirect. For example, direct impacts would likely include an increase in capital investment, additional investments in workforce and job creation and retention, and new efforts to onshore critical portions of supply chains. In addition, the newly spurred production could also have various indirect effects, which could positively impact U.S. growers. Incentivizing a reshoring of domestic supply chains would lead to increased demand for domestically grown commodities and generate more jobs and more production of goods in the United States. In addition, indirect benefits are also likely to include increased farm production as a result of increased demand for domestically grown agricultural commodities. Such increased production levels could lead to elevated farm revenues and workforce activity. Other benefits could include an increase in the stability and resilience of our food supply chain, as well as enhanced food security for the United States. We discuss these benefits in detail later in this report.

Figure 1. Intersection of Raw Agricultural Commodity Imports & Domestic Production.



POLICY CONSIDERATIONS

INCENTIVE STRUCTURE

When designing a tax credit, it can take a number of forms and serve a number of purposes. In the case of a domestic sourcing tax credit, it can be used to reward firms that already use the largest proportions of domestic raw agricultural inputs (e.g., manufacturers of dairy products). By contrast, it can be used to incentivize the purchase of additional domestic raw agricultural commodities, changing the behavior of those who currently use little-to-no domestic inputs.

While it may be tempting to focus on the latter – arguing that it provides the largest marginal impact – it could end up providing a competitive advantage over an existing business that had already adopted the behavior the incentive is designed to address. This can result in a considerable amount of animosity. Research has shown that it can also result in established businesses changing their behavior simply to become eligible for the incentive. As designed, this tax credit would do both: incentivize additional purchases of U.S.-grown commodities while also rewarding those who are already buying U.S.-grown commodities. In our opinion, this design is very balanced.

TRADE

The design of the proposed tax credit might intuitively be expected to decrease use of imported raw agricultural commodities in manufacturing food products. However, because of the forces described above, this expected decrease in foreign agricultural commodity purchases is not realized. The sector's motivation to reduce the proportion of imported raw agricultural commodities used (to maximize the tax credit) is essentially perfectly balanced by its motivation to use more of all inputs in order to increase output in response to increased after-tax profits. While it might not be obvious, this is perhaps one of the most significant findings of our analysis. One vulnerability of the concept was that it may lead to the displacement of imported inputs, drawing the ire of international competitors. According to our analysis, as noted above, the after-tax profits are expected to be deployed in the additional use of *all* inputs.

CLIMATE

Farmers are under enormous pressure to help address a number of societal concerns. For example, they currently are being asked to adopt greenhouse gas reduction strategies either by providing offsets via implementation of carbon-sequestering practices or by reducing their own carbon footprint through reduced fuel and fertilizer use, etc. Many U.S. food companies are finding it important to their businesses to find out the carbon emissions from the producers from which they source their raw ingredients. From a producer's perspective, this is an added burden with little current financial incentive to provide the information. By contrast, this concept will likely reward domestic producers with greater demand for their products. Increased farm revenues could lead to new investments in sustainable and regenerative farming practices and technologies. Perhaps more notable, the concept could effectively further limit global carbon emissions and supply chain footprints due to a reduced need for transoceanic shipping and air transport. Studies have shown that transportation accounts for nearly 20% of total food-systems emissions across the globe.[1]

[1] Li, M., Jia, N., Lenzen, M. *et al.* Global food-miles account for nearly 20% of total food-systems emissions. *Nat Food 3*, 445–453 (2022). https://doi.org/10.1038/s43016-022-00531-w.

JUSTIFICATION AND NEED

While this report discusses a number of positive impacts that can accrue as a result of this proposed tax credit, this section further explores the justification and need for such a credit.

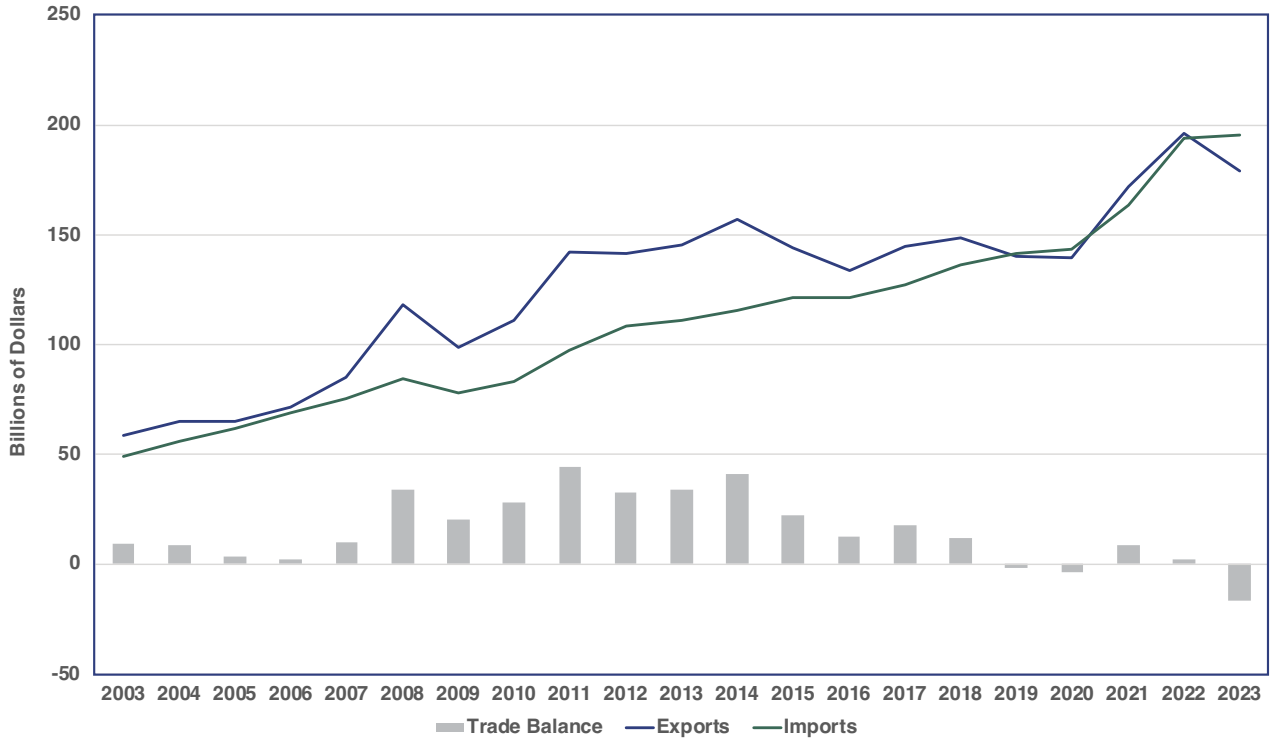
HEAVY RELIANCE ON GLOBAL TRADE

As a nation, the United States relies heavily on agricultural trade. On average, we export about 20% of the value of agricultural production in the United States each year, and exports count for an even larger share of net farm income. We also rely heavily on agricultural imports, with balances approaching almost $200 billion in 2023, an almost 4-fold increase over the last 20 years. Appendix A provides an overview of U.S. agricultural imports (including as a share of domestic consumption) and exports (as a share of domestic production).

Over time, our agricultural trade balance has shifted (Figure 2). While we had a positive balance of trade in 2011 of almost $45 billion, that has shifted to a deficit of almost $17 billion in fiscal year 2023. While there are a number of very complex dynamics that explain this relationship – not all of which are negative – it nonetheless highlights growing pressure for U.S. agriculture in the global marketplace. Any expansion of domestic use/consumption necessarily means less reliance on exports.

We take domestic consumers of raw agricultural commodities for granted at our own peril. It's often said that once infrastructure is lost, you don't get it back. An interesting case study in agriculture to illustrate this point is that of domestic cotton textile mills. While this proposed credit applies to food and beverage manufacturers only, cotton is still a cautionary tale. According to USDA's Economic Research Service (ERS):

Figure 2. U.S. Agricultural Trade, Fiscal Years 2003-2023.



Source. Author analysis of USDA-ERS Foreign Agricultural Trade of the United States (FATUS) data.

USDA's December 2023 U.S. cotton mill use estimate for 2023/24 was reduced to 1.9 million bales, the smallest in nearly 140 years. If realized, cotton use by domestic textile mills would reach its lowest level since 1884/85 when U.S. mill use was estimated at approximately 1.7 million bales [Figure 3].

U.S. cotton mill use has been mostly on a downward trend since the early 1940s when cotton use peaked during World War II. Synthetic fibers were soon developed and became a substitute for some cotton mill demand. ...

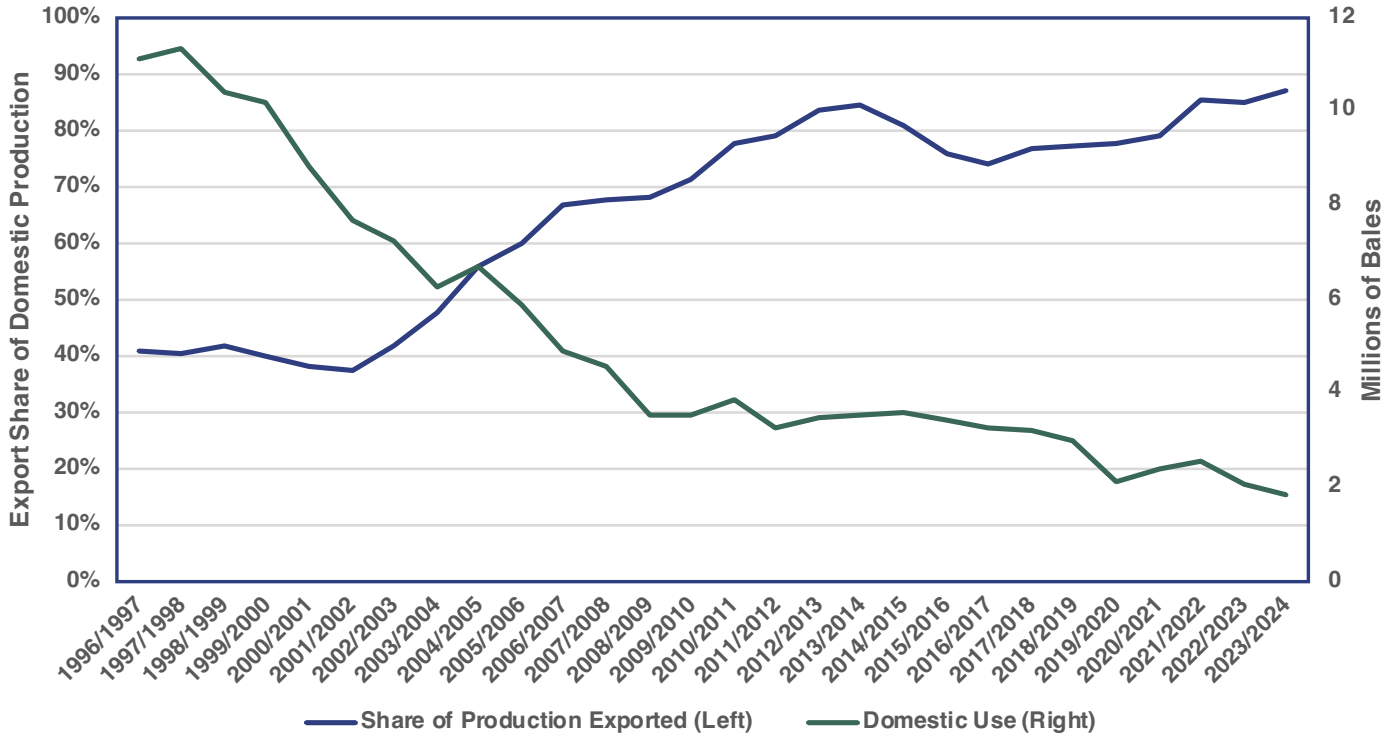
The downward trend was dramatically reversed for a period, however, as U.S. industry efforts promoted the use of cotton. Programs, such as the Caribbean Basin Initiative (CBI) and later the North American Free Trade Agreement (NAFTA), fostered U.S. cotton yarn and fabric production. ... As a result, U.S. cotton mill use rose considerably.

Cotton mill use peaked once again in the United States in the mid-1990s before the World Trade Organization (WTO) Agreement on Textiles and Clothing began phasing out quotas on developed country textile and apparel product imports. By the early 2000s, cotton mill use in several countries—particularly China—expanded to take advantage of the phased-out quotas on cotton products exported to the United States.[2]

This dynamic has made U.S. cotton growers even more reliant on export partners in countries like China. While those partnerships are vital, they aren't without significant challenges. They also exist against the backdrop of a broader trade dynamic with China in particular. When President Trump imposed tariffs on select items, including steel and aluminum imports, in 2018, China retaliated by imposing tariffs on hundreds of U.S. agricultural exports. As a result, the value of

[2] https://www.ers.usda.gov/webdocs/outlooks/108086/cws-23k.pdf?v=2162.8

Figure 3. U.S. Cotton Export Share of Domestic Production, 5-Year Moving Average.



Source. Author analysis of USDA's Production, Supply, and Distribution (PSD) data.

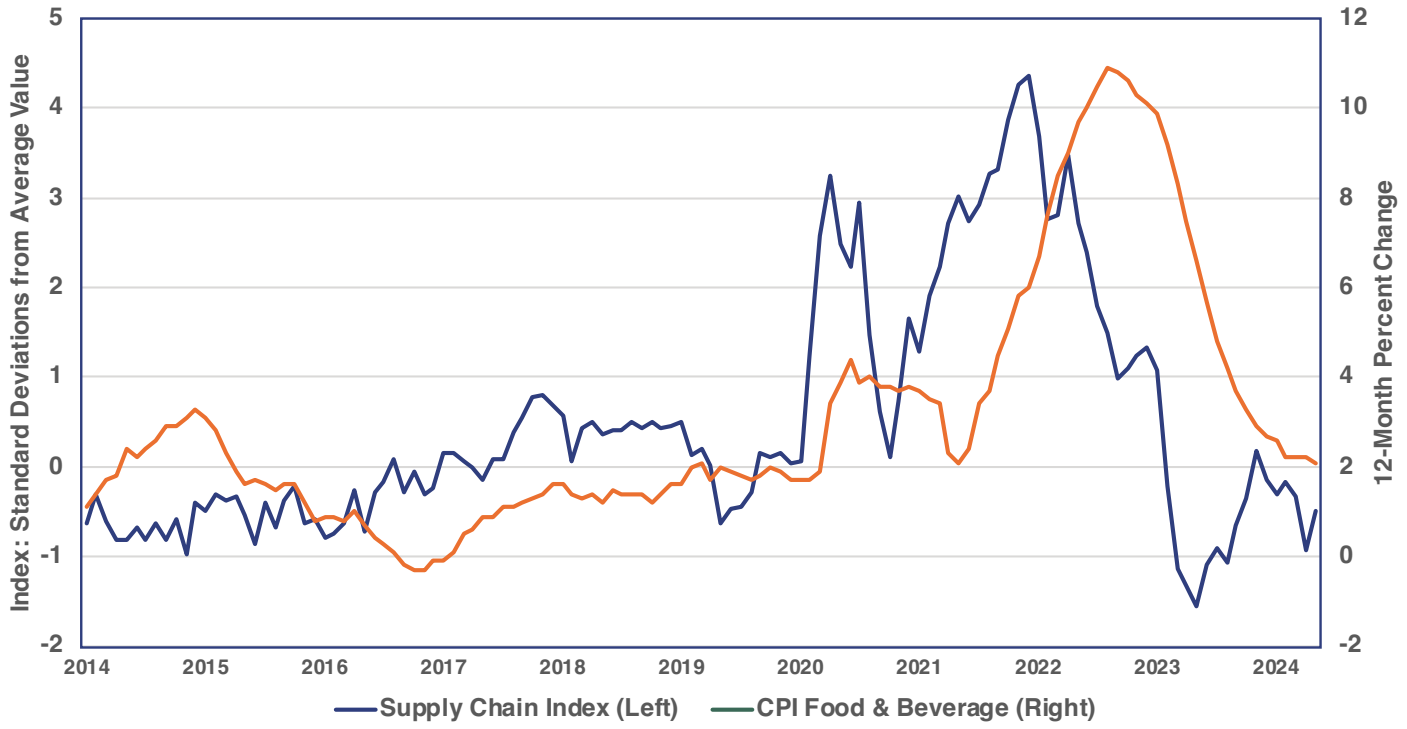
agricultural exports to China fell by 52.7% from 2017 to 2018, and export values in 2019 were still almost 30% below 2017 levels, which impacted our overall agricultural trade balance. This simply highlights the importance of bolstering domestic manufacturers of critical products like food and beverages. This also would help companies compete with international competitors around the globe. For example, China is investing tens of billions of dollars into its Belt and Road Initiative. By incentivizing the domestic purchases – alongside other ongoing and much-needed infrastructure investments – the proposal would help to strengthen national resilience.

GLOBAL SUPPLY CHAIN VULNERABILITY

Perhaps there is no bigger example of the vulnerability of supply chains – and the need for domestic food and beverage manufacturing – than the global pandemic. As noted in Figure 4, everything from virus-induced shutdowns to shipping delays resulted in enormous supply chain pressure. All of this, coupled with trillions in stimulus, resulted in considerable inflationary pressure, particularly on food and beverage products. This also translated to enormous increases in the cost of production for agricultural producers.

Importantly, this is not a call for trade protectionism. As economists, we can write all day long about the importance of and benefits from trade. But, no one can dispute that there is an incredible amount of uncertainty in the global marketplace. With that said, we know that many companies rely on imports, especially for key ingredients/products. We also know that U.S. agriculture still needs access to export markets, because we produce more than we consume domestically. The proposed tax credit would help maintain a healthy balance between global engagement and ensuring we maintain a robust food and beverage manufacturing sector at home. Our results show this approach incentivizes domestic growth rather than penalizing imports.

Figure 4. Global Supply Chain Pressure and Food/Beverage Inflation.



Source. Federal Reserve Bank of New York, Global Supply Chain Pressure Index (GSCPI) and U.S. Bureau of Labor Statistics, Food and Beverages in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted.

BENEFICIARIES

According to USDA Economic Research Service (ERS) analysis of Department of Commerce data, more than 41,000 food and beverage manufacturers were operating in the United States in 2021, using the latest data from April 2023 (Figure 5).

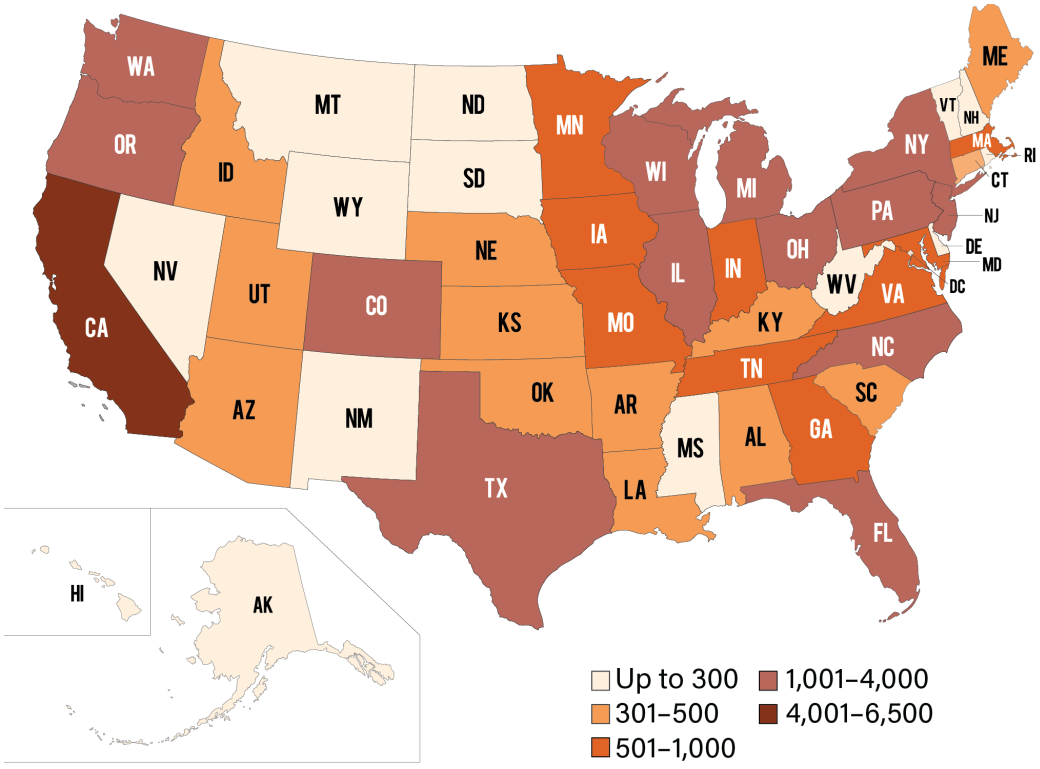
As noted earlier, we produce and import a diverse array of agricultural commodities. Those commodities are also reflected in the various components of the food sector as noted in Figure 6.

Importantly, not all of these more than 41,000 firms will be eligible. To be eligible, as noted above, they must be using a raw agricultural commodity to manufacture foods and beverages intended for human consumption. Regardless, we expect the credit to impact a number of facilities across the country, from small mom-and-pop operations to large publicly traded companies as discussed below.

AGRICULTURAL PRODUCERS

Agricultural producers stand to benefit directly through expanded purchases of raw agricultural commodities. Agricultural output is expected to increase by approximately $16.8 million per year. It is much harder to quantify the impact that the credit will have on stabilizing supply chains (i.e., shoring up the domestic customer base for U.S.-grown agricultural commodities intended for human consumption), but it will unquestionably help. Producers can also benefit directly to the extent they are involved in businesses that manufacture food and beverage products.

Figure 5. Food and Beverage Manufacturing Establishments, 2021.



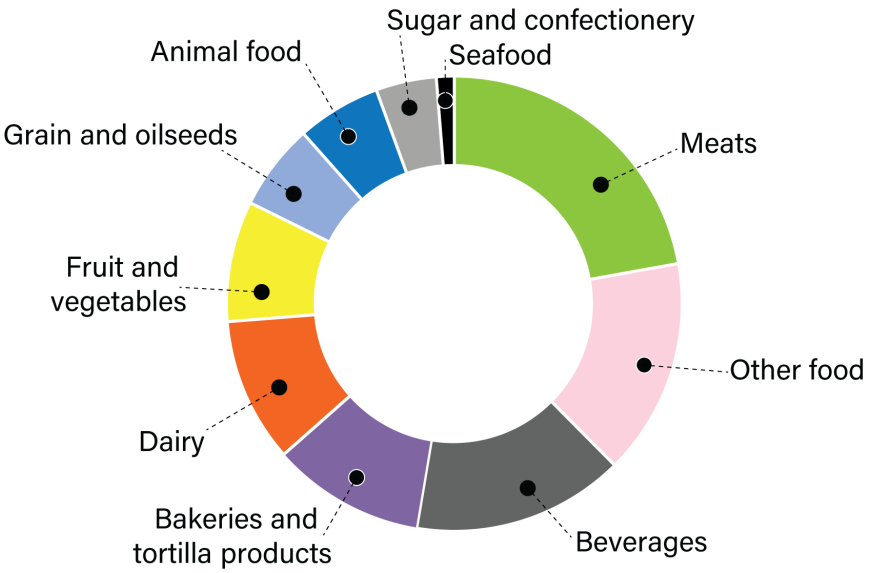
Source. USDA-ERS using data from U.S. Department of Commerce, Bureau of the Census, 2021 County Business Pat-terns; data as of April 2023.

FOOD AND BEVERAGE MANUFACTURERS

It arguably goes without saying that food and beverage manufacturers would benefit – seeing as they are the direct beneficiaries of the credit – but it is considerably more nuanced than that. The following discusses the unique impacts of the tax credit by type of food and beverage manufacturer.

- *U.S. Agricultural Cooperatives*: as noted above, one of the ways that producers can benefit directly is for them to be involved in businesses that manufacture food and beverage products. One of the most prominent examples of grower ownership is that of agricultural cooperatives. While cooperatives are known for their marketing or input supply roles, there are many prominent examples of the cooperative manufacturing of food and beverages, ranging from dairy (e.g., butter) to orange juice. It is important to note that the proposed credit deals explicitly with cooperatives, making it clear that benefits can flow directly to individual producer owners.
- *Small Businesses*: while we have little data to quantitatively assess the impact, the proposed tax credit has the potential to significantly (and positively) impact small businesses. Every small business that manufactures food or beverages – from craft brewers to bakers – stand to benefit. Their communities also stand to benefit as well. As local businesses invest the tax savings into expanding their business, it spurs (1) additional demand for agricultural commodities, (2) expanded employment in the local community, (3) economic wellbeing of other local businesses that support that food or beverage manufacturer, from cleaning services to local law firms, and (4) additional tax revenues that support local infrastructure such as streets, schools, and parks.
- *Large Publicly Traded Companies*: by sheer volume large publicly traded companies would likely have the largest aggregate impact on expanded purchases of domestic agricultural commodities. They also would arguably have similar impacts as small businesses in the communities in which they operate. But, by design, the coalition has chosen to limit how much larger companies can benefit by capping the credit value at $100 million per year. Accordingly, on a marginal basis, large publicly traded companies would benefit the least.

Figure 6. Components of Food and Beverage Manufacturing: Value Added by Industry, 2021.



Source. USDA-ERS using data from U.S. Department of Commerce, Bureau of the Census, 2021 Annual Survey of Manufactures; data as of December 2022.

CONSUMERS

Finally, while it may not be obvious, consumers benefit as well. For example, a survey from the United Soybean Board shows that 78% of consumers say it's important to purchase U.S.-grown food.[3] With a stated purpose of strengthening the supply of domestic commodities, the tax credit comports with the needs and desires of U.S. consumers.

[3] https://www.unitedsoybean.org/hopper/survey-says-consumers-want-food-made-with-u-s-crops/

FREQUENTLY ASKED QUESTIONS (FAQS)

What problem or issue is this policy trying to solve?

The proposed tax credit provides an incentive for food and beverage manufacturers operating in the U.S. to increase their investment in agricultural inputs from U.S. growers and would free up critical resources for further capital improvements. This leads to economic growth, job creation and retention, contributing to a stronger economy overall.

What benefit will this provide to farmers/growers directly? How do farmers benefit?

Agricultural producers stand to benefit directly through expanded purchases of raw agricultural commodities. Agricultural output is expected to increase by approximately $16.8 million per year. It is much harder to quantify the impact that the credit will have on stabilizing supply chains (i.e., shoring up the domestic customer base for U.S.-grown agricultural commodities intended for human consumption), but it will unquestionably help. Producers can also benefit directly to the extent they are involved in businesses that manufacture food and beverage products.

How much food or ingredients are we importing currently, and will this change that dynamic?

The United States imported almost $200 billion in agricultural products in 2023. While not all of that was used in the manufacture of food or beverages, it does give a sense of the scope of agricultural imports. In aggregate, we expect the proposed tax credit to have a negligible impact on imports (instead, we anticipate the credit will incentivize additional domestic production). Certainly, we could see differential impacts on individual commodities, although some of these are very unlikely to be reduced or replaced because they are only grown overseas or meet some specific requirement of importers.

What will be the impact on levels of imported food?

Our analysis indicates the proposal will have a negligible impact on imports. The after-tax profits are expected to be deployed in the additional use of all inputs. In other words, a rising tide lifts all boats.

What international trade and WTO implications are there of this policy?

Our analysis suggests the proposed tax credit would have a negligible impact on imports. There are also countless examples where other countries are investing billions to bolster their own domestic economies – for example, China's Belt and Road Initiative.

What is the estimated cost?

Our analysis suggests the credit would exceed $1 billion per year. Importantly, that did not consider the economic activity (and resulting tax revenue) that would offset much of that cost. A true estimate of "cost" would need to account for additional tax revenue that would accrue from expanded economic activity. It is our understanding that the coalition is undertaking analysis to answer that question.

What is the estimated benefit to the agriculture industry and to the economy broadly?

We estimate that the tax credit will amount to more than $1.3 billion annually, with that amount being injected in the economy. We anticipate releasing a report Fall 2024 that explores the broader economic impact – including direct, indirect, and induced impacts – of the proposal. At a minimum, our analysis anticipates an additional $16.8 million in domestic raw agricultural commodity purchases. Beyond supporting American farmers, we anticipate the credit will have a number of other impacts that are less tangible and harder to quantify, including strengthening food security and national resiliency (including supply chains) through additional investment here at home.

ABOUT THE AUTHORS

Dr. Bart Fischer currently serves as the Co-Director of the Agricultural & Food Policy Center at Texas A&M University, as AgriLife Assistant Professor in the Department of Agricultural Eco-nomics, and as Senior Advisor for Federal Relations in the Office of the Vice Chancellor. Each spring he teaches agricultural and food policy to approximately 190 undergraduate students.

Before joining the university in September 2019, he served for more than 8 years at the Committee on Agriculture in the U.S. House of Representatives, most recently as the Deputy Staff Director & Chief Economist under the leadership of Chairman K. Michael Conaway (TX-11). During his time with the Committee, he was involved in virtually every major agricultural policy development in Washington, D.C., including helping craft and pass the 2014 and 2018 Farm Bills. Dr. Fischer holds bachelor's degrees from Oklahoma State University, a master's degree from Cambridge University, and a Ph.D. in Agricultural Economics from Texas A&M University. He is the 5th generation to be raised on his family's wheat, cotton, and cattle operation in Southwest Oklahoma, where he continues to be actively involved.

Dr. Joe Outlaw is a Regents Fellow, Professor & Extension Economist in the Department of Agricultural Economics at Texas A&M University. He also serves as the Co-Director of the Agricultural & Food Policy Center. The 2024 Farm Bill is his 8th to work on over his nearly 40-year career working in agricultural policy. He frequently interacts with members of Congress and key agricultural committee staff to provide feedback on the likely consequences of agricultural policy changes. His extension education and applied research activities are focused on assessing the impacts of farm programs, risk management tools, renewable energy, and climate change legislation on U.S. agricultural operations.

Dr. Outlaw has received numerous awards in excellence for his policy education and outreach activities and has been named a fellow by The Texas A&M University Board of Regents and the Western and Southern Agricultural Economics Associations. In 2015 he received the National Excellence in Extension award from the Extension Committee on Organization and Policy and the National Institute of Food and Agriculture, USDA for excellence in leadership, scholarship and innovative programming.

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