

## Farm Credit System

### Issue Update

The Farm Credit System (FCS) is a \$329 billion Government Sponsored Enterprise (GSE) that competes directly with banks, making farm, ranch, consumer, housing, business, and energy loans. If the FCS were a bank, it would be the ninth largest. But as a GSE, it does not pay taxes at the same rate as banks.

The reason for the FCS's creation – and its enormous tax break – must be questioned. The Farm Credit System was the first GSE, created in 1916 when farmers had limited options available to finance their operations. That is no longer true in rural America today. Thanks to a robust banking industry, rural Americans enjoy the same credit opportunities as their urban counterparts.

The FCS lacks a specific statutory mission to do anything other than compete with taxpaying institutions. The lending that FCS provides often goes to farmers who least need subsidized credit. Less than 12 percent of all new FCS loans in 2017 went to young farmers, less than 15 percent to small farmers, and only 15 percent to entry-level farmers and ranchers, the three categories that would be the most appropriate to receive the FCS's subsidized credit.

### Why it Matters To Your Community

The Subsidy Is an Enormous Cost to Taxpayers. FCS profits were \$5.19 billion in 2017, yet it only paid a total of \$38 million in combined federal, state, and local taxes – an effective tax rate of only .73 percent. Had it paid banks' effective rate of 29 percent, the FCS would have paid \$1.50 billion in taxes. So the FCS's tax subsidy will cost taxpayers at least \$7.5 billion over the next five years. And as the FCS continues to grow, so will its tax subsidy. The FCS's growth also impacts the tax revenues of state and local governments. The FCS has bullied states into accepting that it is a *federal instrumentality*, and therefore not subject to state taxation. The FCS also uses its GSE status to withhold payment of local taxes and fees.

The FCS Competes Directly with Tax-Paying Banks. Banks are heavily involved in making the same types of loans and in the same areas as the FCS, so the FCS's activities halt the activities of tax-paying institutions rather than creating new lending.

### Recommended Action Items

- Congress should abolish the FCS's tax subsidy. It does not help the economy, make the tax code fairer or promote an important policy goal. With \$329 billion in assets and more than \$5.1 billion in profits annually, the FCS is capable of paying its fair share of taxes.
- Congress should statutorily require annual oversight hearings on the Farm Credit System. Only recently has Congress conducted oversight hearings on the FCS.