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UNIVERSITY EXTENSION**

# The Economic Impact of the Potential Expiration of Section 199A(g) on Agricultural Cooperatives in the Upper Midwest


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<div><p><b>The Economic Impact of the Potential Expiration of Section 199A(g) on Agricultural Cooperatives in the Upper Midwest</b></p><p>January 10, 2025</p><p><small>SDSU Extension is an equal opportunity provider and operates in accordance with the nondiscrimination policies of South Dakota State University, the South Dakota Board of Regents and the United States Department of Agriculture. Learn more at <a href="http://agimpact.sdsu.edu">agimpact.sdsu.edu</a> © 2025, South Dakota Board of Regents</small></p></div> 	
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<div><h2>Study Objectives</h2><div><p><b>Estimate 199A(g) direct tax deduction used by cooperatives in the region</b></p></div><div><p><b>Estimate the Economic Impact of 199A(g)</b></p></div><div><p><b>Regional Focus</b> Cooperatives operate in MN, ND, and SD and do business across state lines</p></div></div> <div><p>3</p></div>	
<div><h2>199A(g) Genesis and Purpose</h2><div><p>American Jobs Creation Act (2004) created <i>Domestic Production Activities Deduction</i> (DPAD) or Section 199.</p><p>Included processing and marketing of agricultural products.</p></div><div><p>Tax Cuts and Jobs Act (2017):</p><p>Reduced corporate tax rate to 21%. Eliminated DPAD. Created Section 199A</p></div></div> <div><p>4</p></div>	

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<h3>199A(g) Genesis and Purpose</h3> <div>  <p>Section 199A is intended to maintain parity between corporate tax rate reductions and tax treatment for pass-through entities:</p> </div> <div>  <p>Section 199A(g) specifically addresses unique tax structure of cooperatives.</p> </div> <div> <p>Sole proprietors, partnerships, Chapter S corporations, and certain trusts.</p> <p>Chapter T corporations</p> </div> <p><small>SOUTH DAKOTA STATE UNIVERSITY EXTENSION</small></p>	
<h3>Structure 199A(g)</h3> <div>  <p><b>Deduction equals 9% of <i>qualified</i> production operating income.</b></p> <p>Limited to 50% of W-2 wages for qualified production activities.</p> <p>Cannot create or increase net operative loss.</p> </div> <div>  <p><b>Deduction can be passed through to cooperative's patrons or used by the cooperative.</b></p> <p>Consistent with Chapter T tax law.</p> </div> <p><small>SOUTH DAKOTA STATE UNIVERSITY EXTENSION</small></p>	
<h3>Cooperative Utilization of Section 199A(g)</h3> <div>  <p>Return Cash Patronage to Members</p> </div> <div>  <p>Redeem Member Equity</p> </div> <div>  <p>Capital Expenditures</p> </div> <div>  <p>Employee Compensation</p> </div> <p><small>SOUTH DAKOTA STATE UNIVERSITY EXTENSION</small></p>	
<h3>Methodology: Survey Sample and Target Population</h3> <div>  <p><b>Survey Sample</b></p> <p>Approximately 50 cooperatives were contacted</p> <p>19 usable responses</p> <p>Cooperatives that operate in SD, ND and MN</p> </div> <div>  <p><b>Survey sample data used to extrapolate regional economic impact</b></p> </div> <div>  <p><b>Target Population</b></p> <p>Marketing, Supply and Service Cooperatives in SD, ND and MN</p> <p>United States Department of Agriculture, Rural Development, Rural Business-Cooperative Service. "Agriculture Cooperative Statistics 2024"</p> </div> <p><small>SOUTH DAKOTA STATE UNIVERSITY EXTENSION</small></p>	<p>Our study's methodology involved defining our sample and conducting a survey to capture comprehensive financial and relevant data regarding 199A(g).</p> <p>After collecting the data, we analyzed and calculated essential ratios reported by the cooperatives, such as the sales-to-199A(g) deduction, what portion of the 199A was utilized at the cooperative and what was passed on to members.</p> <p>The results allowed us to extrapolate to the entire cooperative landscape in our region by using cooperative statistics by type and state that is collected by the USDA Rural Business Development—Cooperative Service.</p>

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Survey Sample Summary Data

Millions	2021	2022	2023
Sales	\$23,135	\$28,498	\$25,833
Employee Compensation	\$1,197	\$1,212	\$1,230
Capital Expenditure	\$238	\$360	\$363
Patronage Paid	\$172	\$196	\$207
Patronage Distributed	\$218	\$222	\$234
Member Equity Redeemed	\$19	\$85	\$24
199A(g) Utilized at Cooperative	\$62	\$102	\$114
199A(g) Passed to Members	\$268	\$263	\$273
Approximate sales in South Dakota	\$3,246	\$4,206	\$4,072
Approximate sales in North Dakota	\$1,898	\$2,511	\$2,581



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Some key ratios from our survey data include the sales and wages relative to the 199a(g) utilized by cooperatives and passed to members.


For example, our survey sample reported sales from 2021 to 2023 from \$23.1 billion to \$28.5 billion.

From the sales and net returns, a majority of cooperatives using the 199A(g) provision. In fact, over the years, cooperatives have been increasingly using the 199a. For example, the survey sample 199a deduction ranged from \$62 million in 2021 to \$114 million in 2023.

In addition, the amount of 199A(g) cooperatives have passed on to members ranged from \$268 million in 2021 to \$273 million in 2023.

Survey Sample 199A(g) Generation and Utilization

Generation and Utilization	2021	2022	2023	Average
Total 199A(g) (millions)	\$330	\$365	\$387	\$361
199A(g) as a percent of sales	1.4%	1.3%	1.5%	1.4%
199A(g) as a percent of employee compensation	27.6%	30.1%	31.5%	29.7%
Percentage 199A(g) passed to members	81.3%	72.1%	70.6%	74.7%
Percent 199A(g) utilized by cooperative	18.7%	27.9%	29.4%	25.3%



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Target Population

Marketing, Supply and Service Cooperatives in 2022

State	Sales millions	Cooperatives	Members
Minnesota	\$27,249	182	125,028
North Dakota	\$11,348	129	66,817
South Dakota	\$9,801	89	54,700

Source: United State Department of Agriculture, Rural Development, Rural Business-Cooperative Service. 'Agricultural Cooperative Statistics 2024'



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The estimated target population of marketing, supply and service cooperatives that may use the 199A deduction, according to the USDA, in 2022, was 182 cooperatives in Minnesota, with 125,028 members and 27.2 billion in Sales. In North Dakota, 129 cooperatives with 66,817 members had 11.3 billion sales. In South Dakota, there were 89 cooperatives with 54,700 members and 9.8 billion in sales. These statistics are provided by the USDA in their Agricultural Cooperative Statistics reports.

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GDP Multipliers

Multipliers	Cooperatives	Members
Direct GDP Multiplier	\$1.00	\$1.00
Indirect GDP Multiplier	\$0.94	\$0.54
Induced GDP Multiplier	\$0.50	\$0.34
Total GDP Multiplier	\$2.44	\$1.88

Source: IMPLAN 2022 Data for model region

Notes: The direct GDP multiplier measures the GDP impact of an initial investment, the indirect multiplier reflects changes in GDP due to increased production from suppliers, and the induced multiplier accounts for additional GDP changes from increased consumer spending by those earning income from the initial and indirect activities.

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To estimate the total economic impact we estimate the multipliers of cooperatives and members in their economy. For example, the Direct GDP multiplier reflects the immediate effect of spending 199a(g) deduction dollars in the regional economy. In terms of our cooperatives, this translates into the immediate impact on the regional GDP when our cooperatives spend money - for instance, purchasing goods and services for operations, paying salaries to employees, or investing in capital.

The indirect GDP multiplier, on the other hand, relates to the secondary impact caused by those who directly receive the money from cooperatives (like suppliers or employees) and spend it within the region. For instance, a supplier may use its income to pay its workers or buy more goods, affecting the economy.

The induced multiplier is the tertiary wave of impact from the re-spending of the earnings by those indirectly affected. For example, a supplier employee spends his salary on local businesses, leading to a further ripple effect on the economy.

2022 Economic Impact of 199A(g) by Cooperatives and Members

199A(g) Recipient	Utilization and Multipliers	Minnesota (millions)	North Dakota (millions)	South Dakota (millions)
Members	199A(g) Passed to Members	72.1%	\$251.80	\$104.90
	Indirect GDP Multiplier	\$0.54	\$135.10	\$56.30
	Induced GDP Multiplier	\$0.34	\$85.60	\$35.60
	Total GDP Multiplier	\$1.88	\$472.50	\$196.80
Cooperatives	199A(g) Cooperative Utilized	27.9%	\$97.40	\$40.60
	Indirect GDP Multiplier	\$0.94	\$91.80	\$38.20
	Induced GDP Multiplier	\$0.50	\$48.50	\$20.20
	Total GDP Multiplier	\$2.44	\$237.70	\$85.50

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Estimated 2022 Total Economic Impact in Region from the 199A(g) Deduction for Cooperatives





Millions	Minnesota	North Dakota	South Dakota
Total 199A(g) Utilized by Cooperatives and Passed to Members	\$349.2	\$145.4	\$125.6
Indirect GDP Multiplier	\$226.9	\$94.5	\$81.6
Induced GDP Multiplier	\$134.1	\$55.8	\$48.2
Total GDP Multiplier	\$710.1	\$295.7	\$255.4

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Using our survey sample ratios, the target population data from USDA, and the multipliers we are able to calculate the economic impact of 199A based on economic activities of cooperatives in our survey sample. For example, we can estimate the total economic impact of the reported 199A deduction amounts using our sales to 199a deduction ratio. When we do this, in 2022, in Minnesota, we estimate 251.8 million in 199Ag went to members. That had a multiplier effect, adding 472.5 million in GDP to the state in 2022. In addition, cooperatives also use the 199A deduction, and we estimate that the amount in Minnesota is 97.4 million. That had an additional multiplying effect of 237.7 million to GDP in Minnesota.

When we add up both the member and cooperative economic impacts to state GDP we estimate that of the 349.2 million dollars reported for 199Ag in 2022, we would have to have a total impact of 710.1 million to Minnesota's state GDP. 296.7 million to ND GDP, and 255.5 million to SD GDP. Total economic impact of the region is 1.26 billion dollars.

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<p><b>2022 199A(g) Economic Impact Summary</b></p> <hr/> <ul style="list-style-type: none"> <li>• Minnesota: \$710.1 million in GDP</li> <li>• North Dakota: \$295.7 million in GDP</li> <li>• South Dakota: \$255.4 million in GDP</li> </ul> <p>Annual GDP generated in rural communities that multiplies in rural communities.</p> <div data-bbox="154 472 711 508">  SOUTH DAKOTA STATE UNIVERSITY EXTENSION 12 </div>	
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