H.R. 5422, the Bipartisan "Modernizing Agriculture and Manufacturing Bonds Act (MAMBA)"
Representatives Stephanie Murphy (D-FL) and Darin LaHood (R-IL)

Background

- The *Modernizing Agricultural and Manufacturing Bonds Act (MAMBA)* would modernize the Internal Revenue Code (IRC) as it relates to small issue bonds, specifically the private activity bond rules for first-time farmers and manufacturing bonds.

Current Law

- Current federal law defines a "manufacturing facility" as one that produces tangible property. However, manufacturing processes, production, and technology have changed significantly since this definition was established. Today's manufacturers encompass more modern, high-tech, and intangible manufacturing practices such as bio-technology, energy generation, food processing, software, design and formula development, and intellectual property.
- The current usage of small issue manufacturing bonds is limited to the financing of facilities that are directly related and ancillary to a manufacturing facility. Not more than 25 percent of the net proceeds of a bond issuance can be used for ancillary facilities, such as offices, locker rooms, and cafeterias.
- The maximum bond size available to a single issuer is currently $10 million, unchanged since 1979. The $10 million is too low to support new projects.
- No more than 25 percent of bond proceeds may be spent on land acquisitions, and that no portion of bond proceeds may be used for the acquisition of land for farming purposes. There is an exception to this for first-time farmers, with an amount of $450,000 indexed to inflation.
- First-time farmers that gain access to small issue bond proceeds can currently only use $62,500 of those proceeds for used depreciable property and $250,000 for existing buildings, farm improvements, and/or new depreciable agricultural property.
- Substantial farmland is defined as any parcel of land unless such parcel is smaller than 30 percent of the median size of a farm in the county in which the parcel is located. Due to the rapid growth of hobby farms what is considered substantial farmland has been skewed downward.

Summary of MAMBA Provisions

- **Expand the definition of "manufacturing facility."** MAMBA would enable small issue manufacturing bonds to support manufacturers that produce intangible property.
- **Eliminate restrictions on "directly related and ancillary facilities."** Eliminating financing restrictions on directly related and ancillary facilities will significantly improve the usability of the tool.
- **Increase the maximum bond size limitation from $10 million to $30 million.** Increasing the maximum bond size limit to $30 million would account for inflation and project size since 1979.
- **Increase the limitation on small issue bond proceeds for first-time farmers.** The proposed increase to $552,500 would bring the total issuance amount stated in the IRC in line with the current issuance limitation.
- **Repeal the separate dollar limitation on the use of bond proceeds for depreciable property.** The separate dollar limitation is overly restrictive and has turned-off many would be farmers to the agriculture industry. First-time farmers would have the freedom to use the entire $552,500 issuance for farming equipment, breeding livestock, and other capital assets essential to farming operations.
- **Modify the definition of "substantial farmland."** It has become harder for would be first-time farmers to gain access to capital. Changing the definition of substantial farmland to 30 percent of the *average* size instead of median would correct this problem.