

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 4220
OFFERED BY MR. BRADY OF TEXAS**

Strike all after the enacting clause and insert the following:

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Water and Agriculture
3 Tax Reform Act of 2016”.

4 **SEC. 2. FACILITATE WATER LEASING AND WATER TRANS-**
5 **FERS TO PROMOTE CONSERVATION AND EF-**
6 **FICIENCY.**

7 (a) IN GENERAL.—Paragraph (12) of section 501(c)
8 of the Internal Revenue Code of 1986 is amended by add-
9 ing at the end the following new subparagraph:

10 “(I) TREATMENT OF MUTUAL DITCH IRRI-
11 GATION COMPANIES.—

12 “(i) IN GENERAL.—In the case of a
13 mutual ditch or irrigation company or of a
14 like organization to a mutual ditch or irri-
15 gation company, subparagraph (A) shall be
16 applied without taking into account any in-
17 come received or accrued—

1 “(I) from the sale, lease, or ex-
2 change of fee or other interests in real
3 and personal property, including inter-
4 ests in water,

5 “(II) from the sale or exchange
6 of stock in a mutual ditch or irriga-
7 tion company (or in a like organiza-
8 tion to a mutual ditch or irrigation
9 company) or contract rights for the
10 delivery or use of water, or

11 “(III) from the investment of
12 proceeds from sales, leases, or ex-
13 changes under subclauses (I) and (II),
14 except that any income received under sub-
15 clause (I), (II), or (III) which is distrib-
16 uted or expended for expenses (other than
17 for operations, maintenance, and capital
18 improvements) of the mutual ditch or irri-
19 gation company or of the like organization
20 to a mutual ditch or irrigation company
21 (as the case may be) shall be treated as
22 nonmember income in the year in which it
23 is distributed or expended. For purposes of
24 the preceding sentence, expenses (other
25 than for operations, maintenance, and cap-

1 ital improvements) include expenses for the
2 construction of conveyances designed to de-
3 liver water outside of the system of the
4 mutual ditch or irrigation company or of
5 the like organization.

6 “(ii) TREATMENT OF ORGANIZA-
7 TIONAL GOVERNANCE.—In the case of a
8 mutual ditch or irrigation company or of a
9 like organization to a mutual ditch or irri-
10 gation company, where State law provides
11 that such a company or organization may
12 be organized in a manner that permits vot-
13 ing on a basis which is pro rata to share
14 ownership on corporate governance mat-
15 ters, subparagraph (A) shall be applied
16 without taking into account whether its
17 member shareholders have one vote on cor-
18 porate governance matters per share held
19 in the corporation. Nothing in this clause
20 shall be construed to create any inference
21 about the requirements of this subsection
22 for companies or organizations not in-
23 cluded in this clause.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to taxable years beginning after
3 December 31, 2016.

