



**Lesson 6.1: Special Tax Rules for Agriculture - USDA Payments**

 LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

1

1

---

---

---

---

---

---

---

---



**LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW**

- 40+ years of leadership in agricultural and food law
- Nationally recognized faculty
- Specially designed courses
- On-campus and distance options
- For recent law graduates and experienced attorneys
- Outreach and education for farms and food businesses through the Food and Ag Impact Project
- Visit us at <https://law.uark.edu/academics/llm-food-ag/>

2

---

---

---

---

---


---

---

---

**Legal Disclaimer**

This presentation is intended to provide general information on agricultural income tax issues and should not be construed as providing legal advice. It should not be cited or relied upon as legal authority. State laws vary and no attempt is made to discuss state specific laws. For advice about how these issues might apply to your individual situation, consult an attorney.

 LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

3

3

---

---

---

---

---

---

---

---

### Funding

- This is a part of the Agricultural Financial, Tax and Asset Protection program led by the University of Arkansas Division of Agriculture's Southern Risk Management Education Center. [www.aeftap.org](http://www.aeftap.org)
- This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA22CPT0012189.
- Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture.
- In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.

4

---

---

---

---

---

---

---

---

### Program Overview

1. Filing: Federal Income Tax Filing Requirements
2. Records: Recordkeeping Requirements
3. Taxes: Individual Federal Income Tax Return
4. Entities: Business Entities and Federal Tax
5. Agricultural Income: Special Rules
- 6. Special Tax Rules for Agriculture** <- We are here.



5

---

---

---

---

---

---

---

---

### Lesson 6 Overview - Special Tax Rules for Agriculture

- 6.1 USDA Payments** <- We are here.
- 6.2 Debt Relief
- 6.3 Mixed Use Real Property
- 6.4 Value-Added Inventory
- 6.5 Conservation
- 6.6 Catastrophe and Disasters
- 6.6.a Livestock Losses and Weather-Related Sales



6

---

---

---

---

---

---

---

---

### USDA Payments and Federal Income Tax

- Farmers and ranchers are eligible for many different types of USDA payments. In general, these payments are taxable income.
- Most USDA payments will be for:
  1. Loan proceeds
  2. Commodity payments
  3. Expense-reimbursement contracts (sometimes called grants)
  4. Conservation payments
- In addition, some farmers may participate in programs funded by the USDA but not receive payments directly from the USDA.

7

---

---

---

---

---

---

---

---

### Proceeds from USDA Loans Generally

- In general proceeds from USDA loans are not income. This is the same as for any non-USDA loan because loan proceeds are not income, they are a debt which you must repay.
- Proceeds are not reported as income when received and loan principal payments are not deducted as expenses when paid.

8

---

---

---

---

---

---

---

---

### USDA Non-Recourse Marketing Assistance Loans

- USDA Non-Recourse Marketing Assistance Loans are a special type of loan which may result in taxable income in one of two ways:
  1. By election
  2. By forfeit
- This type of income is reported on Schedule F at line 5 "Commodity Credit Corporation loans".
- These types of loans are only available to farmers who grow certain commodities.

9

---

---

---

---

---

---

---

---

### Other USDA Program Payments

- USDA Program Payments are taxable income unless Congress specifies that the payments are not subject to tax.
- These payments are reported on line 4a of the Schedule F "Agricultural program payments."

10

---

---

---

---

---

---

---

---

### Expense Reimbursement Contracts

- Some USDA programs reimburse farmers for their costs to implement a specific project.
- Examples: Value Added Producer Grant Program and Environmental Quality Incentives Program

11

---

---

---

---

---

---

---

---

### Other Conservation Payments

- USDA has many other conservation programs that compensate farmers for removing land from production or for implementing certain conservation practices.
- Generally, all proceeds from conservation programs are taxable unless Congress has specifically stated that all or part of the payment is not taxable.

12

---

---

---

---

---

---

---

---

**Payments for Participating in USDA-funded programs run by other organizations**

- The USDA funds organizations across the country to do education and research activities, and farmers and ranchers are often an important part of those programs.
- If you are part of a USDA-funded program, you may receive payments:
  - To compensate you for your time
  - To use your land or facilities
  - To purchase your products
- Generally, record payments for your time or land use as "Other Income" on Line 8 of Schedule F.
- Report crop sales as you would normally.

13

---

---

---

---

---

---

---

---

Questions?  
Thank you!

14

---

---

---

---

---

---

---

---

**How do I learn more about federal income taxes and my farm or ranch?**

- There are previous lessons in this series.
- For each lesson there is a short set of questions you can answer to help you decide if the training will be useful to you.
- You can access the questions and the trainings here:
- <https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php>
- Additional project resources are available here: <https://agftap.org>

15

---

---

---

---

---

---

---

---

**How do I learn more about federal income taxes and my farm or ranch?**

IRS Publication 225, The Farmers Tax Guide  
RuralTax.org  
IRS website and publications

---

---

---

---

---

---

---

---

16



17

---

---

---

---

---

---

---

---



18

---

---

---

---

---

---

---

---