

6.1 Special Tax Rules for Agriculture - USDA Payments

	Slide Title		Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
	Title Slide	Lesson 6.1: Special Tax Rules for Agriculture - USDA Payments	This training provides greater detail on the tax treatment of payments from the USDA.		
1	USDA Payments and Federal Income Tax	<p>Farmers and ranchers are eligible for many different types of USDA payments. In general, these payments are taxable income.</p> <p>Most USDA payments will be for:</p> <ol style="list-style-type: none"> 1. Loan proceeds 2. Commodity payments 3. Expense-reimbursement contracts (sometimes called grants) 4. Conservation payments <p>In addition, some farmers may participate in programs funded by the USDA but not receive payments directly from the USDA.</p>			

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<p>2</p>	<p>Proceeds from USDA Loans Generally</p>	<p>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.</p> <p>Proceeds are not reported as income when received and loan principal payments are not deducted as expenses when paid.</p>	<p>Loan interest expense is a business deduction if loan proceeds were used for ordinary and necessary business expenses including asset acquisitions.</p> <p>If the loan is not repaid in full and any portion of the debt is forgiven, then the taxpayer may have taxable income. See Lesson 6.2 for more information on this subject.</p>		
<p>3</p>	<p>USDA Non-Recourse Marketing Assistance Loans</p>	<p>USDA Non-Recourse Marketing Assistance Loans are a special type of loan which may result in taxable income in one of two ways:</p> <ol style="list-style-type: none"> 1. By election 2. By forfeit <p>This type of income is reported on Schedule F at line 5 "Commodity Credit Corporation loans".</p> <p>These types of loans are only available to farmers who grow certain commodities.</p>	<ol style="list-style-type: none"> 1. The farmer or rancher may elect to treat proceeds from these types of loans as income when received. They will later deduct this amount from proceeds when they sell the crop. 2. The farmer or rancher may forfeit their crop to the USDA instead of repaying the loan with cash. They will recognize income in the amount of the loan and a gain or loss on sale according to the difference between 	<p>For more information and examples see Pub 225.</p>	

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			the loan amount and the value of the forfeited crop.		
4	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."	The USDA has a variety of programs to pay producers of agricultural commodities. Some of these are regular programs and some are special programs related to disaster relief or unusual circumstances such as COVID relief.		
5	Expense Reimbursement Contracts	<p>Some USDA programs reimburse farmers for their costs to implement a specific project.</p> <p>Examples: Value Added Producer Grant Program and Environmental Quality Incentives Program</p> <p>Income from these types of programs will be reported to you and the IRS on a Form 1099.</p> <p>Report this income as "Other Income" on Line 8 of Schedule F. Be sure to deduct all ordinary and necessary business expenses associated with implementing the project!</p>	<p>The Value Added Producer Grant Program (VAPG) administered by the Agricultural Marketing Service and the Environmental Quality Incentives Program (EQIP) administered by the Natural Resources Conservation Service are two examples of cost reimbursement programs.</p> <p>If part of the project involves buying or building assets remember that the assets are depreciated, not deducted. See Lesson 1 for more on depreciation.</p> <p>See Lesson 6.5 for additional discussion of EQIP projects.</p>	<p>If these projects include sums that compensate you for your time, you may have income in excess of direct costs associated with the project.</p> <p>If you are only paid for your actual receipts, you will have income exactly equal to your expenses.</p> <p>If the project costs more to implement than the amount the USDA pays you, then your expenses will be greater than the reported income.</p>	

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6	Other Conservation Payments	<p>USDA has many other conservation programs that compensate farmers for removing land from production or for implementing certain conservation practices.</p> <p>Generally, all proceeds from conservation programs are taxable unless Congress has specifically stated that all or part of the payment is not taxable.</p>			
7	Payments for Participating in USDA-funded programs run by other organizations	<p>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.</p> <p>If you are part of a USDA-funded program, you may receive payments:</p> <ul style="list-style-type: none"> ● To compensate you for your time ● To use your land or facilities ● To purchase your products <p>Generally, record payments for your time or land use as "Other Income" on Line 8 of Schedule F.</p>	<p>These payments will not come directly from the USDA, they will come from an educational institution, a non-profit, or a state, tribal, or local government.</p>		

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