

6.2 Special Tax Rules for Agriculture - Debt Relief

	Slide Title		Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
1	Title Slide	Lesson 6.2: Special Tax Rules for Agriculture - Debt Relief	This training provides greater detail on the tax treatment of debt relief.		
2	LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW	<p>40+ years of leadership in agricultural and food law</p> <p>Nationally recognized faculty</p> <ul style="list-style-type: none"> • 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 <p>Visit us at https://law.uark.edu/academics/lm-food-ag</p>			
3	Legal Disclaimer	This presentation is intended to provide general information on agricultural income tax issues and			

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		<p>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.</p>			
4	Funding	<p>This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA22CPT0012189.</p> <p>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.</p> <p>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.</p>	<p>This project and materials created by Poppy Davis as part of the LL.M. Program in Agricultural and Food Law at the University of Arkansas School of Law is part of the Agricultural Financial, Tax and Asset Protection program.</p>		
5	Program Overview	<ol style="list-style-type: none"> 1. Filing: Federal Income Tax Filing Requirements 2. Records: Recordkeeping Requirements 	<p>There were five lessons previously in this series.</p>		

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		<ul style="list-style-type: none"> 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. 	The sixth training covers special tax rules for agriculture.		
6	Lesson 6 Overview – Special Tax Rules for Agriculture	<ul style="list-style-type: none"> 6.1 USDA Payments 6.2 Debt Relief <- We are here. 6.3 Mixed-Use Real Property 6.4 Value-Added Inventory 6.5 Conservation Practices and Taxation 6.6 Catastrophe and Disasters 6.6.a Livestock Losses and Weather-Related Sales 			
7	Debt relief, or loan forgiveness	<p>Loan proceeds are not taxable income when received.</p> <p>If a loan is forgiven rather than repaid, then the amount of loan forgiveness becomes taxable income.</p> <p>A lender who forgives a debt reports the amount of debt forgiveness to the borrower and to the IRS using a Form 1099-C.</p> <p>Taxpayers must report any income reported on a 1099-C as taxable income.</p>	<p>When you take out a business loan you do not have income, you have new liability or debt.</p> <p>When you make payments on a business loan you may deduct the interest portion of the payment as a business expense, but you may not deduct the principal portion of the payment.</p> <p>Usually, the debt is paid in full, and the only tax effect is the annual deduction for interest paid.</p>	<p>Why is a loan not income?</p> <p>What are loan proceeds if not income?</p> <p>When you make a sale, you have more cash, and you have sales income.</p> <p>When you take out a loan you have more cash, and you have more debt.</p> <p>What if the loan does not come to you as cash?</p>	

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		<p>There are special rules for how a taxpayer may offset this kind of income.</p> <p>There are also special rules for "Qualified Farm Indebtedness."</p>	<p>Sometimes though, the debt is not repaid, instead it is discharged in bankruptcy, or re-negotiated, and some or all of the amount owed is canceled or forgiven. When that happens, the general rule is that the borrower must report the amount of canceled or forgiven debt as taxable income.</p>	<p>If you buy a tractor on credit what two things do you have?</p> <p>You have a tractor, and you have debt.</p> <p>What don't you have?</p> <p>Income.</p> <p>Now if you do not have to pay back that debt, what do you have? Less debt. OK. But every financial transaction has two sides, so what is the other side of less debt?</p> <p>Well, you know you do not have more cash or more tractors. And you know you do not have more expenses. What does that leave besides income?</p>	
8	Qualified Farm Indebtedness	<p>There are special rules to exclude the cancellation or forgiveness of qualified farm indebtedness from taxable income.</p> <ol style="list-style-type: none"> 1. 50% or more of all income before deductions came from farming or ranching from the previous three years. 2. Proceeds of the debt were used directly in the 	<p>There are special rules to exclude the cancellation or forgiveness of qualified farm indebtedness from taxable income.</p> <p>To qualify, the taxpayer must be able to show that for the past three years more than 50% of all their income before deductions came from farming or ranching.</p>		

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		<p>farming or ranching business.</p> <p>3. Lender is not related and is in the business of lending, or is a government agency.</p>	<p>The taxpayer must also be able to show that the proceeds of the debt were used directly in the farming or ranching business.</p> <p>Also, this exemption only applies to debt from a lender who is in the business of lending, so either a commercial lender or a government agency. A debt to a friend or family member would not qualify. A debt to the person who sold you the property also would not qualify.</p> <p>The exclusion may be limited based on the “tax attributes” and adjusted basis the taxpayer has. See Publication 225, Farmer’s Tax Guide for more details.</p> <p>Be sure to discuss this situation with your tax advisor because there are specific forms that may need to be filed with your tax return related to the exclusion. See IRS Form 982.</p>		
9	Form 1099-C	<p>Debt forgiveness must be included in income.</p> <p>Interest forgiveness does not need to be included in income.</p>	<p>If you have debt relief, the lender should report the amount of debt relief to you and the IRS on a Form 1099-C.</p> <p>The 1099-C should show the amount of debt forgiven, and the amount of interest forgiven.</p>		

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			<p>The debt forgiveness must be included in income and may be offset according to several special rules including the special rules for Qualified Farm Indebtedness.</p> <p>The interest forgiveness does not need to be reported or may be reported and offset with an equal deduction for interest expense.</p>		
10	Other special rules for debt forgiveness	<p>In addition to the special rules for Qualified Farm Indebtedness there are other rules for excluding other types of debt forgiveness including special rules for:</p> <ul style="list-style-type: none"> • Bankruptcy • Insolvency • Business property • Qualified personal residence 	<p>If you think any of these circumstances apply to you, you may want to read additional information from the IRS and consider seeking the counsel of a Certified Public Accountant or an attorney licensed in your state.</p>	<p>See also: IRS Topic 431 Canceled debt – Is it taxable? IRS Pub 225 - Farmer's Tax Guide) IRS Pub 4681 Canceled Debts, Foreclosures, Repossessions, and Abandonments</p>	
11	Additional resources for debt relief related to USDA loans	<p>Debt relief related to USDA loans may require a detailed analysis in order to understand your options for proper tax treatment.</p> <p>You can find additional resources on the tax treatment of USDA debt relief at:</p> <ul style="list-style-type: none"> • Southern Risk Management Education Center Ag Finance, 	<p>The Inflation Reduction Act of 2022 created debt relief for some farmers under section 22006. Farmers who received this type of debt relief should have received a Form 1099 from the USDA and one or more letters explaining how the debt relief would be reported to the IRS.</p> <p>In addition to the resources mentioned, you should consult</p>		

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		<p>Tax and Asset Protection Program</p> <ul style="list-style-type: none"> • RuralTax.org • National Ag Library • Farmers Legal Action Group 	with a tax or legal professional with specific experience working with USDA credit programs.		
12	<p>Questions?</p> <p>Thank you!</p>				
13	<p>How do I learn more about federal income taxes and my farm or ranch?</p>	<p>There are previous lessons in this series.</p> <p>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.</p> <p>You can access the questions and the trainings at: https://law.uark.edu/academics/lm-food-ag/lm-projects-agftap.php</p> <p>Additional project resources are available here: https://agftap.org/</p>			

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14	How do I learn more about federal income taxes and my farm or ranch?	<ul style="list-style-type: none"> • IRS Publication 225, The Farmers Tax Guide • RuralTax.org • IRS website and publications 			
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