

1 OF SLIDE  
ORIZONTAL SERIES  
4 WHITE OUTLINE  
OW THIS LINE →



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



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

1

**This training provides greater detail on the tax treatment of a property where you live and operate your farm or ranch business.**



## 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/>

## 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

## Funding

- 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.



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

4

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.



## 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.



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

Image © vecteezy.com

5

There were five lessons previously in this series.

The ing covers special tax rules for agriculture.

## 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



Image © vecteezy.com

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.



## 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.



Loan interest expense is a business deduction if loan proceeds were used for ordinary and necessary business expenses including asset acquisitions.




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.



## 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.



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 s 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 the loan amount and the value of the forfeited crop.

## 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 disasters or unusual circumstances such as COVID relief.



## 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



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.

## 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.



## 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.



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.



Questions?

Thank you!



## 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>



## 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



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

16







LL.M. PROGRAM IN AGRICULTURE AND FOOD LAW

Final UARK and Funder Logos



Space for presenter contact info