



## Lesson 6.2: Special Tax Rules for Agriculture - Debt Relief



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

1

This training provides greater detail on the tax treatment of debt relief.



## **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

**6.2 Debt Relief** <- We are here.

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

## Debt relief, or loan forgiveness

- Loan proceeds are not taxable income when received.
- If a loan is forgiven rather than repaid, then the amount of loan forgiveness becomes taxable income.
- A lender who forgives a debt reports the amount of debt forgiveness to the borrower and to the IRS using a Form 1099-C.
- Taxpayers must report any income reported on a 1099-C as taxable income.
- There are special rules for how a taxpayer may offset this kind of income.
- There are also special rules for “Qualified Farm Indebtedness.”



When you take out a business loan you do not have income, you have new liability or debt.



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.

Usually, the debt is paid in full, and the only tax effect is the annual deduction for interest paid.

Sometimes though, the debt is not repaid, instead it is discharged in bankruptcy, or renegotiated, 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.

## Qualified Farm Indebtedness

There are special rules to exclude the cancellation or forgiveness of qualified farm indebtedness from taxable income.

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 farming or ranching business.
3. Lender is not related and is in the business of lending, or is a government agency.



There are special rules to exclude the cancellation or forgiveness of qualified farm indebtedness from taxable income.



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.

The taxpayer must also be able to show that the proceeds of the debt were used directly in the farming or ranching business.

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.

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.

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.

## Form 1099-C

- Debt forgiveness must be included in income.
- Interest forgiveness does not need to be included in income.



If you have debt relief, the lender should report the amount of debt relief to you and the IRS on a Form 1099-C.



The 1099-C should show the amount of debt forgiven, and the amount of interest forgiven.

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.


The interest forgiveness does not need to be reported or may be reported and offset with an equal deduction for interest expense.

## Other special rules for debt forgiveness

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:

- Bankruptcy
- Insolvency
- Business property
- Qualified personal residence



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  an attorney licensed in your state.

## Additional resources for debt relief related to USDA loans

Debt relief related to USDA loans may require a detailed analysis in order to understand your options for proper tax treatment.

You can find additional resources on the tax treatment of USDA debt relief at:

- Southern Risk Management Education Center Ag Finance, Tax and Asset Protection Program
- RuralTax.org
- National Ag Library
- Farmers Legal Action Group



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

11

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.

In addition to the resources mentioned, you should consult with a tax or legal professional with specific experience working with USDA credit programs.

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

14





LL.M. PROGRAM IN AGRICULTURE AND FOOD LAW

Final UARK and Funder Logos





Space for presenter contact info