



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

For Immediate Release

Friday, March 19, 2004

Grassley Praises Key New Tax Guidance for Farmers

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today praised the Internal Revenue Service’s issuance this week of key tax guidance for farmers. For months, Grassley has been listening to the agricultural community about inadequate guidance and working with the IRS to make sure farmers have the information they need to file their taxes.

“Our tax system is based on voluntary compliance,” Grassley said. “Taxpayers file their taxes and pay what they owe without much government meddling. In exchange for voluntary compliance, the government owes taxpayers clear, written guidance on tax policies. Last year, I learned this guidance was lacking in several areas for farmers. I urged the IRS to fix this, and it’s good to see a positive step in this direction.”

This week, the IRS issued guidance on how farmers should report their market gain when using commodity credit corporation certificates to facilitate repayment of commodity credit corporation loans. This was among several issues Grassley raised in a letter to the Treasury Department last May. Grassley raised his concerns after the IRS terminated several agricultural tax teaching programs traditionally coordinated with agricultural universities.

“The IRS has more work to do on issuing good guidance to farmers, but this is a good development,” Grassley said. “I’ll continue to do everything I can to improve communication between the IRS and everyone in the agricultural community.”

Following are the text of this week’s IRS press release and Grassley’s letter last May to the Treasury Department.

IRS Reminds Farmers How to Report Market Gain When Using Commodity Credit Corporation (CCC) Certificates to Facilitate Repayment of CCC Loans

IR-2004-38, March 18, 2004

WASHINGTON – Farmers who pledge part or all of their production to secure a CCC loan may not be properly reporting market gain when they use CCC certificates in connection with paying off their

loans, the Internal Revenue Service said today.

Farmers who pledge part or all of their production to secure a CCC loan can make a special election to treat the loan proceeds as income in the year received and obtain a basis in the commodity for the amount reported as income. A farmer can make the special election by reporting the CCC loan proceeds as income on line 7a of Schedule F for the year the loan is received and attaching a statement to the return showing the details of the CCC loan. Approval from the IRS is not needed to adopt this method, but once a CCC loan is reported as income in the year received, all CCC loans, in that year and in later years, must be reported in the same manner until a change in accounting method is properly filed with the IRS.

Under the CCC nonrecourse marketing assistance loan program, the repayment amount for a loan secured by the pledge of an eligible commodity is generally based on the lower of the loan rate or the prevailing world market price for the commodity on the date of repayment. If the loan is repaid when the world price is lower, the difference between that lower repayment amount and the original loan amount is market gain. A farmer can use CCC certificates to facilitate repayment of a CCC loan. If a farmer uses cash instead of certificates, the farmer will receive a Form CCC-1099-G Information Return showing the market gain realized. However, if a farmer uses CCC certificates to facilitate repayment of a CCC loan, the farmer will not receive any information return. Regardless of whether a CCC-1099-G is received, the market gain is either reported as income or as an adjustment to the basis of the commodity, depending on whether the special election has been made.

If a farmer made the special election to treat CCC loans as income when received, the farmer accounts for market gain by making an adjustment to basis. The farmer's basis in the commodity will be equal to the amount of loan proceeds previously reported as income minus the amount of any market gain. A farmer who made the special election should report market gain as an *Agricultural program payment* on line 6a of Schedule F, but not as a taxable amount on line 6b. A farmer reports market gain in the same way even if the farmer used CCC certificates to facilitate repayment of the loan and does not receive Form CCC-1099-G with respect to the transaction.

Note that if a farmer did not make the special election and the CCC loan was not included in income as noted above, the market gain is reported on line 6a **and** as a taxable amount on line 6b of Schedule F. This is the case even if the farmer used CCC certificates to facilitate repayment of the loan and does not receive a Form CCC-1099-G.

Farmers who do not make the special election to treat CCC loans as income when received should report market gain as income, and those farmers who do make the special election should account for market gain as an adjustment to basis, even though Forms CCC-1099-G may not be received.

Farmers who have already filed their 2003 Form 1040 individual return and failed to report market gain properly should file an Amended Form 1040 by April 15th to reflect the proper tax treatment.

IRS Publication 225, "Farmer's Tax Guide," has more information on how farm income should be reported and the tax consequences of CCC transactions. Publication 225 and tax forms are available through the IRS Web site at IRS.gov, or by calling 1-800-TAX-FORM (1-800-829-3676). Taxpayers can also contact the IRS toll-free at 1-800-829-1040 for more information.

For Immediate Release

Friday, May 9, 2003

Grassley Expresses Concern About Adequate Tax Guidance for Farmers

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today asked the Treasury Department to respond to his concerns that taxpayers may be getting unclear guidance on key agricultural issues.

The text of Grassley's letter follows.

May 9, 2003

Pamela F. Olson
Assistant Secretary of the Treasury
Office of Tax Policy, Room Number 1334
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ms. Olson:

It has been brought to my attention that due to the long evolution of federal farm subsidies, it would be appropriate for your department to review all of the current reporting requirements and determine if there is adequate published compliance guidance currently available on all types of federal farm subsidies.

As you know, throughout my career and now as the Chairman of the Senate Finance Committee, I have always believed that the only way to have a tax system based upon voluntary compliance by American taxpayers is to have fair and forthright educational tools available for the public and their advisors. This requires the Treasury and the Internal Revenue Service to review, update and reach out to those taxpayers with adequate written guidance.

Over the last few months it has been brought to my attention that the reorganization of the IRS has resulted in the termination of several agricultural tax teaching programs traditionally coordinated with agricultural universities. I find it disturbing that as the complexity of agricultural tax compliance increases, the IRS has discontinued the availability of any training programs in this highly specialized area. It is a shame when you have taxpayers and their advisors striving to educate themselves in the correct methods of reporting that the program would be cut off for reasons based solely on reorganization.

In addition, I have also been made aware of the fact that there also seems to be inconsistencies in the "Market Segment Specialization Program", Audit Technique Guide for Farming, in reference to the correct reporting of government farm program payments. As you know, the farming economy traditionally does not work on sufficient margins from year to year to afford the luxury of realizing there are inconsistent reporting techniques upon audit several years after filing a tax return.

I believe that Rev. Rul. 87-103 needs to be reviewed and updated. In addition, I also think there is uncertainty as to the filing and reporting requirements surrounding Form CCC 1099-G. We should be helping and not hindering the American taxpayers and their advisors who are struggling to give sound advice and simply file the correct forms.

Please direct your staff to start the review and update of Rev. Rul. 87-103 along with appropriate reporting requirements by the correct government agencies, to give full updated compliance directions for all of the federal farm subsidy payments, including U.S. Department of Agriculture's current commodity certificate program.

In closing, I remind you, we need to keep American farmers doing what they do best -- feeding America, and not becoming bogged down by unclear guidance. Sound, prompt guidance by the U.S. Treasury will avoid that result.

Sincerely,

Charles E. Grassley
Chairman