Farmers have now received their debit card if they participated in the non-StarLink litigation and their claim was accepted. Questions have arisen regarding how the payment should be reported to the Internal Revenue Service.

Details regarding the settlement, and the process used to qualify for a payment can be found in an article posted at:

As an enhancement to the payment, it was agreed that the farmer will receive payment in the form of a Visa debit card. Their share of the settlement will be encoded on the card, which can then be used for purchases from any merchant who accepts Visa. The card can also be converted to cash by using it in an ATM machine. An agreement was also reached with Tractor Supply Company to give the farmer a 10% discount for any purchases from Tractor Supply where the debit card was used for payment.

The payment leads to the following questions.

Is this a taxable payment, and if so, how is it reported?

Yes this is taxable, even though a Form 1099 might not be issued. The purpose of the award is to reimburse farmers for loss of revenue. It will be reported on the same form where they would report their normal grain sales. For individuals, this is either Schedule F or Form 4385.

If the farmer does not use the debit card until January 2005, can he defer the income recognition until 2005?

No. Since the money is available to the farmer in 2004, under the doctrine of constructive receipt, it is taxable in 2004.

If the farmer uses the card to make farm purchases, must she report the income?

Yes, the farmer must report the income, but he is also entitled to take a deduction for the purchases as long as they qualify as ordinary and necessary expenses under IRC §162.

The farmer paid an outside service to prepare his claim. Is this payment deductible?
Yes, it can be deducted on the same form where the income is reported.

The farmer receives payment for all corn acres in 2000. His lease with the landlord calls for the landlord to receive 50% of the corn crop. Must the StarLink award be shared with the landlord?

Since only farm operators could apply for payment, the tenant should pay the landlord for his share. This is required by the court approved settlement agreement. If the tenant incurred costs to prepare his claim, he can share these expenses with the landlord.

**How does the tenant report this payment?**

The tenant will report 100% of the award on his tax return. He will then take a deduction on the same form for the portion paid to the landlord. The landlord should report the portion received in the same way he reports income from the sale of his crops.

**Must the increased value of the card, because of the 10% Tractor Supply discount be reported as income?**

No, but the farmer will only be able to deduct the actual price of his purchases after receiving the discount.