

Commodity Credit Loans

Abstract:

The rules relating to the taxation of CCC loan proceeds have not changed. They may still be treated as income in the year received or treated as a loan. There have been some recent IRS examination adjustments regarding CCC loans. The rules and the adjustments are discussed in this section.

COMMODITY CREDIT CORPORATION LOANS

The Commodity Credit Corporation makes loans to farmers using their crops as collateral. The grain is valued at a certain dollar amount per bushel and the farmer can borrow up to a certain percentage of this dollar amount. The farmer can repay the loan to the CCC (Termed Redemption) and then sell the grain, feed the grain, or store it. The farmer can also turn the grain over to the CCC in satisfaction of the loan (Termed Forfeiture). If the loan is repaid, the farmer must pay interest but if the grain is forfeited to the CCC, no interest is charged.

Farmers usually report income from a crop in the year it is sold. However, if they pledge part or their entire crop to secure a CCC loan, they can elect to report loan proceeds as income in the year the loan is received (I.R.C. §77).

When a farmer receives the first loan from the CCC, there is a choice of reporting the loan proceeds under one of two methods:

1. Loan Method: The loan is treated as any other loan (no income is reported because the debt equals the amount received).
2. Income Method: The CCC loans are treated as income in the year they are received.

The I.R.C. §77 income election must be made **on a timely filed return**; it cannot be adopted on an amended return (Rev. Rul. 56-358). The income election is considered as an adoption of an accounting method and is binding on all future years. If a farmer has treated all previous CCC loans as loans, the election to treat subsequent loans as income can be made without the approval of the IRS.

The election is binding on all future CCC loans until permission to change the accounting method is granted. The election applies to all crops and to all subsequent years.

RECENT ISSUE IDENTIFICATION

Recent examination adjustments have been made relating to the CCC loans. The farmers were reporting CCC loans on the loan method. The farmer took the grain under CCC loan to the elevator and the elevator issued the check to the CCC for the repayment of the loan. The elevator also issued a check to the farmer for the net between the gross sale and the CCC repayment. The farmer correctly reported the net sale.

In one case, the farmer failed to report the CCC loan repayment in income since the amount was not deposited in the bank account. In other cases, the check that the elevator issued to the CCC overpaid the loan and the CCC issued a refund check to the farmer who failed to include this refund in income. In the latter cases it was determined that the refund amount should have been included in income since the taxpayer was using the CCC Loan amount as income and not the entire sale as income per the books and records. The farmer failed to report this refund amount in income since he thought it was the market gain. It was determined that this refund amount was caused by market fluctuations that occurred between the day the farmer received the loan payoff amount and the day the loan was actually paid off. It had nothing to do with the market gain reflected on the Form 1099G.

Practitioner Caution. When these loans are being paid off by the elevator, ensure the correct amount of income is being reflected since many farmers report income using bank deposits. If these amounts are never deposited, they may be overlooked.