Abstract

In early 2002, the IRS issued a Revenue Procedure that allows a change in reporting methods from treating CCC loans as income to reporting CCC loans as loans. Rev. Proc. 2002-9, I.R.B. 2002-3. Under the procedure, a taxpayer who has been reporting CCC loans as loans may shift at any time to reporting CCC loans as income.

Effective for taxable years ending on or after December 31, 2001, a taxpayer reporting CCC loans as income can switch automatically to treating CCC loans as loans. For the year of change, all loans that year are reported as loans.

Loans taken out previously continue to be treated as if the election to report loans as income is still in effect. As the 2002 guidance states, the change is made on a “cut-off” basis.

The change can be very helpful for those wishing to revert back to treating CCC loans as loans late in the taxable year.

An eligible taxpayer may use agricultural commodities as collateral for a loan from the CCC. The loans are non-recourse, so at maturity, if the loan plus interest is not paid, the commodity may be forfeited to the CCC as full payment for the loan.

NO ELECTION MADE

If the election has not been made to treat CCC loans as income when the loan proceeds are received, the taxpayer has no taxable income until the commodity serving as collateral for the loan is sold or forfeited to the CCC as payment on the loan. Thus, the mere taking out (and payment of) a CCC loan does not in itself have income tax consequences. Income tax is due on forfeiture of the commodity to CCC or sale of the commodity after discharge of the CCC loan.

Example 1 Ron has not made an election to treat his CCC loans as income. On December 3, 2003 he takes a $190,000 CCC loan on his corn. He forfeits the corn to CCC on September 5, 2004. Ron will report $190,000 of income on his 2004 Schedule F.

Example 2 Sara has not made an election to treat her CCC loans as income. On November 18, 2003, Sara takes an $80,000 loan on her corn. Sara finds she needs the corn to feed her livestock. Therefore, she repays the CCC loan on April 15, 2004. Sara will not report any income from the CCC loan in either 2003 or 2004.

Example 3 Using the same facts as Example 2, Sara sells the corn in May 2004 for $82,000. She reports $82,000 of corn sales on her 2004 Schedule F.

Election Made to Report CCC Loan as Income

A taxpayer may elect to report CCC loans as income in the taxable year in which the loan is received. Under previous law, the election, once made, applies to all subsequent taxable years unless permission was obtained from the IRS to revert back to treating CCC loans as loans. The election applied to all commodities for that taxpayer. The elected loan amounts are reported on line 7a (CCC loans reported under election) of Schedule F. If a taxpayer wishes to change his election, he must notify IRS by attaching a completed Form 3115 to his tax return.
**Note.** When a farmer receives a CCC loan, there is no reporting of it on Form CCC-1099-G.

**Example 4** Al treats his CCC loans as income. He obtained a $130,000 CCC loan on his corn on November 27, 2003. Therefore, he will report $130,000 as income on his 2003 Schedule F.

**Example 5** Assuming the same facts as **Example 4**, except Al repays the loan on July 1, 2004. The $130,000 repayment will give Al basis in his corn. Therefore, he is entitled to deduct $130,000 as feed expense if he feeds the corn to his livestock. Likewise, he will treat the actual sale of the corn as if it were purchased for resale and his cost will be $130,000.

The only difference in the taxation of the CCC loans is when income is recognized.

**Example 6** Tammy has always treated her CCC loans as income. She has income in 2004 that is higher than normal and would like to treat the 2004 loans as loans. She can do this by filing Form 3115. However, since she treated her 2003 loans as income, any repayments made to the 2003 loans in 2004, will be treated as basis transactions.

**Caution** The election is made for all crops in a given year, rather than on a crop-by-crop or by loan basis.