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Changing CCC loan reporting

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sanctioned USDA beef quality grading system that is
the basis of conventional consumer wisdom on beef
quality.

Moreover, dwelling too closely on the environmental
problems of grain feeding may cause a strong back-
lash from the conventional beef industry. Further-
more, even the word “grain” is a very attractive
word, especially to natural foods customers, who of
course associate it positively with human consump-
tion and transfer this to cattle without realizing the
differences in cattle nutritional requirements. In
summary, despite our strong commitment to the
concept of grassfed beef, we wonder if some lessons
may just be too hard and expensive to teach, at least
at this point of consumer consciousness.

11) Quality of life and sustainability on a personal level
We wanted to start a marketing cooperative to
preserve our way of life, but the time and pressure of
running our own beef operation, and our financial
losses, actually detracted dangerously from family
life and our farm operations. Ironically, while trying
to devise a way to produce beef in an environmen-
tally sustainable way, we accidentally fell into a
pressured schedule that was destructive to the
values of family we were trying to preserve, and that
was unsustainable on a personal level. Thus our
business risk also became a personal risk. Agricul-
ture is already hard enough. We strongly believe
that supplemental enterprises must be consistently
operated at a personal cost that will be compatible
with farmers’ values and way of life.

Summary
The Tallgrass Prairie Producers Co-op recommends
that projects to market added-value beef be devel-
oped with a sound business plan, adequate capital,
professional management, cost-effective operations,
consistent supply, compliance with legal standards
and access to low-cost processing and volume mar-
kets. All the costs of the business must be accounted
for in order to protect the core values and goals of the
farmers.

Many have described our odyssey as a remarkably
successful effort that took us much farther than most
groups of this type ever get. One expert character-
ized our activities as a “successful test market” of a
product that could some day be taken to the commer-
cial level with adequate capital and professional
guidance.

In recent months, our co-op has been exploring the
possibility of joining together to develop a coopera-
tive tourism enterprise in which we would host
guests on our ranches and offer authentic experi-
ences in ranch daily life and prairie ecology. We also
are considering remaining as a ranching cluster that
shares production ideas and economic information in
an effort to assist and advise each other on economi-
cally and ecologically successful ranching strategies.

We don’t know where all this will lead us. What we
do know is that we have been fortunate to know each
other and have developed tremendous loyalty,
respect, and affection for one another. No matter
what happens, we have been through an adventure
together that we will never forget, and we will
always be friends.

Changing CCC loan reporting *
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The choices in reporting Commodity Credit
Corporation (CCC) loans have been clear for
many years. But in early 2002, the Internal
Revenue Service ruled that a change in reporting
methods from treating CCC loans as income to
reporting CCC loans as loans has been modified and
relaxed. That is a significant change for affected
taxpayers.

The basic CCC loan pattern
As is well known, an eligible taxpayer may use
agricultural commodities as collateral for a loan from
the Commodity Credit Corporation. The loans are,
basically, non-recourse so that, at maturity, if the

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included.
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.

Election made to treat CCC loan as income. A taxpayer may elect to report CCC loans as income in the taxable year in which the loan is received. The election, once made, applies to all subsequent taxable years unless permission is obtained from the Internal Revenue Service to change back to treating CCC loans as loans.

The election to treat CCC loans as income applies to all commodities for that taxpayer. Actually, the election involves reporting as income the value of the commodity held as collateral up to the amount of the loan rather than reporting the loan itself as income. As the regulations state—

“If a taxpayer elects or has elected…to include in his gross income the amount of a loan from the Commodity Credit Corporation…then—

“(1) No part of the amount realized by the Commodity Credit Corporation upon the sale or other disposition of the commodity pledged for such loan shall be recognized as income to the taxpayer, unless the taxpayer receives an amount in addition to that advanced…as the loan.”

IRS has ruled that a Section 77 election, once made, applies to all loans in that year.

For loans redeemed the same year, the courts have been divided. The Fifth Circuit Court of Appeals in the 1963 case of Thompson v. Commissioner held that no income was realized from the loan allocable to a commodity that was redeemed in the same taxable year that the CCC loan was taken out. As the court stated—

“§ 77 does not prescribe that the loan is income. It prescribes that it should be ‘considered as income’ and when so done, the method of computing income so adopted shall be adhered to…”

The Ninth Circuit Court of Appeals, on the other hand, held in 1968 in United States v. Isaak that the loan amount was income, even though redeemed the same year. As the court noted, the loan is the taxable event.

Changing methods of reporting

A taxpayer who has been reporting CCC loans as loans may shift at any time to reporting CCC loans as income. The question is the procedure for shifting from reporting CCC loans as income to reporting such loans as loans.

Before 2002, under the regulations, application for permission to change had to be filed within 90 days after the beginning of the taxable year to be covered by the return. IRS has established procedures for taxpayers to receive a 90-day extension of time for applying for a change in method of accounting under the regulations. Note that, in general, requests for a change in method of accounting for several years have been able to be filed until the due date of the return with extensions.

Effective for taxable years ending on or after December 31, 2001, IRS has ruled that 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 was still in effect. As the 2002 guidance states, the change is made on a “cut-off” basis.

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