
Qualified Patronage Dividends

Cooperatives generally issue "Qualified written notices of allocation" to their members. As discussed in the Farmer's Tax Guide, at least 20% of the patronage dividend or payment must be in cash to be a "Qualified written notice of allocation." In this case the entire amount of patronage dividend must be reported as income on your tax return.

Categories and Accounts Needed

Two additional categories and an account are needed to track qualified patronage dividends, one category for the cash portion, one category for the noncash portion and one asset account to track the basis in taxable dividends not yet redeemed in cash. Categories names in the FARM&HOME.QIF file in the **Categories and Classes** chapter are Patr Div-C, Patr Div-NC. The asset account would be named PatrDivBasis.

Example:

Assume you receive a qualified Patronage Dividend check from XYZ Cooperative for \$234.00. The statement attached to the check shows that the full dividend is for \$1,170.00. The entry into the check register for *FARM CHECKING* would be made as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
12/30/XX	DEP	XYZ Co-op.	Qualified Patronage Div	--SPLIT--	234.00

****Split Screen Detail****

<u>Category</u>	<u>Amount</u>
1. Patr Div-C	234.00
2. Patr Div-NC	936.00
3. [PatrDivBasis]	-936.00

This transaction adds the cash amount, \$234, to the checking account. Both the cash and noncash portions are recorded as tax-related amounts and will be reported as income on Schedule F. The offset for the noncash portion is an asset account, [PatrDivBasis]. This will show the tax basis or amount of qualified patronage dividends which have been reported as income for tax purposes, but which have been retained by the cooperative for its use. At some future time you may be able to receive additional cash reimbursement. It will not be taxable because you have already reported the amounts on previous tax returns.

If you receive a non-qualified patronage dividend, simply enter the cash received as income, using the Patr Div-C category. Retain the notice in your permanent records, but no other entry or tax impact occurs at this time. A nonqualified notice of allocation has a zero basis, therefore will not be recorded in the asset account, [PatrDivBasis].