

CCC Loans

Tax law allows for the treatment of CCC loans either as a loan, or as income. Some farmers use the first option and treat CCC loans as loans. Other farmers make the election to treat CCC loans as income. Once elected, you must continue to report in this manner unless you request permission to revert back to the treatment of CCC loans as loans for tax purposes. This permission is automatic and is requested by filing IRS Form 3115.

Income Tax Treatment of Various Dispositions of CCC Loans and Commodities		
Disposition of the Loan or Commodity	Treatment of CCC Loan When Received	
	Treated as Income (i.e., Farmer Made § 77 Election)	Treated as Loan (i.e., Farmer Did Not Make § 77 Election)
Loan paid off by forfeiting grain	No further income reported	Amount of loan reported as income
Grain redeemed by paying off loan with cash	Farmer has basis in grain equal to loan amount	Farmer has a zero basis in the grain
Grain redeemed at posted county price (PCP) that is less than loan rate	Farmer has basis in grain equal to loan amount minus marketing loan gain	Farmer has additional income, marketing loan gain = (loan rate - PCP) x number of bushels
Redeemed grain is sold	Farmer has gain (loss) equal to sale price less amount of loan, which is the basis in the grain	Farmer has income equal to sale price
Redeemed grain is fed	Farmer has a feed deduction equal to the amount of the loan which is the basis in the fed commodity	Farmer has no deduction

CCC Loans As Loans

If you treat the CCC loan as a loan, the procedure for recording the loan is shown in Example 15 in the **Data Entry** chapter. You will need to create a liability account such as [CCCLoan]. When you get the loan, the money is deposited into the checking account with the category for the entry being [CCCLoan]. This transaction increases the balance in the checking account by the amount of the loan and transfers the same amount as a liability into the loan account [CCCLoan].

When repaying the loan use the split screen to record the principal payment with the category entry (transfer) of [CCCLoan] and the interest and other expenses are charged to the respective expense categories.

In the case where the CCC loan is paid off for a lesser amount based on the Posted County Price (PCP), the amount of the debt forgiven (the marketing loan gain) needs to be recognized as additional income. Recognizing the marketing loan gain requires an extra line in recording the payoff a CCC loan.

A REPAYMENT EXAMPLE - A farmer takes out a CCC loan on 10,000 bushels of soybeans. The loan rate is \$5.35 per bushel and the total amount of the loan is \$53,500. Several months later the PCP for the grain is \$4.90 and the farmer decides to redeem his beans by paying off the loan for \$49,000. He now has a marketing loan gain of \$4,500, the difference between the original loan amount and the amount paid to redeem the beans. The register entries in the *FARM CHECKING* account to pay off this loan at the PCP would be as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
3/1/XX	101	County FSA		--SPLIT--	\$49,000.00

****Split Screen Detail****

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. [CCCLoan]	Loan payoff	53,500.00
2. govt payments	Marketing loan gain	-4,500.00

If the loan amount shown in the [CCCLoan] account was \$53,500, the above entry in the *FARM CHECKING* register will zero out [CCCLoan] and will recognize the marketing loan gain of \$4,500. When CCC loans are repaid using the PCP and the PCP is less than the loan rate, the interest accrued on the loan is forgiven and not considered to be income.

ANOTHER REPAYMENT EXAMPLE - A farmer takes out a CCC loan on 10,000 bushels of soybeans for \$53,500. Some time later he locks in the PCP of \$4.90 to repay his loan and at the same time contracts his beans for delivery at \$5.00. He delivers the beans to the elevator and takes the check for \$50,000 to FSA to repay his loan. FSA then issues a check to the farmer for \$1,000, the difference between the loan payoff and the check from the sale of the soybeans. The register entries in the *FARM CHECKING* account to pay off this loan would be as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
3/1/XX	DEP	County FSA		--SPLIT--	\$1,000.00

****Split Screen Detail****

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. grain sold	10,000 bu @ \$5.00	50,000.00
2. [CCCLoan]	Loan payoff	-53,500.00
3. govt payments	Marketing loan gain	4,500.00

****NOTE**** If the soybeans had been sold to the elevator at the PCP of \$4.90, the deposit amount would be \$0 and the **grain sold** entry would be \$49,000. The entries for [CCCLoan] and **govt payment** would be the same.

CCC Loans Treated As Income

If you treat the CCC loan as income, the loan is income in the year received. You must set up an asset account and record the amount of the loan. When the loan is redeemed (or forfeited), you offset the asset account, and report the difference between the sale (or forfeiture) of the grain and the basis from the asset account as additional gain or loss. Interest paid and any other associated expenses are charged to the appropriate categories.

Accounts & Categories Needed

An income category and an expense category and two accounts are needed to properly report CCC loans that are reported as income. The categories are included in the Category & Transfer list of the Farm&Home.QIF file in the **Categories and Classes** chapter.

CCCLoanAsInc

This is an income category used to report the CCC loan as income. This is a tax-related category and is reported on line 7a, CCC loans under election, on Schedule F and is reported in the year the loan is received.

[CCCLoan]

This is a liability account and was discussed previously. This liability account is used regardless if CCC loans are treated as loans or as income.

[CCCBasis]

This is an asset account. The amount of CCC loan(s) treated as **INCOME** is reported as taxable income in the year the loan(s) is received and creates a basis in the grain equal to the loan amount. This basis (equal to the loan amount) is added to this account. If the grain is forfeited to repay the loan, no additional taxable income is due since the income from forfeiture is exactly offset by the basis. However, the appropriate entries should be made to reflect payment of the loan. If the loan is paid off with cash, this basis can be reported as a tax deductible expense when the grain is sold or fed. If the grain is sold, the basis is reported as CCCGrCost discussed next. If the grain is fed, the grain's basis is reported in the Feed Purchased category.

CCCGrCost

This is an expense category to record the basis (cost) of the redeemed (or forfeited) CCC grain sold, when you treat CCC loans as income. It is a tax-related category and is reported on line 2 of Schedule F.

Loan numbers, quantities and amounts need to be recorded to help keep track of each loan. If part of a loan is redeemed, part of the cost can be deducted at the time the grain is sold. If redeemed grain is still on hand at the close of the business year, the [CCCBasis] account will show the cost basis, for balance sheet purposes, of redeemed grain to be used for resale or for feed.

Example

On 10/27/20X4 \$53,500 is received for soybeans placed under CCC loan. **You report CCC loans as income on your tax return for 20X4.** On 5/16/X5 the loan is paid off along with \$1,951 of interest. The entries would be made in the *FARM CHECKING* register as follows.

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
		Previous Balance				15,000.00
10/27/X4	DEP	County FSA	10,000 bu.	--SPLIT--	53,500.00	68,500.00
Split Screen Detail						
		<u>Category</u>			<u>Amount</u>	
		1. CCCLoan As Inc			53,500.00	
		2. [CCCLoan]			53,500.00	
		3. [CCCBasis]			-53,500.00	
5/16/X5	101	County FSA	10,000 bu.	--SPLIT--	55,451.00	13,049.00
Split Screen Detail						
		<u>Category</u>			<u>Amount</u>	
		1. [CCCLoan]			53,500.00	
		2. Interest Exp			1,951.00	
5/22/X5	DEP	Farmer's Grain		--SPLIT--	54,000.00	67,049.00
Split Screen Detail						
		<u>Category</u>	<u>Memo</u>		<u>Amount</u>	
		1. Grain Sold	Sell redeemed CCC grain		54,000.00	
		2. CCCGrCost			-53,500.00	
		3. [CCCBasis]			53,500.00	

The CCC Loan of \$53,500 increases the checking account balance, adds \$53,500 to the CCCLoan account, and adds \$53,500 to the CCCBasis asset account. When the grain is redeemed in May 20X5, the \$55,451 comes from the checking account to pay off the loan and the accrued interest. When the soybeans are sold, the basis is used to reduce taxable income. To create the deductible expense, reduce the CCCBasis account by \$53,500 and increase the CCCGrCost expense category by \$53,500. This has no effect on the checking account balance, but makes the taxable portion of the grain sale \$500 (\$54,000 - \$53,500). The \$53,500 was reported as taxable income in 20X4, the year before. If the soybeans had sold for less than \$5.35 (the loan rate) per bushel, the taxable portion of the sale would be negative rather than positive as shown in this example.

As discussed earlier, in situations where the posted county price (PCP) is less than the loan rate, the loan can be paid off for a lesser amount (based on the PCP) than the original loan amount and a marketing loan gain results. When **CCC loans are treated as income** and the loan is later repaid for a lesser amount based on the PCP, the resulting marketing loan gain reduces the basis in the redeemed grain by the amount of the gain.

Using the same facts from the above example, but when the loan is paid off on 5/16/X5, the soybeans can be redeemed and the loan paid off for \$49,000 based on the PCP (the original loan amount was \$53,500) and the interest accrued is forgiven. The payoff of the loan and the reduction in the basis of the redeemed grain is shown in the *FARM CHECKING* account register:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
		Previous Balance				\$58,700.00
5/16/X5	102	County FSA	10,000 bu.	--SPLIT--	49,000.00	9,700.00

****Split Screen Detail****

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. [CCCLoan]	Loan payoff	53,500.00
2. [CCCBasis]	Marketing loan gain	-4,500.00

This register entry pays off the CCC loan for \$49,000 (original loan amount was \$53,500) and reduces the basis in the redeemed grain by the difference between the original loan and the amount to pay it off, \$4,500. The basis in the redeemed grain is now \$49,000. The \$4,500 marketing loan gain will be taxed on Schedule F when the grain is sold with a reduced basis of \$49,000. Or if the grain is fed, it will show up as a reduced feed expense due to the reduced basis of \$49,000.

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