

RIGHT RISK NEWS

Tax Implications of Government Programs Payments under COVID

DATES TO REMEMBER

Spring-planted crops Noninsured Crop Disaster Assistance Program (NAP)
 Deadline for springseeded forage and all other crops
 - April 1, 2020

Spring crop acreage reporting deadline
 - July 15

For more information see:
<https://www.rma.usda.gov>
<https://www.fsa.usda.gov>

Farmers and ranchers are in the midst of filing tax returns for the 2020 tax year. They and their tax consultants are sorting through unusual sources of income, analyzing whether new COVID-19 tax benefits apply, and determining how to report these items on their income tax returns. Following are a few selected sources and how they might impact farmers and ranchers. It is important to note that Congress continues passing legislation, some of which may have retroactive impacts, and the Department of Treasury has yet to provide guidance for all aspects of the CARES Act, Tax Relief Act, and other legislation.



Stimulus Payments

Many Americans received two rounds of economic impact payments in 2020. The first round of “stimulus payments” were generally \$1,200 per taxpayer and \$500 for each qualifying child. The second payments were generally \$600 per taxpayer and \$600 for each qualifying child.

Taxpayers must reconcile these payments on their 2020 income tax returns. Taxpayers who did not receive advance payments in amounts up to the recovery rebate credit to which they are entitled, may claim the credit on their 2020 return. If a taxpayer received a payment that is more than their calculated recovery rebate credit, the taxpayer does not repay the difference.



Paycheck Protection Program

Paycheck Protection Program (PPP) loans are designed to help business operators meet payroll and non-payroll expenses with the focus being on the operator’s ability to keep people employed. PPP loans also allowed employed individuals to cover some of their withdrawals. A feature of the PPP loans is that the amount borrowed will be forgiven if the borrowed monies are used for qualified expenses paid during the stipulated period.

The CARES Act provided that the proceeds of PPP loans, if forgiven, be excluded from the gross income of the borrower. Treasury guidance directed that expenses paid with loan proceeds “reasonably expected to be forgiven” were not deductible. However, Congress explicitly overrode Treasury guidance, with passage of the Consolidated Appropriations Act of 2021 and other legislation, by providing that “no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied by reason of a forgiven PPP loan’s exclusion from gross income.”

How Much Risk is Right for You?

Thus, PPP loan proceeds will not be reported on a Form 1099 and will not be reported on the borrower's federal income tax return. Businesses that paid otherwise deductible expenses with PPP loan proceeds will continue to deduct those expenses on their federal tax returns. The Department of Treasury is expected to provide additional guidance about reporting both income and expenses. It is important to note that some states may treat PPP loan proceeds and the corresponding deductions differently.

Emergency Injury Disaster Loans

Some farmers and ranchers received Emergency Injury Disaster Loans (EIDL) from the Small Business Administration. Under the CARES Act, any advances on the loans were to be included in gross income. However, the "Tax Relief Act" changed the rules retroactively so that EIDL advances are excluded from gross income and corresponding expenses remain deductible. Again, some states may treat EIDL advances differently for state income tax reporting purposes.

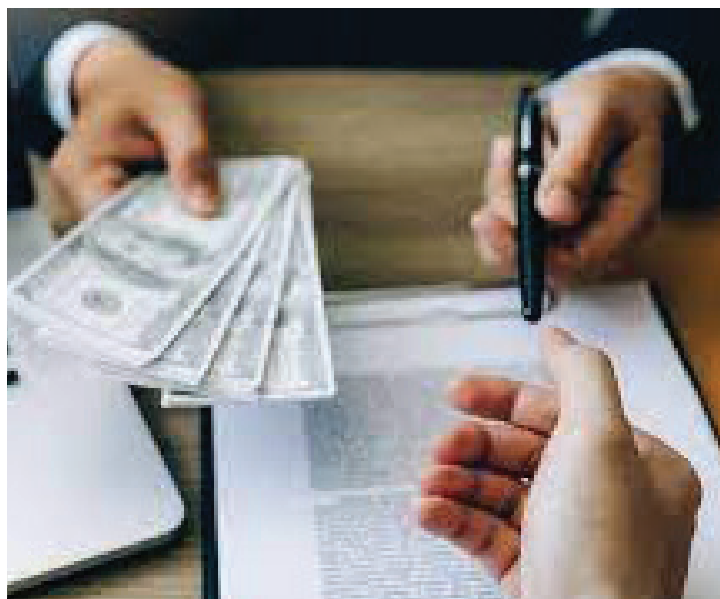
Coronavirus Food Assistance Program

The Coronavirus Food Assistance Program (CFAP1 and CFAP2) was designed to help offset COVID-19 related losses incurred by farmers and ranchers. CFAP payments should be included on any Form 1099 sent to payment recipients. Farmers and ranchers must include CFAP payments in gross income for the year in which they are received. These payments are also subject to self-employment taxes.

Net Operating Losses

The CARES Act modified rules pertaining to net operating losses (NOLs) arising in tax years beginning in 2018, 2019, and 2020. While existing Internal Revenue Code allowed for NOLs to be carried back two years, the new rules allow NOLs to be carried back five years.

When the CARES Act removed the two-year carryback for those tax years, it did not provide farmers and ranchers with an option to revoke their previous elections. In other words, if a farmer or rancher did not carry a NOL back two years in 2018 and 2019, the CARES Act provided no options for taking advantage of the five-year carryback. The Tax Relief Act addressed these issues by allowing farmers and ranchers to disregard the CARES Act changes. They now have an irrevocable election to maintain the two-year carryback of NOLs, or they may carry the NOL back five years for 2018 and 2019.



One result of the five-year carryback – electing to not maintain the two-year carryback – is that a farmer or rancher will need to amend their tax returns for tax years 2018 and 2019.

Tax Filing Deadline

Many farmers and ranchers typically file their tax returns by March 1 of each year or pay their estimated taxes by January 15th. With all the changes to the Internal Revenue Code – some of which are retroactive – and a lack of critical guidance from the Department of Treasury, some farmers and ranchers may have missed the tax payment deadlines. Missing the deadline may subject farmers and ranchers to a penalty for underpayment of taxes.

Reporting income and deductible expenses for the 2020 tax year is a complicated endeavor. Many farmers and ranchers realized income from atypical sources, and some expenses may or may not be deductible as they were in past years. It is critical that taxpayers seek counsel from highly trained and knowledgeable tax preparers to avoid costly mistakes.

Taxpayers should study changes to the Internal Revenue Code in order to ask good questions and provide sound information to their tax preparers. Two good sources of relatively understandable language are the “Ag Docket Blog” at www.calt.iastate.edu and on-going uploads to www.ruraltax.org.



~ OTHER RIGHTRISK NEWS ~

NEWS RELEASE - FEB. 1 | RIGHTRISK

Ag Lending Update: Fewer New Loans to Farmers

Fewer new loans to farmers continued to drive a pullback in agricultural lending activity. A historically low number of new loans contributed to an increase in average loan size and drove a slight decrease in the overall volume of non-real estate loans at commercial banks in the fourth quarter. Stronger prices for agricultural commodities, alongside continued support from government payments, may have reduced financing needs for some farmers and contributed to the slower pace of lending . . .



NEWS RELEASE - FEB. 17 | RIGHTRISK

Ag Lending Update: Farm Economy Rebounds Sharply | Federal Reserve

Prospects for farm income and agricultural credit conditions rebounded sharply in the fourth quarter of 2020. The average price of corn, soybeans and wheat increased more than 20% from the previous quarter, and reached six year highs in December. Livestock prices, while still less than a year ago, also improved from lows reached earlier in the year. Government payments provided broad support through the year and, together with recent price increases, the near-term outlook for the farm sector improved dramatically . . .

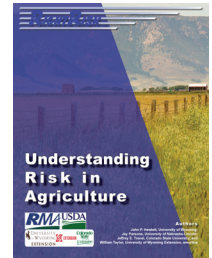


For more see: RightRisk.org/News

HIGHLIGHTED PUBLICATION: *UNDERSTANDING RISK IN AGRICULTURE*

Risk is generally understood to mean future events for which the outcomes are unknown or uncertain. We might also describe risk as a case where the unknown future matters; if the outcomes did not matter there would be no risk. People tend to think that complex problems require complex solutions when faced with risk alternatives. This tendency compounds the challenges even further. With risk the opposite is true. Simple rules can not only help to clarify the choices open to us, but also make the consequences more obvious.

Understanding Risk in Agriculture is an ebook drafted to accompany the course with the same name. It is intended to help readers better understand risk and the implications for managing an agricultural business, as well as how the manager might account for it when making decisions about risk and consequences.



To access the publication, see: RightRisk.org > [Courses](#) > [Understanding Risk in Agriculture](#)

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