

TAXATION OF MARKET LOAN REPAYMENT (MLR) AND LOAN DEFICIENCY PAYMENT (LDP) INCOME

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MARKET LOAN REPAYMENT (MLR) AND LOAN DEFICIENCY PAYMENT (LDP) PROGRAM PROVISIONS

1. Market Loan Repayment (MLR) Program:

! The Market Loan Repayment (MLR) program applies **only** to eligible crops that have been placed under CCC nonrecourse loan and the CCC loan **has not yet matured**. Crops not under loan are not eligible for the MLR program.

! Eligible crops include any eligible for CCC loan: corn, oilseeds (including soybeans), oats, barley, and wheat.

! The MLR program applies when repaying a **current (not yet matured)** CCC loan. Eligibility occurs when the **Posted County Price (PCP)**, on an eligible crop, is **lower than the County Loan Rate plus interest** for that crop.

! **EXAMPLE:**

Assumptions:

a) At time of loan:

- S Crop: corn
- S Amount under loan: 10,000 bushels
- S County Loan Rate: \$1.74 per bushel
- S CCC loan principal (10,000 bushels X \$1.74) : \$17,400
- S CCC loan interest rate: 5.65%
- S CCC loan interest for 9 month loan: \$737
- S Total CCC loan amount 9 month (loan principal + interest): \$18,137
- S PCP Total = bushels x PCP

b) At time of loan redemption:

- S County Loan Rate: \$1.74 per bushel
- S **Market Gain** = loan principal - PCP total
- S **Loan Interest Forgiven** = total loan amount - loan principal **OR** PCP total (whichever is greater)

S **Example 1: PCP higher than loan rate, less than loan principal plus interest (no market gain, interest forgiven)**

- Crop: corn
- Amount under CCC loan: 10,000 bushels
- County Loan Rate: \$1.74 per bushels
- PCP: \$1.77 per bushel
- CCC loan principal: 10,000 bushels x \$1.74 = \$17,400
- PCP total: 10,000 bushels x \$1.77 = \$17,700
- **Market Gain** = \$17,400 - \$17,700 = - \$300 (No Market Gain)
- CCC loan principal plus interest: \$18,137
- **Interest Forgiven** = \$18,137 - \$17,700 = \$437
- **Total Advantage: \$437**

S **Example 2: PCP less than county loan rate (market gain and interest forgiven)**

- Crop: corn
- Amount under CCC loan: 10,000 bushels
- County Loan Rate: \$1.74 per bushel
- PCP: \$1.50 per bushel

- CCC loan principal: 10,000 bushels x \$1.74 = \$17,400
- PCP total: 10,000 bushels x \$1.50 per bushels = \$15,000
- **Market Gain : \$17,400 - \$15,000 = \$2,400**
- CCC loan principal plus interest: \$18,137
- **Interest Forgiven : \$18,137 - \$17,400 = \$737**
- **Total advantage: \$2,400 + \$737 = \$3,137**

! PCP used in the MLR calculation is the PCP on the day the producer selects to initiate the MLR. No future PCP can be used.

! Producer **can not** initiate the MLR program, buy back the crop, and then elect to take a Loan Deficiency Payment (LDP) on the same crop.

2. Loan Deficiency Payment (LDP) Program:

! The Loan Deficiency Payment (LDP) program applies **only** to eligible crops **not yet sold or not yet under CCC loan**.

! Eligible crops include any eligible for CCC loan: corn, oilseeds (including soybeans), oats, barley, and wheat.

! The LDP program can be utilized when the eligible crop is still **owned by or under the control of the producer** and the **PCP is less than the County Loan Rate** for that specific crop.

! **EXAMPLE:**

- S Crop: corn
- S County Loan Rate: \$1.74 per bushel
- S PCP: \$1.50 (changes daily)
- S **LDP rate : \$1.74 (County Loan Rate) - \$1.50 (PCP) = \$.24 per bu. LDP rate**
- S **Total LDP payment = LDP rate per bushel x total bushels**

! Producer can not receive LDP on crop not yet harvested. Crop must be eligible for CCC loan.

! Producer can not receive LDP on crop bushels that have been placed under CCC loan.

! Producer can not receive LDP on crop bushels he/she have already sold, delivered on contract, or fed.

! Producer can not put the same bushels under CCC loan for which a LDP has been received.

! Producer can choose the day to initiate the LDP and designate the bushel quantity. He/she **can not** "lock in" the PCP and LDP rate. The PCP, and therefore the LDP rate, on the day the producer completes the paperwork is the PCP and LDP used in his/her transaction calculation.

! Producer can elect to take a LDP on any eligible crop up through the deadline for placing that crop under CCC loan.

! Producer can claim LDP on corn silage (contact your local FSA office staff for reporting details)

TAXATION OF MARKET GAIN AND LOAN DEFICIENCY PAYMENT GAIN

1. Market Gain from Market Loan Repayment (MLR) Program:

! Producers, when placing crops under CCC loan, can elect to record the transaction as a loan or as income for tax purposes. Reporting gain is calculated slightly different for each.

! The Farm Service Agency (FSA) will issue a Form 1099 for the difference between the County Loan Rate and the PCP. As described earlier, this amount is the amount of Market Gain from the buy back of the CCC crop loan, if the PCP is less than the County Loan Rate.

! **EXAMPLE #1:**

- S Assume a corn CCC loan with a County Loan Rate of \$1.74 per bushel. The CCC loan is repaid at a PCP of \$1.50 per bushel and is later sold for \$2.05 per bushel. **FSA will issue a**

Form 1099 for \$.24 per bushel.

S Loan Method Tax Reporting:

- No income reported when securing the CCC loan.
- Report the \$.24 per bushel Market Gain from Form 1099 as gain.
- Report the \$2.05 per bushel sale as gain.
- Total reported gain for tax purposes: \$.24 + \$2.05 = \$2.29 per bushel

S Income Method Tax Reporting:

- Report as gain the \$1.74 per bushel when securing the CCC loan.
- Report the \$.24 per bushel Market Gain from Form 1099 as gain.
- Report \$.31 per bushel gain from the grain sale (\$2.05 - \$1.74 basis).
- Total reported gain for tax purposes: \$1.74 + \$.24 + \$.31 = \$2.29.

! EXAMPLE #2:

S Assume a corn CCC loan with a County Loan Rate of \$1.74 per bushel. The CCC loan is repaid at a PCP of \$1.50 per bushel and later sold for \$1.40 per bushel. **FSA will issue a Form 1099 for \$.24 per bushel.**

S Loan Method Tax Reporting:

- No income when securing the CCC loan.
- Report the \$.24 per bushel Market Gain from Form 1099 as gain.
- Report the \$1.40 per bushel sale as gain.
- Total reported gain for tax purposes: \$.24 + \$1.40 = \$1.64 per bushel

S Income Method Tax Reporting:

- Report as gain the \$1.74 per bushel when securing the CCC loan.
- Report the \$.24 per bushel Market Gain from Form 1099 as gain.
- Deduct \$.34 per bushel as Schedule F expenses (\$1.40 - \$1.74 basis).
- Total reported gain for tax purposes: \$1.74 + \$.24 - \$.34 = \$1.64 per bushel.

S Caution:

- When buying back crop under CCC loan using the **income method**, it becomes an

“item held for resale” and can not be deducted from the Schedule F until actually sold or used as livestock feed.

! EXAMPLE #3:

S As a taxpayer who reports CCC loans as income, you receive a CCC loan for \$10,000 in November after harvest and repay it a month later in December of the same year.

The PCP is less than the loan rate so you buy back the loan for \$8,500. You sell the grain in January of the next year for a total of \$9,500. The \$10,000 loan proceeds are income for the year received. The \$8,500 **is not** an expense for the year you repaid the loan but is a deduction against the sale of the grain the following year. You report a net sale of \$1,000 (\$9,500 - \$8,500) in the year the grain is sold.

2. Loan Deficiency Payments (LDP)

! A LDP payment is considered a direct cash payment. It is therefore fully taxable in the year received.

! Example #1:

– John has 10,000 bushels of corn. His County Loan Rate is \$1.74 per bushel. On October 12th, during harvest, the PCP is \$1.54 per bushel. This equals a \$.30 per bushel LDP. John goes into his county FSA office and utilizes the LDP program and receives a total LDP payment of \$3,000 (10,000 bushels x \$.30 per bushel LDP rate). He then has a \$3,000 LDP taxable income that year as a result of the transaction.

BOTTOM LINE

! Understand the difference between the MLR and LDP programs. This is key to understanding how the gain from each is calculated.

- ! Keep good records especially when using the “CCC loan as income method” for tax reporting. When using this method of reporting, there is a higher probability of over reporting gain.
- ! Work closely with your accountant and/or tax preparer when dealing with MLR and LDP gain. This will help minimize your tax liability.