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Judy Gilbertson • May. 22, 2017



Commodity Credit Corporation (CCC) Loans are a viable option for accelerating income in times of low farm income. As a rule, loans are not included in Schedule F income. One of the benefits of a CCC loan is that an election can be made to treat the loan as income.

The first time you take out a CCC loan, you and tax specialist will need to analyze the best choice for your operation and either treat the loan as a loan or treat the loan as income. Once the precedent has been set you will by default treat all CCC loans the same way. If in a future year it would benefit your operation more to treat CCC loans with the other method, an election can be made and filed with your tax return to switch methods.

If you have chosen to treat the CCC loan as a loan, there is no difference in the

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you needed it. The income method is elected by attaching a statement to your return showing the details of the CCC loan. You do not need IRS approval or any other forms to make this election.

Example: In tax year 2016, Joe Farmer took out a CCC loan on his wheat for \$100,000. These loan proceeds are reported on his 2016 Schedule F 5a) "CCC loans reported under election". In tax year 2017, Joe sold his wheat for \$125,000. He reports the \$125,000 on 1a) "Sales of livestock and other resale items" and the tax basis of \$100,000 on line 1b) "Cost of other basis of livestock or other items reported on 1a" for a total 2017 taxable amount of \$25,000.

To change between treating CCC loans as income method to the loan method of reporting, Form 3115 is required. This form grants automatic change but needs to be filed both with the tax return in the year of change and also a separate copy filed with the IRS National Office.

If you choose to use CCC loans, a word of caution should be mentioned regarding the Farm Loss Limitation Rules. Farm losses are limited to the greater of \$300,000 (\$150,000 MFS) or the total net farm profits from the prior 5 years if you have an applicable subsidy or CCC loans. The 2014 Farm Bill eliminated the program payments that formerly fell in the applicable subsidy zone leaving only CCC loans left that will bring about the Farm Loss Limitation.

Example: In tax year 2016, Joe Farmer took out a CCC loan on his wheat. He had an overall loss on his Schedule F of \$500,000. In the prior 5 year, 2011 – 2015, Joe had net farm income combined of \$250,000. On his 2016 tax return, Joe is limited to the greater of \$300,000 or \$250,000, thus \$300,000 of Joe's \$500,000 loss can be claimed in 2016. The remaining \$200,000 will be suspended and carried forward to 2017 as a Schedule F deduction and each year after until used.

The Farm Loss Limitation also affects the NOL that would be available to carry back

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2017 Suspended Loss Carried Forward: -200,000

Joe Farmer would be unable to maximize his 2016 NOL by carrying the entire 500,000 back 5 years to recoup the high ordinary income tax paid in 2011.

Careful planning and consideration should be implemented for the use of CCC loans in order to maximize the benefits available from the program.

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