

Taxability of the Coronavirus Food Assistance Program (CFAP) Payments^{*}

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Introduction

All CFAP Recipients Must File a Tax Return

The Coronavirus Food Assistance Program (CFAP) was established to provide financial assistance to agricultural producers who have suffered a five percent or greater price decline, or who had losses due to market supply chain disruptions due to COVID-19, and possibly face additional and significant marketing costs. The purpose of the payment is to replace the reduced or lost income from adverse price declines and market disruptions. These payments are included in gross farm income in the year that they are received.

All settlement recipients will need to file a federal income tax return and report this settlement as income regardless of their current income level, land status, current employment status, and even if they have not filed a federal income tax return before. Each CFAP recipient will receive a Form 1099-G. **Recipients must file a tax return to comply with IRS regulations.**

This article is intended to cover the most common actions each CFAP recipient will need to take once the Form 1099 has been received. **This information is intended for educational purposes only. Seek the advice of your tax professional regarding the application of these general principles to your individual circumstances.**

Note. All recipients of the Coronavirus Food Assistance Program payment will need to file a federal income tax return reporting this payment as income, regardless of their current income level, land status, current employment status, and even if they have not filed an income tax return before. Failure to file a return with the correct income included could result in additional amounts owed to the IRS for interest and penalties. Recipients may qualify for a tax refund. You will not be able to receive a tax refund if a return is not filed.

^{*} The information reflects the views of the author(s) and has not been sanctioned by the Internal Revenue Service.

Form 1099 Informational Returns

The 1099 tax forms are informational forms used to report various types of income (other than wages, salaries, and tips). For each form filed, one copy is sent to the Internal Revenue Service (IRS) and another copy to the recipient of the payment. The IRS will then look for and match the amounts from the Form 1099 to make sure they were reported on the recipient's federal tax return.

Although there are several common 1099 forms used for IRS tax reporting purposes, the focus of this article will be Form 1099-G. Form 1099-G is used to report government payments.

Reporting CFAP Payments on Form 1099-G

The Form 1099-G will include the total payment amount received under the CFAP program in Box 7 (Agriculture payments). The amount from Box 3 will be included in your income. This will increase your taxable income and income tax owed. However, since the payment was based on market losses, your actual taxable income and tax owed, if any, may actually be lower than in prior years.

Note. The Form 1099-G received will include the total amount paid to the recipient that was received in 2020.

Example 1 Part 1: Ima Farmer qualified for and received a CFAP payment. Ima receives a check for \$25,000

VOID		CORRECTED			
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Unemployment compensation	OMB No. 1545-0120		
USDA		\$	2020 Form 1099-G		
		2 State or local income tax refunds, credits, or offsets			
		\$	Certain Government Payments		
PAYER'S TIN	RECIPIENT'S TIN	3 Box 2 amount is for tax year	4 Federal income tax withheld		Copy 1 For State Tax Department
			\$		
RECIPIENT'S name		5 RTAA payments	6 Taxable grants		
Ima Farmer		\$	\$		
Street address (including apt. no.)		7 Agriculture payments	8 Check if box 2 is trade or business income <input type="checkbox"/>		
		\$ 25,000			
City or town, state or province, country, and ZIP or foreign postal code		9 Market gain			
		\$			
Account number (see instructions)		10a State	10b State identification no.	11 State income tax withheld	
				\$	
				\$	

Form 1099-G www.irs.gov/Form1099G Department of the Treasury - Internal Revenue Service

You will report the full amount from Form 1099-G Box 7 "Agriculture payments" on Line 4b: Agriculture program payments of Schedule F (Form 1040), Profit or Loss From Farming, as shown below. Remember that this payment is taxable and must be reported on the tax return. In addition, it is subject to self-employment tax.

Note. Although in some cases farm income derived from trust land may be exempt (Rev. Rul. 56-342, 1956-2 C. B. 20), it is still necessary to file a return with the amount from the 1099-G on a Schedule F (Form 1040). You are encouraged to seek professional assistance in filing these tax returns.

Example 1 Part 2: After receiving the Form 1099-G seen in Example 1 Part 1 (above), Ima files a tax return showing the amount from Box 7 Form 1099-G as “Agriculture Payments” on Line 4a and 4b: Agriculture Program Payments of Schedule F (Form 1040), Profit or Loss from Farming.

SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065. ▶ Go to www.irs.gov/ScheduleF for instructions and the latest information.		2020 Attachment Sequence No. 14	
Name of proprietor Ima Farmer				Social security number (SSN)	
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	
E Did you “materially participate” in the operation of this business during 2020? If “No,” see instructions for limit on passive losses				<input type="checkbox"/> Yes <input type="checkbox"/> No	
F Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions				<input type="checkbox"/> Yes <input type="checkbox"/> No	
G If “Yes,” did you or will you file required Form(s) 1099?				<input type="checkbox"/> Yes <input type="checkbox"/> No	
Part I Farm Income—Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)					
1a Sales of livestock and other resale items (see instructions)		1a			
b Cost or other basis of livestock or other items reported on line 1a		1b			
c Subtract line 1b from line 1a				1c	
2 Sales of livestock, produce, grains, and other products you raised					
3a Cooperative distributions (Form(s) 1099-PATR)		3b Taxable amount		3b	
4a Agricultural program payments (see instructions)		4b Taxable amount		4b 25,000	
5a Commodity Credit Corporation (CCC) loans reported under election		5a			

IRS Publications

More information on these and other Form 1099s can be found in “A Guide to Information Returns” on the IRS website at www.irs.gov. Enter “A Guide to Information Returns” in the search box in the top right-hand portion of the page. Detailed information on specific Form 1099s can also be found by entering the form name (ex. “Form 1099-G”) in the search box. The search results will include the specified form, and instructions for completing the form.

Additional Topics

This fact sheet was written as part of Rural Tax Education, a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets, and additional information related to agricultural income tax, please see RuralTax.org. A related article that might be helpful is “Form 1099 Informational Returns”

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

Rural Tax Education is part of the National Farm Income Tax Extension Committee. The land-grant universities involved in Rural Tax Education are affirmative action/equal opportunity institutions.

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