



February 20, 2013

Reporting Form 1099-PATR Amounts on Individual Tax Returns

Background

The IRS is reviewing individual income tax returns to determine if income reported on Form 1099-PATR has been properly reported by the taxpayer. Taxpayers selling product to cooperatives may find the cooperative reporting those sales as Per Unit Retains.

CalendarYear Individual Tax Returns

The IRS has been issuing matching letters related to amounts reported on Form 1099-PATR, Box 3, Per Unit Retains. To prevent future matching notices, farmers should reclassify income reported on the sales line of Schedule F, to list such amounts as received from the cooperative on line 3, Schedule F, Form 1040.

These amounts may be received by the farmer in cash, qualified per-unit retain certificates or other property. In several private letter rulings issued during the last three years, the IRS has provided guidance to cooperatives to report the purchase of patron product as "per unit retains paid in money" (PURPIM), reportable in Box 3 of Form 1099-PATR. Consequently, the farmer is advised to report sales of product to the cooperative on the cooperative distribution line (lines 3a and 3b), rather than in Schedule F line 2 "sales."

Income that the farmer receives from cooperatives is specifically not Domestic Production Gross Receipts (DPGR) for purposes of the Section 199, Domestic Production Activities Deduction (DPAD). The cooperative computes the deduction at its level, and may choose to pass the deduction to the farmer. If the deduction is passed to the farmer, it appears in Box 6 of Form 1099-PATR.

Regardless of the cooperative's choice in retaining or passing out the DPAD deduction, the farmer is not allowed to treat income from the cooperative as DPGR. The grain farmer who sells all of the production through the cooperative will not have a DPAD computation. The only DPAD on that tax return will be the amount reflected in Box 6, Form 1099-PATR from the cooperative, if any. Farmers with both sales to cooperatives and to non-cooperatives should determine that portion of expenses not associated with the cooperative to determine the Qualifying Production Activities Income (QPAI). QPAI will not include income from the cooperative nor deductions allocable to that income.

Forms 1099-PATR are prepared on a calendar year basis. Amounts received by the farmer during the calendar year in cash, qualified notices of allocation and other property should be reflected on Form 1099-PATR. Most cooperatives are careful to distribute qualified notices of allocation in a timely manner so that the year of distribution by the cooperative and year of receipt by the patron are the same. Because most individual farmers report on the calendar year, few discrepancies should exist regarding the amounts reflected on Forms 1099-PATR. But it is necessary to adjust line 2 Sales on Schedule F to properly reflect amounts reallocated to line 3 as cooperative distributions, if such amounts are reported to the farmer in Box 3 of Form 1099-PATR.

The Practical World

Taxpayers who sell commodities to cooperatives generally will report those amounts as sales in their books

and records. Tax preparers will need to match up the cash payments as reported on Form 1099-PATR as per unit retains. In addition, the preparer will usually need to move income reflected in commodity sales to the cooperative distribution lines on Schedule F in order to properly match the income to that taxpayer reported on Form 1099-PATR.

In the next day or so, we will issue FTN No. 2013-004, with comments on similar IRS matching efforts with respect to farm corporate tax returns.

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