

Understanding Loan Deficiency Payments (LDP), Commodity Credit Corporation (CCC) Loans and Telfarm Accounting Entries
Revised March 2006

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The payments from the government can be confusing when entered into accounting so we'll give an overview of the program and show five scenarios. Some of these examples are complicated so don't be surprised if you have questions. You may want to put these examples in a reference manual.

Example 1: Loan Deficiency Payment or LDP

Example 2: CCC Loan, No Election (treated as loan only and not taxable income) with Market Loan Gain

Example 3: CCC Loan with Election (loan treated as taxable income) with Market Loan Gain

Example 4: CCC Loan, No Election, no Market Loan Gain

Example 5: CCC Loan with Election, no Market Loan Gain

You may already be familiar with the following terms: Loan, Regular Loan, CCC Loan, Non-recourse Marketing Assistance Loan, Market Loan, Non-recourse Loan, and Marketing Assistance Loan. Let's briefly review "election", Posted County Price and Loan Deficiency Payment.

Treating the loan for a crop as taxable income in the year when received is commonly called the "election" in accordance with Internal Revenue Service Code Section 77. Once the "election" method is used and you have reported a CCC loan as income in the year received, a farmer must continue to treat all succeeding government crop loans the same way, unless you file a Form 3115 with the IRS to change. The repayment of the loan is considered an expense for income tax purposes or it becomes the basis in the commodity under the election. **The expense or change in basis is easily missed.** This would result in higher net income and paying income tax unnecessarily.

The Posted County Price (PCP) is the CCC's estimate of the local market price. The PCP may be *less* than the loan rate. When it is less, only a *portion* of the principal and *none* of the interest have to be repaid. The portion of the principal that is waived when a loan is repaid at the PCP rate is referred to as a *marketing loan gain* for the producer. These provisions only apply until the maturity date of the loan. After the maturity date of the loan, the entire original loan principal and all accrued interest must be repaid or, as an alternative choice, the crop may be forfeited to CCC. When prices are below Loan Rate, it's probably more advantageous to use the marketing loan gain approach versus forfeit.

The Loan Deficiency Payment (LDP) is potentially available when the PCP is below the Loan Rate and is the difference between the Loan Rate and PCP. The producer can earn the LDP in either of two ways.

- 1. At Harvest** - When the crop is harvested and delivered to the elevator. The LDP will be determined on the date of delivery if at harvest you lose beneficial interest in the commodity. You must have the CCC-709 form completed prior to harvest
- 2. Stored** - When there is evidence that the crop is harvested and the farmer has maintained beneficial interest. Beneficial interest is defined as having control, risk of loss and title to the commodity. Basically, if delivered to an elevator you have lost this beneficial interest.

If you do not put the commodity under loan, then you must use the Loan Deficiency Payment or LDP to gain from the PCP being lower than the Loan Rate. Under the "At Harvest" method you lose flexibility of

when to pick your day for the LDP. When you store the crop you can choose the date of your LDP. You can only pick the day as “today”. You can not go back 3 or 4 days or a week after the market has gone up and the LDP has gone down. You can also “pick your day” with the “marketing loan gain” approach.

If you might deliver to an elevator at harvest, you should get form CCC-709 signed before harvest. Without the form signed, you will lose eligibility for the LDP if you don’t have beneficial interest of the commodity. There’s no harm in filling out a CCC-709 prior to harvest because it can be negated if you end up storing the crop and maintain beneficial interest.

To maximize the LDP or “marketing loan gain” you need to pick the bottom of the market. Of course if the LDP is high, then prices are low. If you are smart enough and want to take on market risk you can try to pick the low, take your LDP or “market loan gain” then continue to hold ownership and hope the price goes up. If it goes up, great! But if it goes down, you have locked in your LDP and bear the full risk in the market. Once you take the LDP you are not eligible for the CCC loan on those bushels.

Note: please confirm your plans with your county FSA office to insure our guidance is consistent with their current program rules and results. Sometimes requirements change or are slightly different between counties. For more information visit the FSA’s web site <www.fsa.usda.gov/pas/ccc/>.

Examples

In these examples we give the basic facts, the entries necessary in Telfarm (Form 2 or Accounting Software) and then we summarize the effects of the transactions on Cash Flow, Loan Balance and Income Taxes. Cash flow shows the total change in your checkbook due to these entries although they may overlap between tax years. The Loan Balance has to zero out or your annual balance sheet will be incorrect and your cash won’t reconcile to zero. The Income may be either in the year of harvest or the following year, depending on the events.

Example # 1. Loan Deficiency Payment only (this is the easy example)

Farmer Tom Walls has “beneficial interest” in 20,000 bu of corn and the PCP is .20 less than the loan rate. Rather than take out a loan, he asks for the LDP and receives a check for \$4,000 (The FSA says that a Form 1099 for income tax purposes will be issued for the LDP amount).

His transaction is simple:

11/15/20XX GPROG \$4,000 (increases cash by 4,000 and is taxable income)

And then he can either sell or feed his corn. If he sold his corn he would put it under CORN or CORNXX as income (XX denotes the last two digits of the year).

Example #2. CCC Loan NOT under election and receives a “Marketing Loan Gain”

On November 1 Farmer Glenn Miller puts 1,000 bu of soybeans under loan, receives a check for the Loan Rate times the number of bushels, but does NOT treat it as taxable income at that time since he is NOT under “election”. His transaction would be:

Nov 1 BORR \$5,230 (increases liability and cash but not taxable income)

Nov 15 Miller picks his day for “marketing loan gain” and pays off the loan with a \$4,800 check while the soybean PCP was \$4.80 per bu (less than the government loan rate of \$5.23 per bushel).

Nov 15 PAY \$4,800 (principal payment, affects cash flow)
 Nov 15 GPROG \$430 (market loan gain, increases cash flow and income tax)
 Nov 15 PAY \$430 (principal payment, affects cash flow)

February 15, the following calendar year, Miller sells his 1,000 bu soybeans for \$5.10 per bushel

Feb 15 SOYBEAN \$5,100 (taxable cash flow income)

<u>Transaction</u>	<u>Cash Flow</u>	<u>Loan balance</u>	<u>Harvest Year Taxable Inc.</u>	<u>Next Year Taxable Inc.</u>
BORR	+5,230	+ 5,230		
PAY	-4,800	- 4,800		
GPROG	+ 430		+ 430	
PAY	- 430	- 430		
SOYBEAN	<u>+5,100</u>	<u> </u>	<u> </u>	<u>+ 5,100</u>
Net	+ 5,530	0	+ 430	+ 5,100

Example #3. CCC Loan Under Election (treated as income) and receives a “Marketing Loan Gain”

In this situation Flakes will report the MLG as a non-taxable government program payment and reduce the basis in the commodity.

Farmer Tony Flakes put 10,000 bu. of corn (\$1.82/bu) under government loan and elected to treat it as taxable income (as he normally does) in the fall of the harvest year. His spouse, Tanya, would record the following:

Nov 10 BORR \$18,200 (increases liability, puts cash into checkbook)
 Nov 10 GOVCORN \$18,200 (income for 1040F, not added into cash flow)

Dec 15 Flakes picks his day for “marketing loan gain” and pays off the loan with a \$15,300 check while the corn PCP was \$1.53 per bu (less than the government loan rate of \$1.82 per bushel).

Dec 15 PAY \$15,300 (principal payment, affects cash flow)
 Dec 15 GPROGNT \$2,900 (market loan gain, increases cash flow and is NOT taxable income)
 Dec 15 PAY \$2,900 (principal payment, affects cash flow)
 Instead of a \$2,900 MLG, the basis of the corn is reduced: \$18,200 - \$2,900 = \$15,300

March 15 of the next year Flakes sells his 10,000 bu corn for \$2.11 per bushel

Mar 15 CORNXX \$21,100 (taxable cash flow income)
 Mar 15 CORNCOST \$15,300 (non cash flow tax basis is \$18,200 - \$2,900)

<u>Transaction</u>	<u>Cash Flow</u>	<u>Loan balance</u>	<u>Harvest Year Taxable Inc.</u>	<u>Next Year Taxable Inc.</u>
BORR	+ 18,200	+ 18,200		
GOVCORN			+ 18,200	
PAY	- 15,300	-15,300		
GPROGNT	+ 2,900			
PAY	- 2,900	- 2,900		
CORNCOST				-15,300
CORNXX	<u>+ 21,100</u>			<u>+ 21,100</u>
Net	+ 24,000	0	18,200	5,800

Example #4. CCC Loan not treated as income, pays off loan with interest (No Marketing Loan Gain)

November 1, Farmer John Jones puts 1,000 bu of soybeans under loan at \$5.23 per bushel, receives a check for the Loan Rate times the bushels placed under loan, but does NOT treat it as taxable income at that time since he is NOT under “election”. The price is more than the loan rate. His transactions would be:

Nov 1 BORR \$5,230 (increases liability and cash but not taxable)

February 15 of the calendar year Jones sells his 1,000 bu of soybeans for \$5.43 per bushel

Feb 15 SOYBEAN \$5,430 (taxable cash flow income)

Feb 15 PAY \$5,230 (principal payment)

Feb 15 INT \$ 99 (interest for 3.5 months)

<u>Transaction</u>	<u>Cash Flow</u>	<u>Loan balance</u>	<u>Next Year Income Tax</u>
BORR	+ 5,230	+ 5,230	
SOYBEAN	+ 5,430		+ 5,430
PAY	- 5,230	- 5,230	
INT	<u>- 99</u>		<u>- 99</u>
NET	+ 5,331	0	+ 5,331

Example #5. CCC Loan treated as income (In Election), pays off loan with interest (No Marketing Loan Gain)

November 1 Farmer Jerry Jones puts 1,000 bu of soybeans under loan, receives a check for the Loan Rate times the bushels placed under loan. He treats the loan as taxable income at that time since he is under the “election”. The price is more than the loan rate. His transactions would be:

Nov 1 BORR \$5,230 (increases both liability and cash but not taxable income)

Nov 1 GOVSOY \$5,230 (non cash flow taxable income)

February 15 the next year Jones sells his 1,000 bu soybeans for \$5.43 per bushel

Feb 15	SOYBEAN	\$5,430 (taxable, cash flow income)
Feb 15	PAY	\$5,230 (principal payment, cash flow)
Feb 15	INT	\$ 99 (interest for 3.5 months, deductible expense)
Feb 15	SOYCOST	\$5,230 (non cash flow tax deductible expense)

<u>Transaction</u>	<u>Cash Flow</u>	<u>Loan balance</u>	<u>Harvest Year Income Tax</u>	<u>Next Year Income Tax</u>
BORR	+ 5,230	+ 5,230		
GOVSOY			+ 5,230	
SOYBEAN	+ 5,430			+ 5,430
SOYCOST				- 5,230
PAY	- 5,230	- 5,230		
INT	<u>- 99</u>			<u>- 99</u>
Net	+ 5,331	<u>0</u>	+ 5,230	+ 101

This puts most of his taxable income into the harvest year even though the crop is sold in the next year.