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CCC Marketing Loans

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Market Report	Yr Ago	4 Wks Ago	10/21/05
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$85.68	$86.44	$87.31
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	124.33	135.24	131.67
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	115.65	118.58	120.51
Choice Boxed Beef, 600-750 lb. Carcass	141.80	140.34	146.42
Western Corn Belt Base Hog Price Carcass, Negotiated	70.17	68.07	59.98
Feeder Pigs, National Direct 45 lbs, FOB	50.28	51.45	53.70
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	72.99	71.07	65.98
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	86.25	95.37	94.37
National Carcass Lamb Cutout, FOB	221.58	245.13	247.54
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Omaha, bu	3.19	*	*
Corn, No. 2, Yellow Omaha, bu	1.69	1.49	1.47
Soybeans, No. 1, Yellow Omaha, bu	4.92	5.04	5.18
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.75	2.39	2.38
Oats, No. 2, Heavy Minneapolis, MN , bu	1.55	1.75	1.85
Hay			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	117.50	117.50
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	37.50	37.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	52.50	52.50

* No market.

The current grain market situation has brought about a renewed discussion on Loan Deficiency Payments (LDPs) and marketing loans this fall. Understanding the tax situation of each may help in deciding which option is right for you. As you know, producers have the option to take a LDP or receive a marketing loan upon harvesting their crop.

An LDP is figured by taking the Loan Rate minus the Posted County Price (PCP) and is a cash payment of the difference. This payment is taxable upon receipt. One difficulty with LDP's is the county's ability to make timely payments. In the past, it has taken several weeks, if not months, for counties to process the requests and issue payment. When this occurs, it is hard to determine if the payment will arrive before or after the first of the year. This can complicate tax planning, but I have yet to hear much about this being an issue this year.

Instead of taking the LDP, a producer has the option to choose a marketing loan. If taking this option, a payment is received of the loan rate for each bushel. Then when you actually sell the bushels, you can pay off the loan at the lower of the PCP or the loan rate. If you choose to take the marketing loan, you have several other choices to make.

- You may choose to treat the loan as either a true loan or as a sale of the grain.
- If you choose to treat the loan as a loan, you do not trigger taxable gain until you sell the crop.
- If you treat the loan as income, you have a taxable event, just as if you sold the grain to the local coop.

- You may choose to lock in the PCP for 60 days or take the PCP on the day you pay off the loan.
- Either way, on the day of redemption, you have a taxable event.

Let's look at an example. John Farmer has 50,000 bushels of corn harvested and in the elevator. Let's assume a loan rate of $1.80 and a PCP of $1.40. If he chooses to take the LDP, his taxable gain would be ($1.80-$1.40) x 50,000 = $20,000.

If John would choose to take a marketing loan and elect to tax it as income, his taxable gain would be $1.80 x 50,000 = $90,000. If he chose to treat it as a loan, there would be nothing taxable at this time.

John has the option to buy back the loan at the loan rate or the PCP, whichever is lower. If he had locked in the PCP at the time of the loan and redeemed within 60 days, he would have a market gain of $20,000 (the same calculation as the LDP). More often, a producer will sell the grain to the elevator for a market price before redeeming the loan. If the market price was $1.75, John would have a market gain of ($1.75 - $1.40) x 50,000 = $17,500. This payment would be what is received directly from the coop. Often times, the coop sends the payoff of the loan directly to CCC and the producer only receives the amount over the PCP.

If John treated the marketing loan as a loan, the entire corn sale and market gain would be taxable upon the sale of the grain.

Other options produce different results, and if you have questions, please contact me and I'll help you through the tax consequences of the decisions. These decisions affect the timing of the taxable income, but will not affect the overall amount of taxable income.

Until recently, you only had the chance to change your CCC marketing loan election once in the course of your trade or business without prior approval from the IRS. This approval was time consuming and often not worth the hassle. A recent tax law change allows automatic approval of the change of accounting from treating your CCC loans from income back to loans. This allows much more flexibility to a producer and allows for planning opportunities. There are a few things to watch:

1. You must treat each crop year consistently: For example, if you have two 2005 corn loans, they must both be treated the same, but you may treat your 2004 corn loan in January 2005 as income and your 2005 corn loan in November 2005 as a loan.
2. You must file form 3115 in duplicate with your tax return.
3. You will have to keep really good records on which loans were treated which way to keep from missing income or doubling up on income.

These options allow a lot of flexibility in receiving payments from CCC, and for a cash basis taxpayer a lot of flexibility in when income will be recognized.

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