



2008 Farm Bill: Wisconsin Focus Title XV, Subtitle C: Tax Provisions¹



Key Features

The 2008 Farm Bill made several income and self-employment tax changes that affect Wisconsin farmers. The changes affect the income taxpayers must report, deductions and credits they can claim and the information reporting requirements for payments received by farmers.

Optional Self-Employment Tax: Under prior law, farmers were allowed to elect an optional method of reporting self-employment income for tax years in which their farm income was low so that they could earn “quarters of coverage” for purposes of qualifying for social security benefits. However, under the optional method, the income on which farmers paid self-employment tax gave them only one quarter of coverage instead of the four quarters of coverage they could earn if they had sufficient farm income. The farm bill modifies the farm optional method so that electing taxpayers are treated as receiving enough self-employment income to earn four quarters of coverage. That increases the self-employment tax liability for the optional method because the tax is imposed on the higher level of deemed income. The farm bill makes a similar modification to the nonfarm optional method for paying self-employment taxes. This provision is effective for taxable years beginning after December 31, 2007.

Exclusion of Conservation Reserve Program Payments to Retired or Disabled Individuals from Self-Employment Taxes: In Notice 2006-108 (December 18, 2006), IRS holds that all CRP payments are subject to self-employment taxes regardless of whether or not the taxpayer is actively farming. The farm bill overrides the holding of Notice 2006-108 for CRP payments to retired or disabled individuals who are receiving social security benefits by excluding the CRP payments from self-employment income for purposes of calculating self-employment taxes and from earned income for purposes of calculating Social Security or disability payments. Therefore, retired or disabled individuals who are receiving social security benefits will not have to pay self-employment tax on CRP payments and their social security benefits will not be reduced as a result of receiving the CRP payments. This provision is effective for payments made after December 31, 2007.

Donation of Conservation Easements: The farm bill retroactively extends the enhanced charitable contribution deduction for donations of conservation easements through 2009. Without the extension, the charitable deduction for contributions of conservation easements would have been limited to 30% of the taxpayer’s adjusted gross income (AGI) beginning in 2008. With the extension, a farmer’s deduction for the contributions are limited to 100% of their AGI and other taxpayers’ deductions are limited to 50% of their AGI. The farm bill also extends

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the provision that allows the excess donation to be carried over 15 years (rather than 5 years) to 2008 and 2009.

Agricultural Bond Improvements: Agricultural Bonds (Aggie Bonds) are tax-exempt bonds issued by State and local governments to provide low interest loans for first-time ranchers and farmers. The farm bill improves Aggie Bonds by:

1. increasing the loan limit from \$250,000 to \$450,000 and indexing it for inflation; and
2. eliminating the \$125,000 limitation on the value of farmland a person can own and be qualified for the low interest loan..

Energy Provisions: The farm bill reduces the 51¢ per-gallon incentive for ethanol to 45¢ per gallon for calendar year 2009 and thereafter. The reduction will be delayed if a threshold of 7.5 billion gallons per year of ethanol produced in or imported into the United States (including cellulosic ethanol) is not met. The farm bill also includes a new, temporary cellulosic biofuels production tax credit for up to \$1.01 per gallon to help get these fuels to commercial viability. The credit is available through December 31, 2012. The bill extends the tariff on imported ethanol for two years (through December 31, 2010).

Agricultural Chemicals Security Tax Credit: The farm bill provides retailers of agricultural products and chemicals and manufacturers, formulators, or distributors of certain pesticides a business tax credit for 30% of costs for the protection of such chemicals or pesticides. Such protection costs include employee security training and background checks, installation of security equipment, and computer network safeguards.

Information Reporting for Commodity Credit Corporation Transactions: A farmer can repay a Commodity Credit Corporation (CCC) loan with cash, purchase CCC certificates to repay the loan, or deliver the pledged collateral as full payment for the loan at maturity. Under prior law, a farmer who used cash instead of certificates to repay the loan received a Form CCC-1099-G Information Return showing the market gain realized. For transactions prior to January 1, 2007, however, if a farmer who used CCC certificates to facilitate repayment of a CCC loan, did not receive an information return. For transactions after January 1, 2007, IRS Notice 2007-63 provides that the CCC must use Form 1099-G to report market gain associated with the repayment of a CCC loan whether the taxpayer repays the loan with cash or uses CCC certificates in repayment of the loan. The farm bill codifies the requirement of IRS Notice 2007-63. This provision is effective for loans repaid on or after January 1, 2007.

Where can I get more information?

The tax provisions of the 2008 Farm Bill are posted at:

http://future.aae.wisc.edu/publications/farm_bill/2008_Farm_Bill_GPO_Title_XV.pdf

Senate Finance Committee: [Conference Agreement Summary for Title XV](#)

Updated: July 2, 2008