

Taxation Tidbit

Continuing Saga of CRP Payment Reporting

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The conservation reserve program (CRP) is a very popular farm program. Missouri recently ranked 8th in CRP receipts, providing over \$105 million dollars annually to Missouri land owners.

A long battled debate has centered on whether CRP payments are subject to self-employment tax. IRS letter rulings, IRS chief counsel's advice, IRS notices, and court cases have provided conflicting information on how taxpayers should report CRP payments.

Many farmers and tax professionals believe CRP payments received by retired farmers and investors should not be subject to self-employment tax. Additionally, some farmers have argued, but not successfully, that CRP payments are rental payments and should never be subject to self-employment tax.

An IRS letter ruling in 2003 (CCA Ltr. Rul. 200325002) and IRS Notice 2006-108 has solidified the IRS's position is that CRP payments are subject to self-employment tax - whether you're a farmer, retired farmer, or investor in farmland. Tax professionals and producers have been seeking legislative clarification on this issue for many years.

Enter the new 2008 pork barrel legislation (I mean farm bill). The new farm bill provides that CRP payments after 2007 will not be subject to self-employment tax if received by an individual receiving Social Security retirement or disability payments. Absent in this legislation is any self-employment tax relief provisions for farmers and investors; and not many tax professionals anticipate any future SE tax relief for farmers.