A new IRS Revenue Ruling (2003-59) paves the way for excluding a portion or all of the cost-share payments received for installing CRP conservation practices. This exclusion extends to CRP practices for soil, water, and wildlife conservation; wetland establishment and restoration; and reforestation. Code Section 126 defines qualifying expenditures and provides the formula for determining the dollar amount of cost-share payments qualifying for exclusion. This exclusion is only applicable to cost-share payments, annual rental payments are not excludable.

While the calculations of the Code Section 126 exclusion can seem somewhat complex upon casual reference, the possible tax savings warrant the extra study time required on your part. If you hire someone else to prepare your tax return – make sure they are aware of Revenue Ruling 2003-59. Additional information on Code Section 126 can be found in the IRS’s “Farmers Tax Guide” Publication 225.