The IRS’s position on how CRP and similar land idling program payments should be reported was made clearer with a recent Chief Counsel’s ruling (CCA Ltr. Rul. 200325002). This ruling dealt with two fact situations involving CRP payments. In the first fact situation the taxpayer was engaged in the trade or business of farming and bid land into the CRP. The second situation was of a taxpayer, not involved in the trade or business of farming, who acquired land that had already been bid into CRP. This ruling stated the CRP payments in both fact situations should have been reported on Schedule F and were liable for self-employment tax.

This latest CCA ruling on the second fact situation is at variance with prior Private Letter rulings and commentary issued with Tax Court decisions.

Legislation to exempt all CRP payments from self-employment tax was introduced for consideration in legislative bills of 2000, 2001, and 2003. The 2003 letter ruling appears to be solidifying the efforts for legislative action. Many tax professionals feel legislative action is necessary to clearly define the Congress’s intent relative to the circumstances when, if ever, CRP and other similar land idling program payments will be subject to or exempt from self-employment tax.

It is important you make your position regarding this issue known to your U.S. senator and representative. Taxpayers and tax professional deserve certainty and closure on this issue that has been bouncing from one position to the other since 1988.