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NDSU Income Tax Management For Agricultural Producers

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Information Source Acknowledgement



RuralTax.org



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Discussion Topics

- CCC Marketing Assistance Loans
- Bonus Depreciation Changes
- Section 179 Expensing Changes
- Depreciation Update
- Form 1099-Misc and 1099-NEC Changes
- Expiring Energy Credits

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CCC or Marketing Assistance Loans

Why is this important?

1. Crop prices have been depressed the last few years and farmers can use CCC loans to manage taxes when income is reported
2. Allows for the opportunity to increase cash flow while providing an opportunity to postpone selling the grain in hopes of getting a price increase

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CCC or Marketing Assistance Loans

• What Are CCC Loans?

- Government-backed **nonrecourse loans** for commodity producers
- Help producers **delay sales until market conditions improve**
- **Renamed** under the 2014 Farm Bill to:
 - **Marketing Assistance Loans (MALs)**
 - **Loan Deficiency Payments (LDPs)**
- “CCC Loans” is still the common term used and is used in this presentation

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CCC Nonrecourse Marketing Assistance Loan

IRC Section 77 Election – What It Does

- Allows producers to elect to **include CCC loan proceeds in income** when it is received (the loan year)
- Once made, **election is binding** unless revoked with IRS consent
- Loan must be reported as income if election has been made in current year or any prior year
- Taxpayer must report loan proceeds on **Schedule F, line 5a**
- **Without an election having been made, loan is not income in the year received**

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Example 1: Section 77 Election Made

- **Oliver**
 - Pledged 80,000 bushels of corn and received a \$170,400 CCC loan
 - **Election made** (2025 or earlier) so must **report \$170,400 as income**
 - Report the \$170,400 on Schedule F, line 5a
 - Also required: **loan statement filed with return**

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Example 2: No Section 77 Election Made

- **Oliver's loan without having made the Section 77 election:**
 - No income reported in 2025
 - Loan is treated like any other loan
 - Taxable event only when corn is **later sold**

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Market Price Is Above the Loan Rate

Section 77 election made with gain on the sale due to a market price improvement

- If the loan is repaid and commodity is sold:
 - Basis of the grain is the **loan amount**
 - Taxable gain is the sale price minus the loan basis
- Election impacts **income timing** and **basis tracking**

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Example 3: Section 77 Election and Sale

- **Josh Long**
 - CCC loan: \$145,000 and the Section 77 election is made
 - Repaid loan + \$1,000 interest
 - Sold wheat for \$196,000
 - **Results:**
 - Report gain of \$51,000 on Schedule F (line 1c)
 - (\$196,000 on line 1a minus \$145,000 on line 1b)
 - Report \$145,000 income on Schedule F (line 5a)
 - Deduct \$1,000 interest on Schedule F (line 21b)

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Repayment in Same Year as Loan

- **Thompson v. Commissioner (1963):**
 - No income reporting if CCC loan repaid in the same year the loan was received
- **U.S. v. Isaak (1968):**
 - Loan must be reported as income, even if repaid same year as the loan being received and crop being sold the following year
- **IRS view aligns with Isaak**, supported by:
 - **Rev. Rul. 80-19:** Election = sale upon grain pledged as collateral
 - **Redemption = repurchase**

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Example 4: No Section 77 Election, Loan Repaid

Josh Long

- Josh did not make Section 77 election
- Repaid loan plus \$1,000 interest
- Sold wheat for **\$196,000** in 2025
- Reports entire amount of \$196,000 on **Schedule F, Line 2: "Sales of livestock, produce, grains..."**

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Market Price Is Not Above Loan Rate

- Producer redeems grain by paying **Posted County Price (PCP)** to the CCC
- Producer keeps difference: **Loan rate minus PCP** (no loan obligation remains)
- **If no election is made:**
 - Report **PCP difference on Schedule F, line 4b**
 - No basis therefore full sale price reported as income in the year of the grain sale (report on Schedule F, line 1a)
 - Producer will receive a **Form CCC-1099-G**

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Commodity Sale in the Following Year

- **Election is Made**
 - Basis of the grain equals the loan amount
 - No sale reported until the year the grain is actually sold
 - Loan redemption
 - Report on line 4a (not 4b), if already reported on line 5a of Schedule F
- **Election Not Made**
 - Basis of the grain equals zero

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Example 5: Section 77 Election and Redemption

- **Lisa's Facts:**
 - Loan: \$170,400
 - PCP Redemption: \$160,000
 - Sale Price: \$168,000
 - CCC-1099-G: \$10,400
 - Basis in the corn = \$160,000
 - Gain on the sale = \$8,000
- Schedule F Entries (See the following slide)

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Example 5: Section 77 Election and Redemption

Schedule F Entries for Lisa:

- Part I: Income
 - Line 1a: \$168,000 (sale price of corn)
 - Line 1b: \$160,000 (PCP redemption)
 - Line 4a: \$10,400 (ag program payment Form CCC-1099-G)
 - Line 5a: \$170,400 (CCC loan)
- Part II: Expenses
 - Line 21b: Interest expense (if applicable)

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Example 6: No Section 77 Election, Commodity Redeemed

- **Lisa's Facts: Same as Example 5 except:**
 - She did not make Section 77 Election
 - Sold corn: \$168,000 → **Schedule F, Line 2**
 - Loan rate minus PCP difference: \$10,400 → **Schedule F, Line 4a**
- **Total Income: \$178,400** (\$168,000 + \$10,400)
 - \$168,000 → **Schedule F, Line 2**
 - \$10,400 → **Schedule F, Line 4a**
 - Same outcome as with election (**Example 5**), but reported differently on Schedule F

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Loan Deficiency Payment (LDP)

- LDP = **Loan Rate minus PCP on the LDP claim date**
- Alternative to taking a CCC loan and paying it off
- Simply take the LDP for the commodity produced
- Allows benefit even when:
 - Grain is forward-contracted
 - Sale occurs shortly after harvest
- Must collect the LDP between **harvest** and the date **title is transferred**

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Example 7: Loan Deficiency Payment

- **Lisa's Scenario:** (Same facts as Examples 5 and 6)
 - Claimed \$10,400 LDP (Loan rate \$2.13/bushel; PCP \$2.00)
 - Sold corn for \$168,000
- **Form 1099-G issued**
- **Tax Reporting:**
 - \$168,000 → reported on Schedule F, Line 2
 - \$10,400 → reported on Schedule F, Lines 4a **and** 4b

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Changing the Section 77 Election

- Allowed via **automatic consent**
- **File Form 3115** with the tax return
- No user fee
- Designated Change Number (DCN): **1**
- Reference: **Rev. Proc. 2008-52**

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Cut-Off Basis – What It Means

- Election change applies to **future returns only**
- Prior-year income **cannot be amended**
- **Timeline:**
 - Elected income in 2024
 - Revoked election in 2025
- **Result:**
 - 2024 income remains intact (cannot amend prior returns)
 - 2025 and forward, use the new method

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Scope Limitations for Change

To qualify for automatic consent:

1. Change **must be on the List of Automatic Changes**
2. Must **meet all of the listed requirements**
3. **No reorganization/liquidation** under Section 381(a) that year
4. Change year **cannot be the final year of business**
5. No overall method change has occurred in the last 5 tax years

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When and Where to File Form 3115

- Attach **original Form 3115** to the **timely filed** tax return (with extensions)
- Send **signed copy** to: **IRS Ogden, Utah**
 - Must file **no earlier than the first day** of the year of change
 - And **no later than the day Form 3115 is filed with the tax return**

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Hierarchy of Depreciation

- First, law presumes Bonus will always be used so must elect out if you do not want to use
- Can elect out of Bonus on a specific class of depreciable assets
- Must elect to use Section 179 on an asset or group of assets or use a specific dollar amount up to the investment limit
- 200% DDB MACRS is presumed to be used if elect not to use Bonus or Section 179

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Additional First Year “Bonus” Depreciation

- Bonus depreciation allowance is an additional deduction before calculating regular depreciation
 - 40% for assets acquired and placed into service from January 1 to 19, 2025
 - 40% can be elected for all assets acquired and placed into service in 2025
 - 100% for assets acquired and placed into service after January 20, 2025
 - 2026 and later years 100% Bonus has been made permanent
- No investment or deduction limits
- Bonus depreciation can create a business loss as well as offset other taxable income

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Bonus Depreciation Example

- Purchase a new tractor, new planter, and a used tandem disk
- 5-year assets: new tractor and planter
- 7-year asset: used tandem disk
- Option: can use bonus on the used disk and elect out of bonus for the new tractor and planter (same asset classes)

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Section 179 Expensing

- Allows businesses to deduct elected cost of qualifying assets in the first year
- Maximum deduction limited to \$2,500,000 (2025)
- Investment limit in qualified property is \$4,000,000 (2025)
 - Each \$1 over investment limit reduces deduction by \$1
 - Investment of \$6,500,000 or more = zero §179 deduction
- §179 deduction cannot exceed net business income (cannot create a farm or business loss)
 - W2 wages, income from farm business (Schedule F), non-farm business (Schedule C)

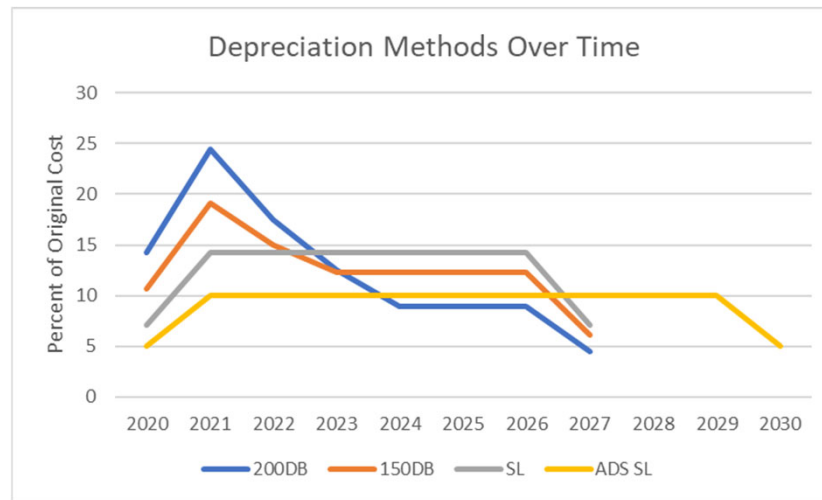
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Other Depreciation Options

- Elections available to slow down depreciation to reduce depreciation expense and increase taxable income
 - Default farm depreciation is MACRS 200% Declining Balance
 - Elect to use MACRS 150% Declining Balance
 - Elect to use straight-line (SL) and use the General Depreciation System (GDS)
 - GDS uses the same depreciable life
 - Elect to use straight-line (SL) and use the Alternative Depreciation System (ADS)
 - ADS increases depreciable life (usually)

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Other Depreciation Options



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New Form-1099 Thresholds for 2026

IRS Form 1099-MISC and 1099-NEC Requirements

- Payment threshold for reporting will increase from \$600 to \$2,000 beginning with payments made in 2026
- The form must be provided when the payment is \$2,000 or more beginning in 2026
- Reduces the number of Forms 1099-MISC and 1099-NEC that must be filed

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Termination of Commercial Clean Vehicle Credit (OBBBA 70503)

- Was to expire 12/31/2032
- OBBBA expiration = 9/30/2025

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The End of the Energy Credit Era?

- Restrictions on Advanced Manufacturing Production Credit
 - For energy efficient components
 - OBBBA adds restrictions and accelerates termination of the credit, after 12/31/2027
- Clean energy production credit
 - Wind & solar energy facility credits
 - OBBBA terminates this credit after 12/31/2027
- Clean electricity Investment Credit
 - Terminates for facility placed in service after 12/31/2027

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Executive Order 14315: Ending Market-Distorting Energy Subsidies

- **Purpose:** Directs Treasury to **enforce termination** of clean electricity tax credits under IRC §§ 45Y & 48E.
- **Scope:**
 - **Targets wind and solar facilities.**
 - **Ends credits for facilities placed in service after Dec 31, 2027, unless construction begins before July 4, 2026.**
- **Key Actions:**
 - Treasury must issue **new guidance** to prevent manipulation of construction timelines.
 - Limits use of **safe harbors** unless substantial physical work has begun.
 - Implements stricter rules to block credits for projects involving **foreign-controlled entities.**
- **Legislative Basis:** Implements provisions of the **One Big Beautiful Bill Act (OBBBA).**

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The End

Questions & Comments
Thanks for your attention!

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