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Form 1099 Information Returns*

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The 1099 tax form is used to report various forms of income (other than wages, salaries, and tips) to the Internal Revenue Service (IRS) and to the recipient of the payment. Agriculture producers may both receive Form 1099 information returns and be required to issue them. The Form notifies the IRS and the recipient of the payment. The IRS will then look for the amounts from the Form 1099s to show up on the recipient’s Federal tax return. This article covers many 1099s that producers may encounter.

Form 1099 Informational Returns

If, during the course of operating your farm business, you paid an individual a total of $600 or more for rent, services, or interest, you may be required to report the payments with Form 1099. Generally, you are NOT required to file Form 1099 when payments are made to a corporation, government agency, or tax-exempt organization. You are NOT required to file if payment was made for material and supplies only. Other payment levels apply in special situations.

You may also receive Form 1099 if you have provided services to others for a total of $600 or more or have received government program payments. In certain circumstances one individual may receive a Form 1099 for the total amount even though the payments went to multiple individuals. For these circumstances see the discussion of Nominee Reporting below.

Common Forms 1099 Used in Agriculture

Form 1099-B

Barter. Report exchanges of property or service under formal barter exchange contracts. A barter exchange is a person or organization with members or clients that contract with each other or the barter exchange to jointly trade products or services on a barter basis. DO NOT report exchanges between farmers that do not involve barter exchange contracts. These exchanges are usually reported on Form 1099-MISC in Box 7, Nonemployee compensation.

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This information is intended for educational purposes only. Seek the advice of your tax professional regarding the application of these general principles to your individual circumstances.
**Broker.** Reports gain or loss for commodity futures and options trades. These gains and losses are reported as either hedging or speculative transactions, based on the circumstances. Report closed transactions (realized gains) from hedging transactions as ordinary income on Schedule F Line 10, even if negative. Report open transactions (realized and unrealized gains) from speculative transactions on Form 6781 and Schedule D.

**Form 1099-C**

**Cancellation of debt.** Reports cancellation or forgiveness of $600 or more in debt. Report cancellation of debt incurred in farming on Schedule F, line 10. Report non-business debt on Form 1040, line 21. However, **Qualified Farm Indebtedness** may be excluded from income if specific requirements are met. IRS Publication 4681, Cancelled Debts, Foreclosures, Repossessions, and Abandonments contains detailed information on this subject.

**Form 1099-DIV**


**Form 1099-G**

**Certain government payments.** Generally, report Agricultural Payments from Box 7 and Market Gain from Box 9 on Schedule F, Lines 6a and 6b. For a discussion on situations where an agriculture producer receives a Form 1099-G for the total amount of the project and the project proceeds were distributed to more than one individual see the discussion on Nominee Reporting below.

**Exception.** Market Gain is reported differently when a farmer participates in the Commodity Credit Corporation (CCC) loan program and elects to treat the loan as income. Account for market gain by making an adjustment to basis in the commodity equal to the amount of loan proceeds previously reported as income minus the amount of any market gain. Then report market gain on Line 6a of Schedule F, **but not** as a taxable amount on Line 6b. Report market gain in the same way even if CCC certificates were used to facilitate repayment of the loan and no Form CCC-1099-G was received for the transaction.

**Example 1:**
- Farmer Jones received a $10,000 CCC loan for the 2009 cotton crop in November 2009.
- He reported $10,000 as income in 2009.
- In February 2010, Farmer Jones redeemed the CCC loan for $9,250 and sold the cotton for $10,300.
For 2010, Farmer Jones

- Reports $10,300 from the sale of the cotton crop on Line 1 of Schedule F.
- Reduces basis in cotton to $9,250 and reports the $9,250 on Line 2 of Schedule F.
- Receives a 1099-G showing the Market Gain of $750.
- Reports the $750 on Line 6a, but does not include it on Line 6b of Schedule F.
Form 1099-INT

**Interest.** For payments of $600 or more on business loans from individuals. Enter the interest you paid in **Box 1**, Form 1099-INT. Enter interest reported to you on Schedule B, Part I.

Form 1099-MISC

**Miscellaneous.** Common farm payments that require Form 1099-MISC include:

**Rent.** Including land rent, building rent, and machinery lease you paid. Report in **Box 1**. If a rental agreement for machinery includes use of both the machine and an operator, prorate the amount paid between rent for the machine (**Box 1**) and non-employee compensation (**Box 7**).

**Royalties.** Payments for royalties from publications. Report in **Box 2**. **DO NOT** use for surface royalties, oil or gas payments, or timber royalties under a pay-as-cut contract.

**Other.** For payments to non-employees that are not subject to self-employment tax. Includes prizes for games and recognition, punitive damages, and other items not normally found in farm businesses. Report in **Box 3**. **DO NOT** report sales of timber as Other on Form 1099 MISC.

**Non-employee compensation.** For contract services provided to you by others. Report in **Box 7**. Examples include:

- accountants
- contract laborers
- crop scouts and consultants
- custom hire (machine work)
- hay baling on the half share
- machine operators
- mechanics
- veterinarians

Include in non-employee compensation amounts for parts and materials purchased that are incidental to the service provided, including hay and feed, repair parts and materials, and road materials. Do not include payments primarily for parts, materials, utilities, freight, or storage. Payments to log haulers are considered freight, not services.

Include exchanges of goods and services between individuals in the course of operating a farm business. Report the fair market value of goods or services given in exchange on Form 1099-MISC. Usually, the fair market value of goods or services rendered and received are reported on Form 1040 Schedule F, on either **Line 9** (custom hire income) or **Line 11** (other income). Report goods exchanged for labor of an employee in amounts on Form W-2.

**Note:** If an exchange of goods and/or services includes an asset used in the trade or business of farming, rather than an inventory item, the acquisition or disposition of that asset is not reported on Form 1040 Schedule F.
Attorney fees. Report fees paid for your business, even if the attorney is incorporated. Report in Box 7. If you paid an attorney and the amount of the fee cannot be determined, report the entire amount paid in Box 14.

Form 1099-PATR

Patronage Dividends. Patronage dividends reported represent the distribution of a cooperative’s net earnings among members and patrons. The distribution is based on the co-op’s net earnings divided by the quantity of business an individual has done with the co-op. The patronage dividend is usually a combination of cash and a qualified written notice of allocation or a per-unit retain. A qualified written notice of allocation represents the portion of patronage dividend retained for a certain period by the co-op. Taxpayer agrees to include the amount in taxable income the year notice is received. Report Patronage Dividends for farming activity on Schedule F, Box 5a and 5b.

“Nonqualified” per-unit retains are not included in income in the year of notification but are taxable when received. They are reported in Box 5. “Nonqualified” indicates that the income has a basis of zero.

Note that return of the qualified written notice of allocation or per-unit retain is not included on Form 1099-PATR. This amount was reported as qualified written notice of allocation or per-unit retain in a prior year and should have been reported as taxable then.

Form 1099-S

Proceeds from Real Estate Transactions. Report the sale or exchange of real estate, including land, buildings, and timber royalties. Report timber payments made under a pay-as-cut
contract. Enter “timber” in Box 3 as legal description. These payments often qualify for capital gains treatment.

Lump-sum purchases of timber are exempt from reporting.

**Nominee Reporting**

At times, a Form 1099 is issued to a producer for amounts that were actually constructively received by another producer. The producer receiving the Form 1099 is considered a *nominee* recipient. The nominee must report the entire amount shown on Form 1099 on his or her tax return for matching purposes. The nominee must also issue a Form 1099 for the “nominee distribution” – the amount that actually belongs to the other producer. The nominee recipient is considered the “payer.”

**Interest**

Itemize on Schedule B total amounts reported on Form 1099-INT. Report a “Nominee Distribution” of the amount that belongs to other producers on a separate line. Issue Forms 1099-INT for the amount that actually belongs to the other producers.

**Agricultural Program Payments**

Report full amount on Schedule F, Line 6a, and net amount on Schedule F, Line 6b. Issue Form 1099-G for amount belonging to other producers.

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**Example 3:** Ima Jones receives Form 1099-G for $24,000. She paid $8,000 to Rich Smith. Ima reports $24,000 on Line 6a and $16,000 on Line 6b. She issues a Form 1099-G to Rich for $8,000.

**Note:** Reporting of nominee distributions are often seen when government payments reported to one family member are actually constructively received by multiple family members (such as payments received in a parent’s name, but actually shared by the parent and one or more children), and in cases when payments are reported in the name of an officer of an association or organization when the payments are actually shared by the members of the association or organization.

**Example 4:** Dustin Rhodes is president of the Alkali Flats Irrigation Association (AFIA). In their application for federal irrigation subsidies, AFIA listed Dustin, rather than the Association, as the subsidy recipient. The irrigation subsidy was actually received by AFIA, and distributed to AFIA’s members. Nominee 1099s will have to be filed to accurately show the amount received by each AFIA member. The net effect is that each AFIA member will show his/her share of the subsidy as farm income.
**Contract Livestock Growing**


**Example 5:** Bob White grew chickens with Silver Poultry. His son, Eric, now operates the farm, but the contract remains in Bob’s name. A 1099-MISC is issued to Bob for the year’s broiler pay. Bob reports the entire amount on Schedule F, Line 10, and again on Line 15. His net farm profit from Silver Poultry is zero. Bob issues a Form 1099-MISC to Eric with the same amount in Box 7, non-employee compensation. Eric includes the broiler pay on his Schedule F.

**Crop Insurance**

Report total amount on Schedule F, Line 8a and net amount on Line 8b. Issue Form 1099-MISC with nominee distribution in Box 10.

**Patronage Dividends**

Report total amount on Schedule F, Line 5a and net amount on Line 5b. Issue Form 1099-PATR with nominee distribution in Box 1 or Box 3.

**IRS Publications**

More information on these and other Form 1099s can be found in *A Guide to Information Returns* on the IRS website at www.irs.gov. Enter “A Guide to Information Returns” in the search box in the top right-hand portion of the page. Detailed information on specific Form 1099s can also be found by entering the form name (ex. “Form 1099-MISC”) in the search box. The search results will include the specified form, and instructions for completing the form.

**Additional Topics**

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

The land-grant universities involved in Rural Tax Education are affirmative action/equal opportunity institutions.

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