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## Tax Reform Alert: Farmer Sales to a Cooperative – Section 199A

There was much discussion at the beginning of the year regarding the new Section 199A pass-through deduction and the tax benefits for farmers who sell their grain to a cooperative. The original wording of the law allowed for a greater deduction for cooperative sales than what was intended by Congress. To “fix” the mistake, Congress modified the law and provided an additional limitation (known as the “grain glitch fix”) for a farmer who sells to a cooperative.

As a reminder, the 199A deduction is calculated based on 20% of net farm income (gross revenues minus expenses). The deduction can be limited if taxable income on the return is over the threshold amount (\$157,500 for singles or \$315,000 for married couples). This taxable income limitation is based on the **greater of** 50% of wages paid through the farm or 25% of wages paid through the farm plus 2.5% of qualified depreciable property.

**Because of the modified law, farmers who sell to a cooperative as patrons will also have an additional limitation calculation to work through even if income is below the threshold amounts.** The cooperative limitation is based on the **lesser of** 9% of the net income attributable to cooperative sales or 50% of wages paid in relation to cooperative sales.

Farmers who sell to cooperatives and do not have any employees will not be affected by this limitation. Also, farmers who choose to pay their employees with grain (also known as PIK or paid in kind wages) are not considered to be paying wages for the purposes of either limitation.

### Example

If a farmer has farm net income of \$100,000, the deduction would be \$20,000 ( $\$100,000 \times 20\%$ ).

If we add that the farmer had paid \$50,000 in wages and sold 75% of the grain to a cooperative, the additional cooperative limitation must be computed. The cooperative limitation is calculated as the lesser of A) 9% of the net income attributable to cooperative sales ( $100,000 \times 75\% \times 9\% = \$6,750$ ) or B) 50% of wages paid in relation to cooperative sales ( $\$50,000 \times 75\% \times 50\% = \$18,750$ ), so the limitation would be \$6,750. The deduction, then, would only be \$13,250 ( $\$20,000 - \$6,750$ ).