

What Producers and Cooperatives Need to Know about 199A

June 26, 2019

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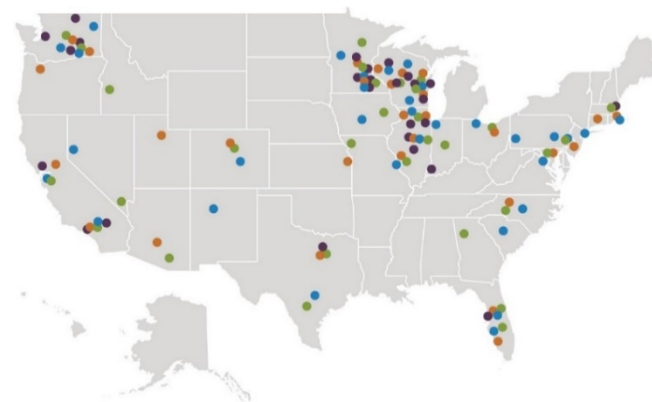


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Married Filing Separate May Be in Play

May 22, 2018 | by Paul Neiffer

In the 35 years plus of being a CPA I have filed a married filing separate return on an elective basis likely less than 20 times (some couples prefer to file separately). With the new Section 199A 20% of business income deduction being limited to various phase-outs, 2018 may be a tax year where I file several extra separate tax returns. Here are some of the times where it may make sense to file separately:



- One spouse has a high source of income and the other spouse has specified service business (SSB) income. Once a married couple goes over \$415,000 of taxable income, none of the SSB income will qualify for the 20% deduction. However, if the spouse with the SSB income is under \$157,500 of taxable income (before the 199A deduction), they may qualify for a full 199A deduction on that income.
- Each spouse has qualifying income, however, due to being over the threshold levels, the phase-out based on wages or qualifying property may lead to a substantially reduced Section 199A deduction for one or both spouses.



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Speaker Introductions



- **Paul Neiffer, Principal**

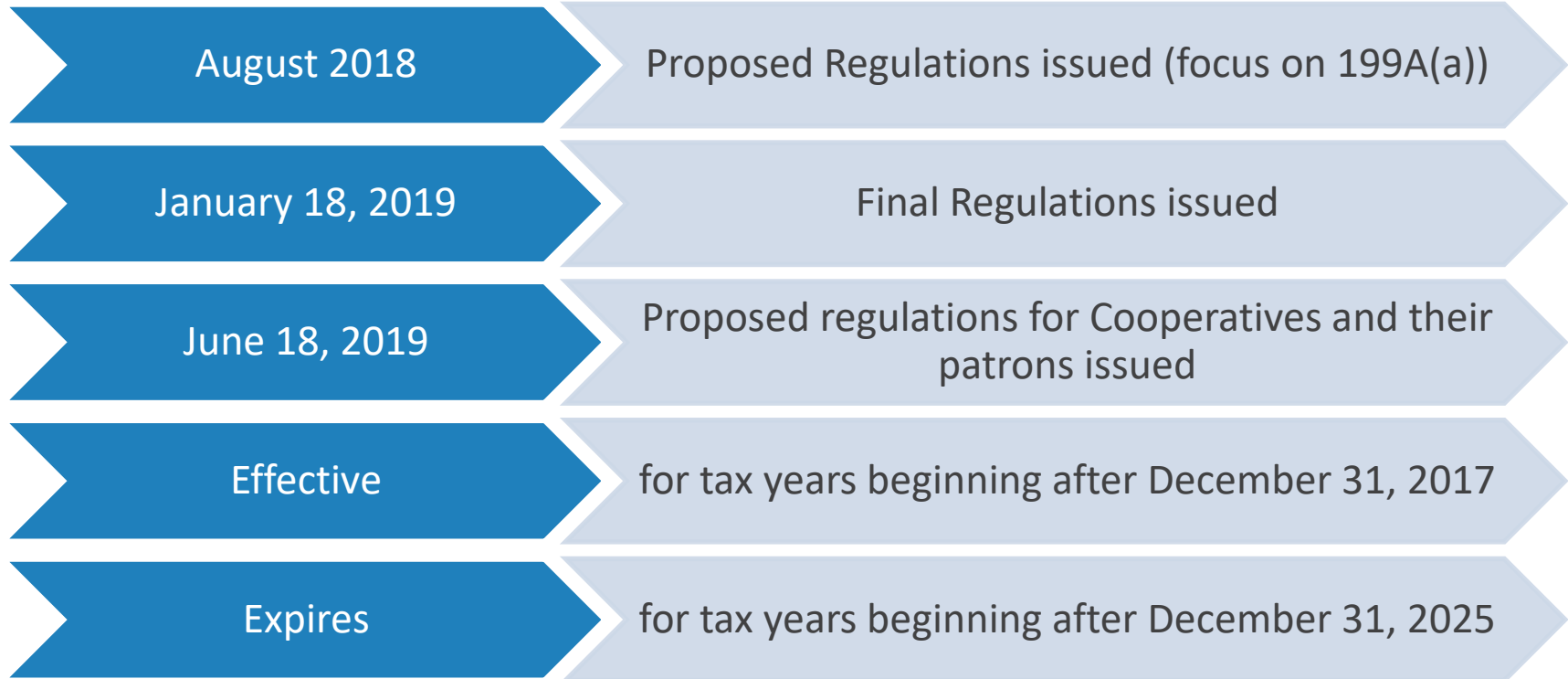
Paul is a certified public accountant and business advisor specializing in income taxation, accounting services, and succession planning for farmers and agribusiness processors. Paul is a principal with CLA in Yakima, WA, as well as a regular speaker at national conferences and contributor at agweb.com. Paul regularly publishes timely content on CLA's agribusiness blog, Farm CPA Today.



- **Rebecca Smith, Director**

Rebecca has more than 18 years of tax experience in public accounting and has an extensive background providing tax planning and compliance for privately held companies, serving primarily cooperatives and the agribusiness industry as well as manufacturers. Rebecca serves as the Cooperative National Tax Director for the firm.

Where We Are At





Rules for Cooperatives and their Patrons

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General

- Provides guidance and special rules regarding the deduction for qualified business income (QBI) under section 199A(a) of the IRC by patrons of cooperatives
- Section 199A(a) deduction is applied at the patron level and patrons who are individuals may take the section 199A(a) deduction



Definitions

- **Individual** = An individual, trust, or estate
- **Patron**
 - Any person with whom or for whom the cooperative association does business on a cooperative basis, whether a member or a nonmember of the cooperative association, and whether an individual, trust, estate, partnership, company, corporation, or cooperative association



Patronage and Nonpatronage

- Determined by applying the directly related use test
 - **Patronage** = If the income or deduction is produced by a transaction that actually facilitates the accomplishment of the cooperative's marketing, purchasing, or service activities
 - **Nonpatronage** = If the transaction producing the income or deduction does not actually facilitate the accomplishment of these activities but merely enhances the overall profitability of the cooperative, being merely incidental to the association's cooperative operation



Definitions

- **Relevant Passthrough Entity (RPE)** = A partnership (other than a PTP) or an S corporation that is owned, directly or indirectly, by at least one individual, estate, or trust
- **Qualified Payment**
 - Any amount of a patronage dividend or per unit retain allocation, as described in section 1385(a)(1) or (3) received by a patron from a Specified Cooperative that is attributable to the portion of the Specified Cooperative's QPAI, for which the cooperative is allowed a section 199A(g) deduction
 - Patronage dividends include any advances on patronage and per-unit retain allocations include per-unit retains paid in money during the taxable year



Definitions

- **Specified Cooperative**

- A cooperative to which subchapter T of chapter 1 of subtitle A of the IRC applies and which
 - ◇ Manufacturers, produces, grows, or extracts (MPGE) in whole or significant part within the United States any agricultural or horticultural product, or
 - ◇ Is engaged in the marketing of agricultural or horticultural products that have been MPGE in whole or significant part within the United States by the patrons of the cooperative
- Types
 - ◇ **Exempt** = Qualified as a farmer's cooperative organization under Section 521
 - ◇ **Nonexempt** = Not qualified under Section 521



Definitions

- Agricultural or horticultural products
 - Agricultural, horticultural, viticultural, and dairy products, livestock and the products thereof, the products of poultry and bee raising, the edible products of forestry, and any and all products raised or produced on farms and processed or manufactured products thereof within the meaning of the Cooperative Marketing Act of 1926, 44 Stat. 802(1926)



Definitions

- Agricultural or horticultural products
 - Aquatic products that are farmed
 - Include fertilizer, diesel fuel, and other supplies used in agricultural or horticultural production that are MPGE by a specified cooperative
 - Does not include intangible property (other than the exception provided for in 1.199A-9(b)(2))





QBI and the Patron

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Cooperative Determines “Qualified Items”

- Patron determines QBI for each trade or business
- However, the cooperative determines the amount of qualified payments
 - That the patron uses in calculating its own QBI
 - It may be less than Pat Div and Per Unit Retains
 - Will be reported on Form 1099-PATR Box 7



QBI Inclusion

- To the extent payments related to trade or business,
- Are qualified items ... at the cooperative level,
- Are not income from an SSTB at the cooperative level, and
- The patron receives certain information from the cooperative in a timely manner.



Information Reporting - Patron

- If patron does not receive “required” information before due date of Form 1099-PATR
 - Amount of distributions from cooperative not allowed in computing QBI
 - Similar to provision for RPE reporting
 - Patron has no control



Allocation of QBI – Reasonable Method

- Different reasonable methods for different items
- Must be consistently applied year-to-year
- Clearly reflect income and expenses of each trade or business
- Must be reasonable
- Books and records must be consistent with allocations



Different Methods

- Allocation of income and expense based on:
 - Gross receipts
 - Units of production (bushels, pounds, cwt, etc.)
 - Types of production
 - ◇ Allocate grain wages and expenses different from livestock
 - ◇ Allocate sugar beet operations based on B and R versus grain
 - Use departmental income reporting?



Allocation of QBI – Safe Harbor

- Only eligible if under taxable income threshold
 - Eliminates RPE from using the method
 - However, same method still available as “reasonable method”
- Apportion deductions and W-2 wages
 - Allocate ratably gross receipts of qualified and non-qualified income



Example # 1 – Clarification Needed

- Examples should clarify not mystify
- Non-wage expenses allocated 45%
- W-2 wages allocated 50%
- No explanation of “reasonable method”

Example # 3 – Qualified Payments Do Not Equal

- Example of Qualified Payments in Box 7 less than sum of box 1 & 3 of 1099-PATR



Example 4 – Reasonable Method Allocation

- Expenses (including W-2 wages) are allocated
 - Based on bushels delivered to cooperative and non-cooperative
- Is this too simplistic for most farms?
 - Are corn, beans and wheat bushels treated the same?



Example 5 – Safe Harbor

- Allocation of deductions and W-2 wages based solely on gross receipts



Not Addressed by Proposed Regulations

- Section 1245 gains
- Rental income aggregation
- Negative 9% “reduction”



Section 1245 Gains

- Proposed regulations are silent on Section 1245 gains
 - Are they non-qualified income?
 - Are they qualified income?
 - Or combination of both?
- What about -
 - Governmental payments
 - Custom farming

Section 1245 Gains - Example

	No Allocation		Allocation	
	Farm	1245	Farm	1245
Income	900,000	500,000	900,000	500,000
Deductions	(800,000)	-	(800,000)	-
W-2 wages	(80,000)	-	(80,000)	-
QBI	20,000	500,000	20,000	500,000
QBID	4,000	100,000	4,000	100,000
Less Patron Reduction	(1,800)	-	-	(40,000)
Net QBID	2,200	100,000	4,000	60,000
Total QBID	102,200		64,000	

Rental Aggregation

- Farm income is reduced by rent paid
- Is that portion subject to the patron reduction
- Even without aggregation, is rental income tainted by qualified payments?

Negative 9% “Reduction”

- The 2018 worksheet instructions appear to indicate
 - If qualified income is negative
 - Increase QBI deduction by 9% of qualified QBI
- Is this correct
- Not addressed by proposed regulations





Deduction for income attributable to DPGR of a Specified Cooperative

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Nonexempt Specified Cooperative deduction

- Step 1: Identify patronage and nonpatronage gross receipts and related cost of goods sold(COGS), deductible expenses, W2 wages, etc. and allocate them between patronage and nonpatronage
 - Can only use patronage gross receipts and related expenses to calculate QPAI, oil related QPAI, or the W2 wage limitation
 - Nonpatronage gross receipts and related deductions cannot be used to calculate a section 199A(g) deduction
 - Gross receipts = Receipts for the taxable year that are recognized under the Specified Cooperative's method of accounting used for federal income tax purposes for the taxable year



Nonexempt Specified Cooperative deduction

- Step 2: Determine patronage gross receipts that are DPGR
 - DPGR = Gross receipts that are derived from any lease, rental, license, sale, or exchange, or other disposition of an agricultural or horticultural product that is MPGE by the cooperative or its patrons in whole or significant part within the US
 - Not DPGR
 - ◇ Gross receipts derived from services
 - ◇ Gross receipts from the lease, rental, license, sale, exchange, or other disposition of land
 - ◇ Guaranteed payments to a partner under 707(c)
- Unless a de minimus or other exception applies



Nonexempt Specified Cooperative deduction

- Step 3: Calculate QPAI
 - DPGR for the taxable year less COGS that are allocable to DPGR less other expenses, losses, or deductions that are properly allocable to DPGR
 - Exclude the section 199A(g) deduction or any deduction allowed under 1382(b)
- Step 4: Calculate deduction
 - 9% of the lesser of
 - ◇ QPAI for the taxable year or
 - ◇ Taxable income for the taxable year
 - Deduction is limited to 50% of the patronage W-2 wages attributable to DPGR for the taxable year



Nonexempt Specified Cooperative deduction

- Taxable Income
 - As defined in Section 1382 and Regulation 1.1382-1 and 1.1382-2
 - Limited to taxable income and related deductions from patronage sources
 - Patronage net operating losses reduce taxable income
 - Computed without the section 199A(g) deduction or any deduction allowable under section 1382(b)
- Deduction cannot create or increase a NOL or the amount of NOL carryover or carryback
- Deduction not used in the tax year = lost



Nonexempt Specified Cooperative Deduction

- Cooperative with oil-related QPAI
 - 199A(g) deduction reduced by 3% of the lesser of
 - ◇ Oil-related QPAI for the taxable year
 - ◇ QPAI for the taxable year or
 - ◇ Taxable income for the taxable year
 - Oil-related QPAI = the patronage QPAI that is attributable to the production, refining, processing, transportation, or distribution of oil, gas, or any primary product thereof during such taxable year
 - To the extent the cooperative treats gross receipts derived from transportation or distribution of oil, gas, or any primary product thereof as part of DPGR, then the cooperative must treat those patronage gross receipts as oil-related DPGR



Exempt Specified Cooperative Deduction

- Must calculate two separate section 199A(g) deductions, one patronage sourced and the other nonpatronage sourced
- Patronage sourced calculation = Calculate the same as a nonexempt specified cooperative
- Nonpatronage sourced calculation
 - Calculated the same as a nonexempt specified cooperative however using only nonpatronage gross receipts and related nonpatronage deductions
 - Taxable income is limited to taxable income and related deductions from nonpatronage sources
 - ◇ Nonpatronage NOLs reduce taxable income
 - ◇ Exclude section 199A(g) deduction or any deduction allowable under section 1382(c)
 - Cannot create or increase an NOL
 - Cannot be allocated, has to be used against cooperative nonpatronage net income



Pass through of deduction

- May pass through all, some, or none of its patronage section 199A(g) deduction to an eligible taxpayer
 - Eligible taxpayer
 - ◇ A patron other than a C Corporation
 - ◇ A Specified Cooperative
 - What happens to the portion of the deduction that would have historically gone to a C corporation?
 - Pass through an amount equal to the portion of the cooperatives section 199A(g) deduction that is allowed with respect to the portion of the cooperative's QPAI that is attributable to the qualified payments the cooperative distributed to the eligible taxpayer during the taxable year and identified on the notice



Pass Through of Deduction

- Notice requirement
 - ◇ Must identify in a written notice the amount of the section 199A(g) deduction being passed through to the eligible taxpayer
 - ◇ Must be mailed to the eligible taxpayer no later than the 15th day of the ninth month following the close of the taxable year of the cooperative
 - ◇ Also must report to the eligible taxpayer the amount passed through in the notice on an attachment to or on the Form 1099-PATR
- Deduction of pass through by eligible taxpayer
 - Deduct the lesser of the section 199A(g) deduction identified on the written notice or the taxpayer's taxable income
 - ◇ TI is determined without the section 199A(g) pass through deduction however does include the section 199A(a) deduction that is allowed
 - ◇ Any pass through that cannot be used in the current year is lost
 - Receipt by a specified cooperative = Only can use against patronage income and deductions



Pass Through of Deduction

- Cooperative must reduce its section 1382 deduction by an amount equal to the portion of any qualified payment that is attributable to the cooperative's section 199A(g) deduction passed through



Example: Nonexempt Specified Cooperative

- Example 1
 - Facts:
 - ◇ Grain marketing cooperative
 - ◇ \$5,250,000 in gross receipts from the sale of grain grown by patrons
 - ◇ Paid \$4,000,000 to patrons in the form of PURPIM when grain delivered
 - ◇ Paid \$1,000,000 in patronage dividends
 - ◇ Other expenses = \$250,000 including \$100,000 of W2 wages
 - ◇ All is patronage sourced and required notices were provided to patrons
 - Determine gross receipts that are DPGR
 - ◇ \$5,250,000 as all gross receipts from the sale of grain grown by patrons is DPGR
 - Calculate QPAI
 - ◇ \$5,250,000 (gross receipts) less \$250,000 (other expenses) = \$5,000,000
 - ◇ The PURPIM and patronage dividend are excluded from the computation



Example: Nonexempt Specified Cooperative

- Example 1 continued
 - Calculate deduction
 - ◇ 9% of the lesser of QPAI (\$5M) or taxable income (\$5M) = \$450K
 - ◇ 50% of wages limitation = \$50K (\$100K times 50%)
 - ◇ Deduction is limited to \$50K
 - Cooperative passes through the entire section 199A(g) deduction therefore the cooperative will reduce its deduction under 1382(b) by \$50K



Miscellaneous

- Specified Cooperative who is a Partner
 - Partnership reporting to partner
 - ◇ Separately identify and report and report on the Schedule K-1 of Form 1065 the cooperative's share of gross receipts and related deductions, unless otherwise provided by the instructions to the Form.
 - ◇ Cooperative determines what gross receipts reported qualify as DPGR and includes these gross receipts and related deductions to calculate their Section 199A(g) deduction
- Recapture of Section 199A(g) deduction
 - If the amount of the pass through exceeds the amount allowable as a section 199A(g) deduction on examination or reported on an amended return, then recapture occurs at the cooperative in the taxable year the excess deduction was taken





DPGR

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Application to Marketing Cooperative & Related Persons

- Marketing Cooperative
 - A Specified Cooperative will be treated as having manufactured, produced, grown, or extracted (MPGE) in whole or significant part any agricultural or horticultural product within the United States marketed by the Specified Cooperative which its patrons have so MPGE
- Related Persons
 - DPGR does not include any gross receipts derived from agricultural or horticultural products leased, licensed, or rented by the Specified Cooperative for use by any related person
 - Related person = If both persons are treated as a single employer under either section 52(a) or (b) or section 414(m) or (o)



Allocating Gross Receipts

- Must be consistently applied from one taxable year to another
- Reasonable method based on all the facts and circumstances
- Specific identification method = If the information is readily available and can, without undue burden or expense, specifically identify whether the gross receipts are derived from an item
- Reasonable allocation method = If information is not readily available or cannot do so without undue burden or expense then can use this method
 - Use of the most accurate information available
 - Relationship between gross receipts and the method used
 - Accuracy of the method chosen as compared with other possible methods
 - Whether used for internal management or other business purposes
 - Whether used for other federal or state income tax purposes
 - Time, burden, and cost of using alternative methods



Allocating gross receipts

- De minimis rules
 - Applicable gross receipts may be treated as all DPGR if less than 5% of the Specified Cooperative's total gross receipts are non-DPGR
 - Applicable gross receipts may be treated as all non-DPGR if less than 5% of the Specified Cooperative's total gross receipts are DPGR
 - If part of an expanded affiliated group but not a member of a consolidated group, then the determination is made at the Specified Cooperative level
 - If a member of a consolidated group, then the determination is made at the consolidated group level



Determining DPGR Item by Item

- Determine whether gross receipts qualify as DPGR on an item-by-item basis
- Item Defined
 - The agricultural or horticultural product offered by the Specified Cooperative in the normal course of its trade or business to customers if the gross receipts qualify as DPGR or
 - If the above paragraph does not apply to the product, then any component of the product described in the above paragraph is treated as the item assuming the gross receipts are attributable to such component qualifying as DPGR



Determining DPGR Item by Item

- In no event may a single item consist of two or more products unless those products are offered for disposition as a single item in the normal course of the Specified Cooperative's trade or business
- For products customarily sold by weight or volume, the item is determined using the most common custom of the industry



Definition of MPGE

- MPGE includes
 - Manufacturing, producing, growing, extracting, installing, developing, improving, and creating agricultural or horticultural products
 - Making agricultural or horticultural products out of material by processing, manipulating, refining, or changing the form of an article, or by combining or assembly two or more articles
 - Cultivating soil, raising livestock, and farming aquatic products
 - Includes storage, handling, or other processing activities (other than transportation) within the U.S. related to the sale, exchange, or other disposition of agricultural or horticultural products only if the products are consumed in connection with or incorporated into the MPGE of ag or horticultural products, whether or not by the Specified Cooperative



Definition of MPGE

- The Specified Cooperative or patron must have the benefits and burdens of ownership of the products under Federal income tax principles during the period the MPGE activity occurs
- Does not qualify as MPGE
 - Packaging, repacking, or labeling agricultural or horticultural products and engaging in no other MPGE activity with respect to those products
 - Installation of agricultural or horticultural products and engages in no other MPGE activity with respect to the products
 - ◇ Exception: If installing products MPGE by the Specified Cooperative and the cooperative has the benefits and burdens of ownership of the products under federal tax principles during the installation period, then that portion of the installing activity is an MPGE activity
- Consistency with 263A – Must treat the cooperative as a producer under section 263A with respect to the products unless not subject to section 263A



Definition of In Whole or Significant Part

- Will be treated as in whole or significant part if the MPGE of the agricultural or horticultural products by the Specified Cooperative within the United States is substantial in nature taking into account all the facts and circumstances, including the relative value added by, and relative cost of, the MPGE within the US, the nature of the agricultural or horticultural products, and the nature of the MPGE activity that the Specified Cooperative performs within the United States
- **Safe harbor** = If the direct labor and overhead of such Specified Cooperative to MPGE the product within the US accounts for 20% or more of the Specified Cooperative's COGS of the product, or in a transaction without COGS accounts for 20% or more of the Specified Cooperative's unadjusted depreciable basis in property the definition is met



United States defined

- Includes the 50 states, the District of Columbia, the territorial waters of the United States, and the seabed and subsoil of those submarine areas that are adjacent to the territorial waters of the United States and over which the US has exclusive rights in accordance with international law, with respect to the exploration and exploitation of natural resources
- Does not include possessions and territories of the US or the airspace or space over the US

Derived from the lease, license, sale, exchange, or other disposition

- Defined as, and limited to the gross receipts directly derived from the lease, rental, license, sale, exchange, or other disposition of agricultural or horticultural products even if the Specified Cooperative has already recognized receipts from a previous lease, rental, license, sale, exchange, or other disposition of the same agricultural or horticultural products
- **Lease Income** = The financing and interest components of a lease of agricultural or horticultural products
 - Does not include any portion that is attributable to services or nonqualified property as defined in paragraph (j)(3) of this section

Derived from the lease, license, sale, exchange, or other disposition

- **Income substitutes** = Proceeds from business interruption insurance, governmental subsidies, and governmental payments not to produce are treated as gross receipts to the extent they are substitutes for gross receipts that would qualify as DPGR



Derived from the lease, license, sale, exchange, or other disposition

- **Embedded Services** – DPGR does not include any receipts attributable to
- **Nonqualified Property** – DPGR does not include any receipts from property that do not meet all the requirements under this section
- Exceptions
 - A qualified warranty
 - A qualified delivery
 - A qualified operating manual
 - A qualified installation
 - A de minimis amount (less than 5% of the total gross receipts)

Qualified = Price is not separately stated from the amount charged and not separately offered or bargained for



Allocation of COGS and other deductions to DPGR

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COGS Allocable to DPGR

- COGS in the case of a sale, exchange, or disposition of inventory
 - Beginning Inventory
 - + Purchases and production costs incurred and included in inventory costs
 - Ending inventory
 - Do not include any payment made, whether during the taxable year, or included in beginning inventory, for which a deduction is allowed under section 1382(b) and/or (c).
 - Determined under the methods of accounting used to compute taxable income
 - Also includes
 - ◇ Additional section 263A costs
 - ◇ Inventory valuation adjustments such as write-downs under the lower of cost or market method
- COGS in the case of non-inventory property = Adjusted basis of the property



COGS Allocable to DPGR

- Allocation between DPGR and non-DPGR = Reasonable method based on all the facts and circumstances
 - Facts and Circumstances
 - ◇ Use of the most accurate information available
 - ◇ Relationship between COGS and the method used
 - ◇ Accuracy of the method chosen as compared with other possible methods
 - ◇ Whether method used for internal management or other business purposes
 - ◇ Whether used for federal or state income tax purposes
 - ◇ Availability of costing information
 - ◇ The time, burden, and cost of using alternative methods
 - ◇ Whether applied consistently year to year
 - Possible reasonable methods
 - ◇ Based on gross receipts
 - ◇ Number of units sold
 - ◇ Number of units produced
 - ◇ Total production costs



Other Deductions Allocable or Attributable to DPGR

- Generally must use the section 861 method
- An eligible Specified Cooperative may apportion other deductions using the simplified deduction method
 - Must use for all deductions (does not apply to COGS)
 - Eligible cooperative = Avg. annual gross receipts or total assets of \$100M or less
- A qualifying small Specified Cooperative can use the small business simplified overall method
 - Must use for all deductions (COGS and all deductions)
 - Qualifying small cooperative = Avg. annual gross receipts of \$25M or less
- An NOL is not allocated or apportioned to DPGR or gross income attributable to DPGR
- Avg. annual gross receipts = For the 3 tax years preceding the current year





Wage Limitation

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Application Rules

- The Form W-2 or any subsequent form or document used in determining W-2 wages are those issued for the calendar year ending during the taxable year of the Specified Cooperative for wages paid to employees of the Specified Cooperative for employment by the Cooperative
- Employees are limited to those defined in section 3121(d)(1) and (2)= officers of a corporate taxpayer and employees under common law rules
- Wage limitation – Cannot exceed 50% of the W-2 wages for the taxable year that are attributable to DPGR of agricultural or horticultural products



Application Rules

- Wages paid by entity that is not the common law employer
 - Specified Cooperative can take into account these wages provided the W-2 wages were paid to common law employees or officers of the Specified Cooperative for employment by the Specified Cooperative
 - The entity paying the wages is precluded from taking into account these wages for their own purposes
- W-2 wages only includes those amounts that are properly included in a return filed with SSA on or before the 60th day after the due date (including extensions) for such return



Definition of W-2 Wages

- With respect to any person for any taxable year of such person, the amounts described in paragraphs (3) and (8) of section 6051(a) paid by such person with respect to employment of employees by such person during the calendar year ending during such taxable year
 - Basically includes the total amount of wages as defined in section 3401(a) plus the total amount of elective deferrals plus the compensation deferred under section 457, and the amount of designated Roth contributions
- Does not include any amount which is not properly allocable to DPGR for purposes of calculating QPAI
 - Properly allocable = reasonable method based on all the facts and circumstances and must be consistently applied from one year to the next



Methods to Calculate W2 Wages

- Three methods
 - **Unmodified Box**
 - ◇ Lesser of total entries in Box 1 or Box 5
 - **Modified Box 1**
 - ◇ Total amounts in Box 1 of all Forms W-2 filed
 - ◇ Subtract amounts in Box 1 that are not wages for Federal income tax withholding purposes
 - ◇ Add total amounts in Box 12 that are coded D, E, F, G, or S
 - **Tracking Wages**
 - ◇ Total amounts of wages subject to Federal income tax withholding that are paid to employees
 - ◇ Plus total amounts in Box 12 that are coded D, E, F, G, or S
 - ◇ Used when have a short taxable year



Acquisitions, Dispositions, and Short Tax Years

- Acquisition or Disposition: Where more than one Specified Cooperative is the employer of the employees of the acquired or disposed of Specified Cooperative during the calendar year, the W2 wages are allocated between or among each Cooperative based on the period during which the employees were employed by the Specified Cooperative
- Short taxable year not including December 31 – Wages paid to employees for employment by the Specified Cooperative during the short taxable year are treated as W2 wages for such short taxable year
- The terms acquisition or disposition include an incorporation, liquidation, reorganization, or a purchase or sale of assets



Wage Expense Safe Harbor

- Cooperatives using the section 861 method of cost allocation or the simplified deduction method – The amount of W2 wages properly allocable to DPGR equals

Amount of W2 wages for taxable year X Wage expense included in calculating QPAI
Total wage expense used in calculating TI

- Cooperatives using the small business simplified overall method – The amount of W2 wages properly allocable to DPGR equals

Amount of W2 wages for taxable year X DPGR gross receipts
Total gross receipts





Expanded Affiliated Groups (EAG)

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General

- Each Specified Cooperative whether exempt or nonexempt that is a member of an EAG computes its own taxable income or loss, QPAI, and W2 wages
- An EAG is an affiliated group as defined in section 1504(a) determined by substituting “more than 50%” for “at least 80%” in each place it appears and without regard to section 1504(b)(2) and (4)
- A Specified Cooperative will be treated as having MPGE in whole or significant part any agricultural or horticultural product within the US marketed by the Specified Cooperative which its patrons have so MPGE



Computation of Deduction

- Separately compute the section 199A(g) deduction from the patronage sources of Specified Cooperatives that are members of the EAG and the section 199A(g) deduction from the nonpatronage sources of exempt Specified Cooperatives that are members of the EAG
- Section 199A(g) deduction from patronage sources = aggregate the income or loss, QPAI, and W2 wages, if any, of each patronage source of a Specified Cooperative that is a member of the EAG (exempt or nonexempt)
- Section 199A(g) deduction from nonpatronage sources = aggregate the income or loss, QPAI, and W2 wages, if any, of each nonpatronage source of exempt Specified Cooperatives that are members of the EAG



Allocation of Deduction

- Allocated in proportion to each Specified Cooperative's QPAI, regardless if the member has taxable income or W2 wages for the taxable year
- Allocation done for patronage and nonpatronage income separately
- Can create an NOL





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Questions?

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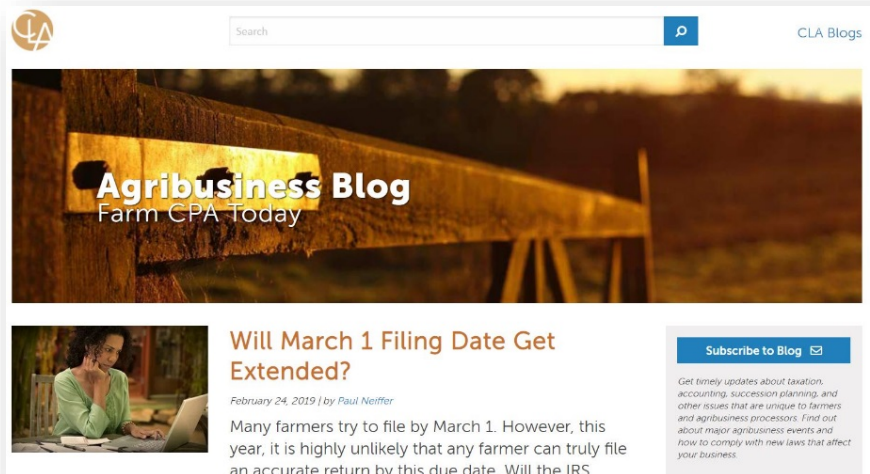
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