

Even After the Farm Bill "Fix" IRS Says All CRP Payments To Be Reported As Ordinary Income

- by Roger McEowen

The self-employment tax treatment of Conservation Reserve Program (CRP) payments has been confusing over the past few years because of the conflicting position that IRS has taken on the issue. Since 2003, however, the IRS position has been that all CRP payments are subject to self-employment tax. All it takes, according to IRS, is the taxpayer's name on the CRP contract. That's enough to constitute a trade or business, the income from which is subject to self-employment tax. Needless to say, that interpretation is open for discussion and is simply not correct (see here). The Congress, with the 2008 Farm Bill, enacted a provision (see here) that provides slight relief for some taxpayers for tax years beginning after 2007. That provision says that CRP payments that are received by a taxpayer that is also receiving Social Security retirement or disability payments are not subject to self-employment tax. But, it doesn't correct the problem for other taxpayers - such as farmland investors that aren't farmers.

Now IRS says that CRP payments are to be reported on Schedule F as an agricultural program payment, with the amount not subject to self-employment tax (because the recipient is receiving Social Security retirement or disability benefits) backed out on a new line on Schedule SE. The new line will be Line 1b on Section A of Schedule SE or Line 1b of Section B of Part I of Schedule SE.

The saga continues.....