FINPACK®
Credit Analysis Solutions

Center for Farm Financial Management
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Discrepancies Caused by CCC Loans in Schedule F Cash to Accrual

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Tax preparers are not consistent in reporting repayment of CCC loans that have previously been reported as income for tax purposes. FINPACK tries to adjust for these inconsistencies but adjustments are not always possible. While these problems cause cash discrepancies, more importantly, they cause earnings and repayment analysis errors. This paper provides some guidance to track down cash discrepancies caused by these various reporting methods.

FINPACK always treats CCC loans as loans rather than income. New borrowings and repayment are captured based on the difference in beginning and ending loan balances. **FINPACK's Schedule F Cash to Accrual Analysis does not include the amount entered on line 5a of the Schedule F tax form as income.** The gross sale of the grain is treated as income only in the year it is sold and the loan is repaid.

5a	Commodity Credit Corporation (CCC) loans reported under election					5a	
b	CCC loans forfeited	5b		5c	Taxable amount . . .	5c	

When a CCC loan has previously been reported as income on line 5a of IRS Schedule F, the sale of the crop and repayment of the loan triggers taxable income based on the difference between the sale amount and the amount already taxed. It is how that difference is reported that causes problems.

Where Did It Go?

Here are some tax treatments that have been used by various tax preparers.

Gain Treatment – The total sale amount is reported on line 1a and the basis of the grain (the amount previously reported on line 5a) is reported on line 1b. The net taxable proceeds are included in line 1c. FINPACK captures the amount on line 1a as income.

Sale/Expense Treatment – The gross sale is included on line 2 or lines 3a and 3b. The amount previously taxed is reported as an expense, likely on line 32 labeled as "CCC loan repayment."

Net Treatment – The net gain, gross sale minus the amount of the loan previously taxed, is included with other sales on line 2. This is the treatment that causes problems!

Gain and **Sale/Expense** methods are handled correctly by the Schedule F Cash to Accrual Analysis. For Sale/Expense treatment, the expense amount from line 32 must be entered as "*CCC loan principal repayment included in farm expenses*" in data entry. **Net treatment** is not handled by the analysis and is the most likely reason for cash discrepancies. If this method has been used, an adjustment should be made to add the original amount of the loan to income.

Suggested Troubleshooting Steps

Of course, the most reliable troubleshooting step is to ask the producer for more information on how the final sale was reported. If that does not lead to a satisfactory answer, here are some troubleshooting checks.

Check #1 – If there is an amount on line 5a for the current year, are there CCC loans on the ending balance sheet? If not, the loan was borrowed and repaid within the year. After verifying the ending CCC loan was not missed, the next steps can help determine which of the tax treatments was used to report the final sale.

- **Gain Treatment** – Is line 1b greater than or equal to 5a minus any CCC loans still outstanding? If so, no adjustment need be made. The sale will be captured from line 1a.

- **Income/Expense Treatment** – Is there is an expense on line 32 indicating CCC loan repayment. The amount on line 32 should be greater than or equal to 5a minus any CCC loans still outstanding. Any CCC loan repayment amount reported on line 32 should be entered as "*CCC loan principal repayment included in farm expenses*" in data entry. No additional adjustment should be necessary.

- **Net Treatment** – If the Schedule F does not show an amount on line 1b or CCC Expense on line 32, then **Net Treatment** may have been used. Is the discrepancys negative and roughly equal to the amount on line 5a minus any ending CCC loan balance? If so, the adjustment would be to enter this amount in "*Other income (not on Schedule F)*" in the Schedule F Cash to Accrual data entry.

Check #2 – If there are CCC loans on the beginning balance sheet, is there is an amount on line 5a for the previous year? If so, this indicates the loan was reported as income in the previous year and the final sale occurred in the current year. The same steps listed above can be used to determine if **Net Treatment** was used to report the gain on the sale. Again, if the discrepancy is negative and there are no indications that **Gain** or **Income/Expense** treatment was used, the adjustment is to enter the amount of the loan in "*Other income (not on Schedule F).*"

Check #3 – Finally, it might be that the grain was fed. In that case, there should be CCC loan repayment expense on line 32 of the Schedule F (or it could be included in Feed expense). This amount should be entered as "*CCC loan principal repayment included in farm expenses*" in the Cash to Accrual data entry. No additional adjustment should be necessary.