

For: Tobacco State and County Offices

**TTPP and IRS 1099 Information**

Approved by: Acting Associate Administrator for Operations and Management



**1 Overview**

**A Background**

All telephone calls related to quota holder and/or producer inquiries, successor-in-interest, and IRS 1099's will be directed to the applicable FSA office.

**B Purpose**

This notice:

- provides:
  - information for IRS 1099-G, IRS 1099-INT (Interest), IRS1099-OID (Original Issue Discount), and IRS 1099-S
  - IRS contact information for IRS 1099-G, IRS 1099-INT, IRS 1099-OID, and IRS 1099-S
  - questions and answers (Q&A's) for 2014 TTPP participants
  - obsoletes Notice FI-3189.

**C Contact**

If there are questions about this notice, contact Douglas Hinton by e-mail to [douglas.hinton@kcc.usda.gov](mailto:douglas.hinton@kcc.usda.gov).

<b>Disposal Date</b>	<b>Distribution</b>
January 1, 2016	Tobacco State Offices; State Offices relay to applicable County Offices

## Notice FI-3223

### 2 County Office Action

#### A Questions About IRS 1099-G

County Offices issuing payments under TTPP shall answer IRS 1099-G questions received from producers.

#### B Questions From TTPP Participants About IRS 1099 INT, IRS 1099-OID, or IRS 1099-S

County Offices shall instruct TTPP participants with tax questions to:

- contact the IRS by telephone at 800-829-1040
- follow the operator prompts for help applicable to their question.

#### C TTPP Q&A's

County Offices shall:

- use Exhibit 1 as a guide in answering questions from TTPP participants
- **not** provide tax advice to TTPP participants
- direct TTPP participants requesting tax information to contact either of the following:
  - qualified tax advisors
  - IRS at the number provided in subparagraph B.

**TTPP Q&A's**

The following is a list of questions TTPP participants and quota holders might have about their calendar year 2014 IRS 1099's and the answers. This list is **not** all-inclusive, but contains questions anticipated to be most frequently asked.

**Notes:** The imputed interest amount may be higher than the Quota Holder expects as a result of the reduced payment made in February and the remainder of payment being made later in the year. Because of the different payment dates used to calculate imputed interest, corrections will **not** be issued.

Many Quota Holders may be requesting a 1099-G for their payments. Based on questions received in 2013, many Quota Holders were expecting to receive their distribution statement around the same time as their 1099. Print a copy of their payment summary from Financial Inquiries if they request documentation showing their entire payment. Replacement copies of their original distribution statements are not available.

Beginning with calendar year 2012 IRS reporting, the National Office will **not** generate and mail IRS 1099-G to producers if the total of all reportable payments for each tax ID number is less than \$600.

**Q1.** What is TTPP?

**A1.** TTPP is a program created by the Fair and Equitable Tobacco Reform Act of 2004 (the Act) that became law on October 22, 2004. The Act terminated the tobacco marketing quota and price support programs. USDA, FSA, through TTPP, enters into contracts with eligible tobacco quota holders and producers to provide payments to help these quota holders and producers make the transition from a Federal regulated tobacco program to a free-market environment. TTPP is commonly known as the "tobacco buyout".

If you are an eligible tobacco quota holder, then your contract entitles you to receive total payments of \$7 per pound of quota in 10 annual payments in FY's 2005 through 2014. If you are an eligible tobacco producer, then your contract entitles you to receive total payments of up to \$3 per pound of quota in 10 equal annual payments in FY's 2005 through 2014.

To be eligible for TTPP, quota holders must have been the owners of farms with established 2004 basic marketing quotas on October 22, 2004. If you purchased a farm after this date, you will **not** be eligible to receive the quota holder payment.

**Sources:**

- FSA TTPP Fact Sheet: [http://www.fsa.usda.gov/Internet/FSA\\_File/ttpp09.pdf](http://www.fsa.usda.gov/Internet/FSA_File/ttpp09.pdf).
- IRS Publication 225 (2014), "Farmer's Tax Guide" at <http://www.irs.gov/pub/irs-pdf/p225.pdf>, Chapter 3, "Farm Income".

## TTPP Q&amp;A's (Continued)

- Q2.** What is a tobacco “producer”?
- A2.** A tobacco producer is an individual who planted and produced a tobacco crop on land under tobacco marketing quota program rules in 1 or more of the 2002, 2003, and 2004 marketing years.
- Source:** FSA TTPP Fact Sheet at [http://www.fsa.usda.gov/Internet/FSA\\_File/ttpp09.pdf](http://www.fsa.usda.gov/Internet/FSA_File/ttpp09.pdf).
- Q3.** What is “quota” and who are “quota holders”?
- A3.** Quota is defined as the pounds of tobacco allocated to a farm that can be grown and marketed from that farm. Quota holders are the landowners of the farm allocated a tobacco quota.
- Q4.** I sold my TTPP contract. How will that affect my tax reporting?
- A4.** You should consult a tax advisor for assistance in determining how the sale of your contract will affect your tax reporting. An IRS 1099 for the sale of the contract should be received from the company to whom you sold the contract. FSA only issues IRS 1099's for payments made by FSA.
- Q5.** I have lost or did not receive my IRS 1099 for my 2014 tobacco payment. How can I get a replacement IRS 1099?
- A5.** Replacement and/or corrected IRS 1099-G, 1099-INT, 1099-OID, and 1099-S, can be obtained by contacting FSA at 866-729-9705, and PRESS “1”, or by FAX at 816-823-1871. Starting with the 2012 tax year, according to Internal Revenue Code section 6041(a) and section 6041A(a), IRS 1099-G will **not** be issued if total FSA payments reported on **IRS 1099-G** are less than \$600. If the taxpayer has questions about reporting the payments received that were under the \$600 limit, then consult the IRS web site at [www.irs.gov](http://www.irs.gov) or a tax advisor for reporting assistance.
- Q6.** The taxpayer identification number, name, and/or address reflected on my IRS 1099 are incorrect. How do I get this corrected?
- A6.** Contact FSA at 866-729-9705, and PRESS “1”, or by FAX at 816-823-1871 to obtain a corrected IRS 1099. Requests to issue corrected IRS 1099's will be reviewed on a case-by-case basis. In addition, ensure that the County Office has the correct information. If the information is incorrect, the County Office should update the information in SCIMS.
- Q7.** What should I do with the 1099 I have already received after I receive a corrected IRS 1099?
- A7.** If a corrected IRS 1099 is issued to you, verify all personal information is correct. After verification, your incorrect 1099 should be destroyed.

## TTPP Q&amp;A's (Continued)

- Q8.** I am a tobacco producer. Why did I receive an IRS 1099-G, and what is it?
- A8.** If you received tobacco payments as a producer from TTPP during 2014, you will receive a report of TTPP payments on IRS 1099-G. IRS requires FSA to report payments made to recipients of TTPP payments to IRS and to the recipient of the payment; in this case, tobacco producers. TTPP payments are shown as 1 line on IRS 1099-G and will be included with all other farm program payments reportable to IRS.

Starting with the 2012 tax year, according to Internal Revenue Code section 6041(a) and section 6041A(a), IRS 1099-G will **not** be issued if your total FSA payments reported on **IRS 1099-G** are less than \$600. If the taxpayer has questions about reporting the payments received that were under the \$600 limit, then consult the IRS web site at [www.irs.gov](http://www.irs.gov) or a tax advisor for reporting assistance.

- Q9.** Why did I receive IRS 1099-S, and what is it?
- A9.** IRS considers the quota holders' contract as a sale in the interest in land (real property) because tobacco quota was assigned to farms and; thus, attached to land. IRS 1099-S is used to report proceeds from real estate transactions, and the sale of a quota is considered a real estate transaction. IRS 1099-S will be issued to the quota holder in the year the original contract was signed and the first payment was received.
- Q10.** Why does the amount on my IRS 1099-S show the full contract value instead of the amount I was actually paid?
- A10.** Your IRS 1099-S reports the total gross value of your contract in the year you entered into the TTPP contract and received the first payment. There will be no additional IRS 1099-S issued to you for the life of the contract.

If the gross value of your contract was greater than \$3,000, and less than or equal to \$250,000, then the imputed interest on your contract will be reported on IRS 1099-INT. If your contract was approved in 2012 then you will receive IRS 1099-INT for payments made in 2014.

If the gross value of your contract was greater than \$250,000, then the imputed interest on your contract will be reported on IRS 1099-OID for payments made 2014.

- Q11.** Do I report the entire amount stated on my IRS 1099-S as income on my 2014 tax return?
- A11.** You should consult a tax advisor for assistance in determining how to report the proceeds from your TTPP contract on your 2014 tax return.

Certain information about this topic can be found in IRS Publication 225 (2014) "Farmer's Tax Guide" at <http://www.irs.gov/pub/irs-pdf/p225.pdf>, Chapter 3, "Farm Income".

## TTPP Q&amp;A's (Continued)

**Q12.** What is “imputed interest” and why is there a table listing imputed interest amounts on my IRS 1099-S?

**A12.** Imputed interest is a term used by IRS to describe interest considered to be paid, even though no explicit interest payments have or will be made. Imputed interest generally applies in circumstances involving installment sales or other deals involving delayed payments or future payments. In deals structured in this manner, IRS requires the part of the selling price representing interest on the delayed payments should be recognized as “imputed interest”.

TTPP is structured to make payments over a 10-year period; IRS requires a portion of all or some of these payments to be treated as imputed interest.

**Q13.** How is the imputed interest amount displayed on my IRS 1099-S calculated?

**A13.** If the gross value of your contract was less than \$3,000, then there is no interest component.

If the gross value of your contract was greater than \$3,000, and less than or equal to \$250,000, then the imputed interest on your contract was calculated under Internal Revenue Code, Section 483.

**Note:** Under Internal Revenue Code, Section 483, interest is only calculated on payments issued more than 6 months from the date of contract approval and is calculated on a cash basis.

For a contract subject to Internal Revenue Code, Section 483, the tax rules to determine how to calculate your annual imputed interest are contained in Internal Revenue Code, Section 483 and Income Tax Regulations, Sections 1.482-1, 1.483-2, and 1.446-2.

If the gross value of your contract was greater than \$250,000, then the imputed interest on your contract was calculated under Internal Revenue Code, Section 1274.

**Note:** Under Internal Revenue Code, Section 1274, interest is calculated on all payments and is calculated on an accrual basis. For a contract subject to Internal Revenue Code, Section 1274, the tax rules to determine how to calculate your annual imputed interest are contained in Internal Revenue Code, Sections 1272 and 1274 and Income Tax Regulations, Sections 1.1274-1, 1.1274-2 (Example 1 of paragraph (h) contains the formula to present value a payment), 1.1274-3, and 1.1272-1 (Example 1 of paragraph (j) provides formulas to compute accruals of original issue discount).

You should consult the IRS web site at [www.irs.gov](http://www.irs.gov) or a tax advisor for assistance in understanding the application of Internal Revenue Code, Sections 483 and 1274.

## TTPP Q&amp;A's (Continued)

**Q14.** How do I report backup withholding on my tax return?

**A14.** Contact a qualified tax advisor or call the IRS at the number provided in subparagraph 2 B.

**Q15.** What is Internal Revenue Code, Section 483? Why was my contract subject to Internal Revenue Code, Section 483?

**A15.** Internal Revenue Code, Section 483 applies to any payments stemming from the sale or exchange of property that are due more than 6 months after the date of sale or exchange.

If the gross value of your contract was greater than \$3,000, and less than or equal to \$250,000, then the imputed interest on your contract was calculated under Internal Revenue Code, Section 483.

You should consult the IRS web site at [www.irs.gov](http://www.irs.gov) or a tax advisor for assistance in understanding the application of Internal Revenue Code, Section 483.

**Q16.** What is Internal Revenue Code, Section 1274? Why was my contract subject to Internal Revenue Code, Section 1274?

**A16.** Internal Revenue Code, Section 1274 applies to any payments stemming from the sale or exchange of property that are due more than 6 months after the date of sale or exchange. If the gross value of your contract was greater than \$250,000, then the imputed interest on your contract was calculated under Internal Revenue Code, Section 1274.

You should consult the IRS web site at [www.irs.gov](http://www.irs.gov) or a tax advisor for assistance in understanding the application of Internal Revenue Code, Section 1274.

**Q17.** Will I receive IRS 1099-S for 2014?

**A17.** If you signed a contract in 2014, you will receive IRS 1099-S in 2014.

If you signed a contract in 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, or 2013 you will **not** receive IRS 1099-S for 2014. Depending on the gross value of your contract, you may receive IRS 1099-INT or IRS 1099-OID for 2014.

If the gross value of your contract was greater than \$3,000, and less than or equal to \$250,000, then the imputed interest on your contract will be reported on IRS 1099-INT. If your contract was approved in 2012 then you will receive IRS 1099-INT for payments made in 2014.

If the gross value of your contract was greater than \$250,000, the imputed interest on your contract will be reported on IRS 1099-OID. You will receive IRS 1099-OID for payments made in 2014.

## TTPP Q&amp;A's (Continued)

**Q18.** What is IRS 1099-OID? Why did I receive IRS 1099-OID?

**A18.** OID is the excess of your contract's gross value over its present value. IRS 1099-OID shows the amount of your TTPP contract that is considered imputed interest and may need to be reported on your tax return. An IRS 1099-OID is issued for quota holder contracts whose total value exceeds \$250,000, and who fall under Internal Revenue Code, Section 1274. OID may be taxable as interest over the life of the obligation. If you are the holder of an OID obligation, then you may be required to include an amount of OID in your gross income each year you hold the obligation.

You should consult the IRS web site at [www.irs.gov](http://www.irs.gov) or a tax advisor for assistance in understanding the tax reporting requirements for IRS 1099-OID.

**Q19.** Why was I given an imputed interest schedule for all years of my contract on an IRS Form 1099-S, and will I still receive an annual IRS 1099-INT or IRS 1099-OID in future years?

**A19.** FSA is providing imputed interest information at the beginning of the contract period to help taxpayers understand the future portion of payments that should be treated as interest. IRS 1099-INT and 1099-OID will be mailed to you annually throughout the life of your contract.

You should consult the IRS web site at [www.irs.gov](http://www.irs.gov) or a tax advisor for assistance in understanding the tax reporting requirements for IRS 1099-INT and IRS 1099-OID.

**Q20.** Why is the IRS 1099-INT or IRS 1099-OID amount in 2014 different than the imputed interest amount referenced on my IRS 1099-S?

**A20.** In 2010, updates were made to the computer application that calculates the imputed interest amount. The imputed interest schedule on IRS 1099-S used a constant date of January 15 for each year a payment would be made for a contract. In 2010, FSA began using the actual payment date to calculate imputed interest.

**Q21.** Will a corrected IRS 1099-INT or IRS 1099-OID be issued for the 2014 tax year because of the difference in imputed interest?

**A21.** There will **not** be a corrected IRS 1099-INT or IRS 1099-OID issued for the difference. However, if the imputed interest amount is over \$600 and the difference is great, FSA will review. Contact FSA by telephone at 866-729-9705, PRESS "1" or FAX at 816-823-1971 and FSA will review.

**Q22.** In 2014, I had backup withholding withheld from my TTPP payment. How will this be reported to the IRS on my IRS 1099?

**A22.** If backup withholding was withheld from a quota payment in 2014, the amount withheld will be reported on IRS 1099-INT or IRS 1099-OID, Box 4.



**TTPP Q&A's (Continued)**

- Q23.** I only received the 5 percent make-up installment payment on a quota holder contract that was transferred. Will I receive an IRS 1099?
- A23.** Because of the rules established by the IRS contracts only receiving the final 5 percent make-up installment payment will not receive an IRS 1099-INT. However, if the contract should receive an IRS 1099-OID, this form will be mailed.
- Q24.** I only received the 5 percent make-up installment payment on a producer contract that was transferred. Will I receive an IRS 1099?
- A24.** A producer contract receiving only the 5 percent make-up installment payment will only receive an IRS 1099-G if the total payments for the producer are equal to or greater to \$600 for the tax year.