

For: Tobacco State and County Offices

**Tobacco Transition Payment Program (TTPP) 1099 Information**

Approved by: Deputy Administrator, Management



**1 Overview**

**A Background**

FSA outsourced the distribution of 1099's in January 2007, for tobacco. Tobacco:

- growers that received payments under TTPP in calendar year 2006 were mailed CCC-1099-G's
- quota holders that entered into a TTPP contract in calendar year 2006 were mailed:
  - IRS-1099-S with gross contract value
  - IRS-1099-OID with imputed interest amounts where contract gross value exceeded \$250,000.

**B Purpose**

This notice provides:

- National Tobacco Processing Center (NTPC) contact information for CCC-1099-G's
- IRS contact information for IRS-1099's
- questions and answers (Q&A's) for 2006 TTPP participants.

**Note:** County Offices shall **not** provide tax advice to TTPP participants. County Offices shall direct TTPP participants to contact any of the following for tax information:

- a qualified tax advisor
- the IRS at the number provided in this subparagraph
- NTPC at the numbers provided in this subparagraph.

Disposal Date	Distribution
April 1, 2007	Tobacco State Offices; State Offices relay to applicable County Offices

## Notice FI-2790

### 1 Overview (Continued)

#### C Contact

If there are questions about this notice, contact Larry Durant by e-mail at [larry.durant@kcc.usda.gov](mailto:larry.durant@kcc.usda.gov).

### 2 County Office Action

#### A Questions About CCC-1099-G's

County Offices that issued payments under TTPP shall answer CCC-1099-G questions received from producers.

#### B Questions From TTPP Participants About IRS-1099-S's or IRS-1099-OID's

County Offices shall instruct TTPP participants with tax questions to do either of the following:

- contact the IRS
  - by telephone at 800-829-1040
  - PRESS options "1" and "5"
  - ask the IRS operator for the "Complex Issues Division"
- contact NTPC at either of the following numbers:
  - telephone at 800-673-2331
  - FAX at 609-620-7865.

#### C TTPP Questions and Answers

County Offices shall use Exhibit 1 as a guide in answering anticipated questions from TTPP participants.

**Note:** County Office personnel shall **not** provide tax advice to TTPP participants. County Offices shall direct TTPP participants to contact any of the following for tax information:

- a qualified tax advisor
- the IRS at the number provided in this notice
- NTPC at the numbers provided in this notice.

**TTPP Q&A's**

The following is a list of Q&A's that TTPP participants and quota holders might have about their calendar year 2006 1099's. This list is **not** all-inclusive, but contains questions anticipated to be most frequently asked.

**Q1. What is TTPP?**

**A1.** TTPP is a program created by the Fair and Equitable Tobacco Reform Act of 2004 (the Act) which 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 Federally-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 fiscal years 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 fiscal years 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, then you will **not** be eligible to receive the quota holder payment.

**Source:** FSA TTPP Fact Sheet at  
<http://www.fsa.usda.gov/pas/publications/facts/html/ttpp05.htm>.

**Source:** Publication 225 (2006) "Farmer's Tax Guide" at  
<http://www.irs.gov/publications/p225/ch03.html#d0e2628>.

**Q2. What is a tobacco "producer"?**

**A2.** A tobacco producer is an individual who planted and produced a tobacco crop on land that was 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/pas/publications/facts/html/ttpp05.htm>.

**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.

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

**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.

**Q5. I have lost or did not receive my 1099's for my 2006 tobacco payment. How can I get replacement forms?**

**A5.** Replacement/corrected forms for CCC-1099-G, IRS-1099-S, and IRS-1099-OID, can be obtained by contacting the National Tobacco Processing Center (NTPC) at 800-673-2331 or by FAX at 609-620-7865.

**Q6. The taxpayer identification number, or name and address, reflected on my 1099 is incorrect. How do I get this corrected?**

**A6.** Contact the National Tobacco Processing Center (NTCP) at 800-673-2331, or by FAX at 609-620-7865 to obtain a corrected form. Requests to issue corrected 1099's will be reviewed on a case-by-case basis.

**Q7. What should I do with the 1099 I have already received?**

**A7.** If a corrected form is issued to you, verify that all personal information is correct. Once verified, your incorrect form should be destroyed.

**Q8. I am a tobacco producer. Why did I receive CCC-1099-G, and what is it?**

**A8.** If you received tobacco payments as a producer from TTPP during 2006, you will receive a report of those payments on CCC-1099-G. IRS requires that FSA must report payments made to recipients of TTPP payments to IRS and to the recipient of the payment; in this case, tobacco producers.

**Q9. Why did I receive 2 or more CC-1099-G's?**

**A9.** FSA provides CCC-1099-G for each individual TTPP contract that a tobacco producer entered into.

**Q10. Why did I receive IRS-1099-S, and what is it?**

**A10.** 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 contract was signed.

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

**Q11. Why does the amount on my IRS-1099-S show the full contract value instead of the amount I was actually paid?**

**A11.** Your IRS-1099-S reports the total gross value of your contract in the year you entered into the TTPP contract. 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 before July 15, 2005, then you will receive IRS-1099-INT for payments made in years 2006 through 2014. If your contract was approved on or after July 15, 2005, then you will receive IRS-1099-INT for payments made in years 2007 through 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 in years 2005 through 2014.

**Q12. Do I report the entire amount stated on my IRS-1099-S as income on my 2006 tax return?**

**A12.** You should consult a tax advisor for assistance in determining how to report the proceeds from your TTPP contract on your 2006 tax return.

Certain information about this topic can also be found in the 2006 Farmers Tax Guide available on the IRS web site at <http://www.irs.gov/publications/p225/ch03.html#d0e2628>.

**Q13. What is "imputed interest" and why is there a table listing imputed interest amounts on my IRS-1099-S?**

**A13.** Imputed interest is a term used by the 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 that involve delayed payments or future payments. In deals structured in this manner, IRS requires that the part of the selling price that represents interest on the delayed payments should be recognized as "imputed interest".

Because 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.

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

**Q14. How were the imputed interest amounts that are displayed on my IRS-1099-S calculated?**

**A14.** 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 IRS Section 483. If the gross value of your contract was greater than \$250,000, then the imputed interest on your contract was calculated under IRS Section 1274.

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

Under IRS Section 1274, interest is calculated on all payments and is calculated on an accrual basis.

For a contract subject to IRS Section 1274, the tax rules to determine how to calculate your annual imputed interest are contained in Sections 1272 and 1274 of the Internal Revenue Code and 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) of the Income Tax Regulations.

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 IRS Sections 483 and 1274.

**Q15. What is IRS Section 483? Why was my contract subject to IRS Section 483?**

**A15.** IRS Section 483 applies to any payments stemming from the sale or exchange of property, which 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 IRS Section 483.

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

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

**Q16. What is IRS Section 1274? Why was my contract subject to IRS Section 1274?**

**A16.** IRS Section 1274 applies to any payments stemming from the sale or exchange of property which 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 IRS Section 1274.

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

**Q17. Will I receive IRS-1099's for 2006 and future years?**

**A17.** If you signed a contract in 2006, you will receive IRS-1099-S in 2006, but not for future years. If you signed a contract in 2005, you will not receive IRS-1099-S for 2006 or future years. Depending on the gross value of your contract, you may receive IRS-1099-INT or IRS-1099-OID for 2006 and future years.

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:

- before July 15, 2005, then you will receive IRS-1099-INT for payments made in years 2006 through 2014
- on or after July 15, 2005, then you will receive IRS-1099-INT for payments made in years 2007 through 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. You will receive IRS-1099-OID for payments made in years 2005 through 2014.

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

**A18.** Original Issue Discount (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. IRS-1099-OID's are issued for quota holder contracts whose total value exceeds \$250,000 and who fall under IRS 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.

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

**Q19. Why was I given imputed interest information for all 10 years of my contract, and will I still receive an annual IRS-1099-OID or IRS-1099-INT in future years?**

**A19.** FSA is providing imputed interest information at the beginning of the 10-year contract period to help taxpayers understand the future portion of payments that should be treated as interest. IRS-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-OID.