

For: Tobacco State and County Offices

**TTPP IRS Form 1099 Information**

Approved by: Associate Administrator for Operations and Management



**1 Overview**

**A Background**

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

**B Purpose**

This notice provides:

- FSA and IRS contact information for IRS Form 1099-G, IRS Form 1099-S, IRS Form 1099-INT, and IRS Form 1099-OID
- questions and answers (Q&A's) for 2010 TTPP participants (Exhibit 1).

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

- qualified tax advisor
- IRS according to subparagraph 2 B.

**C Contact**

If there are questions about this notice, contact Rhonda Anthony by e-mail at [rhonda.anthony@kcc.usda.gov](mailto:rhonda.anthony@kcc.usda.gov).

<p><b>Disposal Date</b></p> <p>August 1, 2011</p>	<p><b>Distribution</b></p> <p>Tobacco State Offices; State Offices relay to applicable County Offices</p>
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## Notice FI-3027

### 2 County Office Action

#### A Questions About IRS Form 1099-G

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

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

County Offices shall instruct TTPP participants with tax questions to contact the IRS according to the following:

- by telephone at 800-829-1040
- PRESS “0” until an IRS operator is reached
- ask the IRS operator for the help with an IRS Form 1099-S, IRS Form 1099-INT, or IRS Form 1099-OID. This will enable the IRS operator to reach someone that can help the TTPP participant properly report the information on their tax return.

**Note:** There is no longer a specific group that handles the tobacco issues.

#### C TTPP Q&A’s

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

**Note:** County Offices shall:

- **not** provide tax advice to TTPP participants
- direct TTPP participants requesting tax information to contact:
  - a qualified tax advisor
  - IRS at the number provided in subparagraph B.

**TTPP Q&A's**

The following is a list of Q&A's TTPP participants and quota holders might have about calendar year 2010 IRS Form 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) that became law on October 22, 2004. The Act terminated the tobacco marketing quota and price support programs. 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 an:

- eligible tobacco quota holder, then the contract entitles the tobacco quota holder to receive total payments of \$7 per pound of quota in 10 annual payments in FY's 2005 through 2014
- eligible tobacco producer, then the contract entitles the tobacco producer 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 holder must have been the owner of a farm with established 2004 basic marketing quota on October 22, 2004. If the quota holder purchased a farm after this date, the quota holder will **not** be eligible to receive the quota holder payment.

**Notes:** The FSA TTPP Fact Sheet is available at <http://www.fsa.usda.gov>, on right side of page, CLICK "**Find FSA Fact Sheets**", change "Year" field from "2010" to "**2009**", CLICK "**Go**", scroll down, and CLICK "**Tobacco Transition Payment Program (Oct. 8, 2009)**".

The IRS Publication 225 (2010) "Farmer's Tax Guide" Chapter 3, Farm Income is available at <http://www.irs.gov/pub/irs-pdf/p225.pdf>.

**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.

**Note:** The FSA TTPP Fact Sheet is available at <http://www.fsa.usda.gov>, on right side of page, CLICK "**Find FSA Fact Sheets**", change "Year" field from "2010" to "**2009**", CLICK "**Go**", scroll down, and CLICK "**Tobacco Transition Payment Program (Oct. 8, 2009)**".

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

- 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.** Consult a tax advisor for assistance in determining how the sale of the contract will affect your tax reporting. IRS Form 1099 for the sale of the contract should be received from the company the contract was sold to. FSA only issues IRS Form 1099's for payments made by FSA.
- Q5.** I have lost or did not receive my IRS Form 1099 for my 2010 tobacco payment. How can I get replacement forms?
- A5.** Replacement/corrected IRS Form 1099-G, IRS Form 1099-S, IRS Form 1099-INT, or IRS Form 1099-OID can be obtained by contacting FSA by telephone at 866-729-9705 or FAX at 816-823-1871.
- Q6.** The name, TIN, and/or address reflected on my IRS Form 1099 are incorrect. How do I get this corrected?
- A6.** Contact FSA by telephone at 866-729-9705 or FAX at 816-823-1871 to obtain a corrected form. Requests to issue corrected IRS Form 1099's will be reviewed on a case-by-case basis. In addition, ensure the County Office has the correct information. If the information recorded in the SCIMS database is incorrect, the County Office shall update the information.
- Q7.** What should I do with the IRS Form 1099 I have already received once I receive a corrected form?
- A7.** If a corrected IRS Form 1099 is issued, verify all personal information is correct. Once verified, destroy the incorrect IRS Form 1099.
- Q8.** I am a tobacco producer. Why did I receive an IRS Form 1099-G and what is it?
- A8.** If you received tobacco payments as a producer from TTPP during 2010, you will receive a report of those payments on IRS Form 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. Beginning in 2010, TTPP payments are shown as 1 line on IRS Form 1099-G and will be included with all other Farm Program payments reportable to IRS.

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

- Q9.** Why did I receive IRS Form 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 Form 1099-S is used to report proceeds from real estate transactions, and the sale of a quota is considered a real estate transaction. IRS Form 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 Form 1099-S show the full contract value instead of the amount I was actually paid?
- A10.** IRS Form 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 Form 1099-S issued for the life of the contract.

If the gross value of the contract was greater than \$3,000 and less than or equal to \$250,000, the imputed interest on the contract will be reported on IRS Form 1099-INT. If the contract was approved:

- before July 15, 2009, then you will receive IRS Form 1099-INT for payments made in years 2011 through 2014
- on or after July 15, 2009, then you will receive IRS Form 1099-INT for payments made in years 2012 through 2014.

If the gross value of the contract was greater than \$250,000, the imputed interest on the contract will be reported on IRS Form 1099-OID for payments made in years 2010 through 2014.

- Q11.** Do I report the entire amount stated on my IRS Form 1099-S as income on my 2010 tax return?
- A11.** Consult a tax advisor for assistance in determining how to report the proceeds from the TTPP contract on your 2010 tax return.

Certain information about this topic can also be found in IRS Publication 225 (2010) "Farmer's Tax Guide" Chapter 3, Farm Income available at <http://www.irs.gov/pub/irs-pdf/p225.pdf>.

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

**Q12.** What is “imputed interest” and why is there a table listing imputed interest amounts on my IRS Form 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 are the imputed interest amounts displayed on my IRS Form 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 the contract was greater than \$3,000 and less than or equal to \$250,000, then the imputed interest on the contract was calculated under IRS Section 483.

- 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 the 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 the contract was greater than \$250,000, then the imputed interest on the contract was calculated under IRS Section 1274.

- 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 the 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).

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.

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

**Q14.** What is IRS Section 483? Why was my contract subject to IRS Section 483?

**A14.** 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 the contract was greater than \$3,000 and less than or equal to \$250,000, then the imputed interest on the contract was calculated under IRS Section 483.

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 Section 483.

**Q15.** What is IRS Section 1274? Why was my contract subject to IRS Section 1274?

**A15.** 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 the contract was greater than \$250,000, then the imputed interest on the contract was calculated under IRS Section 1274.

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 Section 1274.

**Q16.** Will I receive IRS Form 1099's for 2010 and future years?

**A16.** If you signed a contract in 2010, you will receive IRS Form 1099-S in 2010, but not for future years.

If you signed a contract in 2005, 2006, 2007, 2008, or 2009, you will **not** receive IRS Form 1099-S for 2010 or future years. Depending on the gross value of the contract, you may receive IRS Form 1099-INT or 1099-OID for 2010 and future years.

If the gross value of the contract was greater than \$3,000 and less than or equal to \$250,000, the imputed interest on the contract will be reported on IRS Form 1099-INT. If the contract was approved:

- before July 15, 2010, then you will receive IRS Form 1099-INT for payments made in years 2011 through 2014
- on or after July 15, 2010, then you will receive IRS Form 1099-INT for payments made in years 2012 through 2014.

If the gross value of the contract was greater than \$250,000, the imputed interest on the contract will be reported on IRS Form 1099-OID. You will receive IRS Form 1099-OID for payments made in years 2010 through 2014.

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

**Q17.** What is IRS Form 1099-OID? Why did I receive IRS Form 1099-OID?

**A17.** Original issue discount (OID) is the excess of your contract's gross value over its present value. IRS Form 1099-OID shows the amount of the TTPP contract that is considered imputed interest and may need to be reported on your tax return. IRS Form 1099-OID is 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.

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 Form 1099-OID.

**Q18.** Why was I given an imputed interest schedule for all years of my contract on IRS Form 1099-S, and will I still receive an annual IRS Form 1099-INT or IRS Form 1099-OID in future years?

**A18.** 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 Forms 1099-INT and IRS Form 1099-OID will be mailed annually throughout the life of the contract.

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 is the IRS Form 1099-INT or IRS Form 1099-OID amount in 2010 different than the imputed interest amount referenced on my IRS Form 1099-S?

**A19.** In 2010, updates were made to the computer application that calculates the imputed interest amount. The imputed interest schedule on your IRS Form 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.

**Q20.** Will a corrected IRS Form 1099-INT or IRS Form 1099-OID be issued for the 2010 tax year because of the difference in imputed interest?

**A20.** There will not be a corrected IRS Form 1099-INT or IRS Form 1099-OID issued for the difference. However, if the imputed interest amount is over \$600.00 and the difference is great, FSA will review. Contact FSA by telephone at 866-729-9705 or FAX at 816-823-1871 and FSA will review.