

For: State and County Offices

Average Adjusted Gross Income (AGI) Verification

Approved by: Acting Deputy Administrator, Farm Programs



1 Overview

A Background

Audits of certifications of average AGI may be conducted to determine compliance with the \$2.5 million average AGI limitation. The 2005 End of Year Review process for payment eligibility and payment limitation compliance purposes **includes** verifying the average AGI for all individuals and entities that are part of the farming operations selected for review.

Income tax data filed with IRS by program participants is the most credible source of information to verify AGI certifications. Tax returns may be requested by FSA for this purpose. 1-PL, Part 6.5 and 7 CFR Part 1400-G provide definitions of AGI for individuals, different business organizations, and types of income as reported to IRS that constitute AGI.

Verification of average AGI requires both determining AGI for each year of the 3-year period and comparing the average AGI with the portion derived from farming, ranching, and forestry operations. Finding the correct amounts and types of income for these determinations and comparisons can be challenging since the definition of AGI and the tax forms submitted for individuals and businesses are different.

B Purpose

This notice provides guidance on:

- using IRS data
- IRS Forms applicable for individuals and different business organizations
- IRS Form line items used when determining AGI
- determining income for farming, ranching, and forestry operations.

Disposal Date	Distribution
November 1, 2007	State Offices; State Offices relay to County Offices

Notice PL-150

2 AGI Verification

A Using IRS Data

The following table provides guidance on AGI determination using data reported to IRS (see 1-PL, paragraph 632 for the definitions of AGI).

IF determining AGI for...	THEN see IRS Form...	AND use the amount entered on...
individuals	1040	<ul style="list-style-type: none"> • line 37 (AGI) for 2005 • line 36 (AGI) for 2004 • line 34 (AGI) for 2003 • line 35 (AGI) for 2002 • line 33 (AGI) for 2001 • line 33 (AGI) for 2000.
limited liability companies (LLC's), limited liability partnerships (LLP's), and limited partnerships (LP's), or other similar type organization	1065	line 22 (total income from trade or business) plus line 10 (guaranteed payments to partners) (For the years 2000 through 2005.)
estates or trusts	1041	line 17 (AGI) plus line 13 (charitable deductions) (For the years 2000 through 2005.)
corporations	1120	line 30 (total taxable income) plus line 19 (charitable contributions) (For the years 2000 through 2005.)
tax-exempt or charitable organizations	990-T	line 34 (unrelated business taxable income) minus income that CCC determined to be from non-commercial activity. (For the years 2000 through 2005.)

Note: Variations of the referenced tax forms or comparable forms may apply in which the line items for the appropriate income amounts will be different.

B Income From Farming, Ranching or Forestry Operations

To determine income derived from farming, ranching, or forestry operations, see IRS Schedule F, line 36 for net farm profit or loss amount entered.

Notice PL-150

2 AGI Verification (Continued)

C Average AGI Exceeds \$2.5 Limitation

When the average AGI is greater than \$2.5 million, a comparison **must** be made to determine if less than 75 percent of the average AGI was derived from farming, ranching, or forestry operations.

Individual - see IRS Form 1040; compare the 3-year average of line 18 (farm income or loss) with the average AGI, as determined for the same time period.

LLC's, LLP's, or LP's and other similar organizations - see IRS Form 1065; compare the 3-year average of line 5 (farm income or loss) with average AGI, as determined for the same time period.

Trusts And Estates - see IRS Form 1041; compare the 3-year average of line 6 (farm income or loss) with the average AGI, as determined for the same time period.

Corporations - see IRS Form 1120; compare the 3-year average of line 10 (other income per Schedule F) with the average AGI, as determined as for the same time period.

Tax Exempt Or Charitable Organizations - see IRS Form 990-T; compare the 3-year average of line 8 (interest, annuities, royalties, and rents per Schedule F) with the average AGI, as determined for the same time period.

Note: Exceptions may be applicable to the 3-year base period (see 1-PL, paragraph 632).

D Revised AGI Worksheet

For AGI compliance determinations, use the revised worksheet in Exhibit 1 that replaces 1-PL, paragraph 688.

Note: 1-PL will be amended to reflect this change.

3 Action

A County Office Action

County Offices shall:

- review the contents of this Notice
- follow current procedural references
- correct any errors or deficiencies.

Notice PL-150

3 Actions Required (Continued)

B State Office Action

States Offices shall:

- read and follow instructions in this notice
- ensure that County Offices follow applicable program procedures
- provide additional training, if necessary.

AGI Compliance Worksheet

Use this worksheet to determine AGI compliance for the producer for the year under review.
Complete multiple worksheets as needed to include all members of producers that are entities and/or joint operations.

Producer _____

Year under review _____

Step	Action	Result												
1	Enter AGI from the 3 previous years from all sources (agriculture and non-agriculture): <table style="width: 100%; border: none;"> <tr> <td style="width: 40%; text-align: center;">Year</td> <td style="width: 20%;"></td> <td style="width: 40%; text-align: center;">Amount</td> </tr> <tr> <td style="text-align: center;">_____</td> <td></td> <td style="text-align: center;">\$ _____</td> </tr> <tr> <td style="text-align: center;">_____</td> <td></td> <td style="text-align: center;">\$ _____</td> </tr> <tr> <td style="text-align: center;">_____</td> <td></td> <td style="text-align: center;">\$ _____</td> </tr> </table>	Year		Amount	_____		\$ _____	_____		\$ _____	_____		\$ _____	
Year		Amount												
_____		\$ _____												
_____		\$ _____												
_____		\$ _____												
2	Total the amounts in step 1.	\$												
3	Calculate the average AGI from all sources by dividing the result of step 2 by the number of years in step 1.	\$												
4	Enter AGI from the 3 previous years from farming, ranching, and forestry: <table style="width: 100%; border: none;"> <tr> <td style="width: 40%; text-align: center;">Year</td> <td style="width: 20%;"></td> <td style="width: 40%; text-align: center;">Amount</td> </tr> <tr> <td style="text-align: center;">_____</td> <td></td> <td style="text-align: center;">\$ _____</td> </tr> <tr> <td style="text-align: center;">_____</td> <td></td> <td style="text-align: center;">\$ _____</td> </tr> <tr> <td style="text-align: center;">_____</td> <td></td> <td style="text-align: center;">\$ _____</td> </tr> </table>	Year		Amount	_____		\$ _____	_____		\$ _____	_____		\$ _____	
Year		Amount												
_____		\$ _____												
_____		\$ _____												
_____		\$ _____												
5	Total the amounts in step 4.	\$												
6	Calculate the average AGI from farming, ranching, and forestry by dividing the result of step 5 by the number of years in step 4.	\$												
7	Calculate AGI percentage by dividing the result of step 6 by the result of step 3 and multiply by 100.	%												
8	IF the result of step 7 is...	THEN...												
	equal or greater than 75%	the producer is eligible.												
	less than 75%	go to step 9.												
9	IF the result in step 3 is...	THEN the producer is...												
	equal to or greater than \$2.5 million	not eligible.												
	less than \$2.5 million	eligible.												