

For: State and County Offices

Clarification for Updating “Member Contribution”

Approved by: Acting Deputy Administrator, Farm Programs



1 Overview

A Background

Notice PL-222 included procedure for System 36 changes to the joint operation file.

County Software Release No. 715 provided County Offices the capability to record member contribution determinations on System 36 for:

- applicable joint operations
- trusts and estates.

Modified web-based software was deployed on August 12, 2011, that reads member contribution values during payment processing.

B Purpose

This notice:

- clarifies the rules about the applicability of member contribution for joint operations, trusts, and estates
- clarifies how contribution values shall be updated in the System 36 joint operation and entity files
- advises State and County Office that immediate action shall be taken to ensure that erroneous receivables are **not** transferred to NRRS and payments are **not** unnecessarily delayed for eligible producers.

Disposal Date	Distribution
February 1, 2012	State Offices; State Offices relay to County Offices

2 Software Modifications

A System 36 Software

Before the release of the System 36 software on July 25, 2011, “member contribution” values could not be properly updated for:

- the **members** of entities embedded within a joint operation
- trusts, both revocable and irrevocable, and estates.

Note: The software previously released required member contribution to be updated for the members of the trusts and estates, which conflicts with 4-PL policy.

B Web Software Modifications for Payment Processing

On August 12, 2011, web-based software was deployed with the modifications needed to read member contribution determinations for:

- applicable members of joint operations
- trusts and estates.

3 How Member Contribution Applies to Joint Operations

A Rule

Member contribution rules apply to joint operations when at least 1 member is an embedded entity, but updating member contribution values is dependent on the type of embedded entity.

- If the embedded entity is an entity, such as a corporation, the individual members of the corporation **must** meet member contribution provisions and the system **must** be updated for the individual members.
- If the first level embedded entity is a trust or an estate, then member contribution provisions do **not** apply, unless the trust/estate is a member of another embedded entity, such as a corporation. When the trust/estate is a member of an embedded entity, the member contribution provisions apply to the trust/estate and **not** to the individual members.

Note: Member contribution values should only be updated in the system based on the COC’s actual determination of whether the members are making the requisite contributions of labor and/or management. If COC has **not** made the proper determination, then that determination shall be completed.

Notice PL-226

3 How Member Contribution Applies to Joint Operations (Continued)

A Rule (Continued)

The following table provides guidance for the applicability of member contribution provisions when the payment entity is a joint operation.

IF the member is...	THEN the member contribution provisions...
individual	do not apply, unless the individual is a member of an embedded entity in the organizational structure.
entity without members	never apply.
revocable trust	do not apply, unless the trust/estate is a member of an embedded entity in the organizational structure.
irrevocable trust	
estate	
LLC using a Social Security number	do not apply, unless the LLC is a member of an embedded entity in the organizational structure.
entity including: <ul style="list-style-type: none"> • corporation • limited partnership • individual operating as a small business • LLC using an employer ID number 	apply to any members of the entity that are: <ul style="list-style-type: none"> • individuals down to the lowest level member • revocable trusts • irrevocable trusts • estates. <p>Exception: Member contribution provisions do not apply to individual members of an embedded trust/estate.</p>
joint operation	do not apply to any members unless 1 of the members is an entity. <p>If 1 member of the embedded joint operation is an entity, follow the rules for the members that are entities.</p>

Notice PL-226

3 How Member Contribution Applies to Joint Operations (Continued)

B Example

The following example illustrates a joint operation with embedded entities. In this example, IMA Partnership is a general partnership and is the payment entity. Member contribution:

- values **must** be updated for Any Producer 1 and IMA Revocable Trust 1
- provisions do **not** apply to IMA Revocable Trust 2, IMA Estate, and Any Producer 5, because they are first level members of the joint operation and **must** meet actively engaged provisions.

IMA Partnership			
1st Level Member	2nd Level Member	3rd Level Member	Type of Member
IMA Corporation			Corporation
	Any Producer 1		Individual
	IMA Revocable Trust 1		Revocable Trust
		Any Producer 6	Individual
IMA Revocable Trust 2			Revocable Trust
	Any Producer 2		Individual
IMA Estate			Estate
	Any Producer 3		Individual
	Any Producer 4		Individual
Any Producer 5			Individual

Notice PL-226

4 How Member Contribution Applies to Estates and Trusts

A Rule

Member contribution rules do **not** apply to an estate, revocable trust, or irrevocable trust, unless the estate/trust is a member of an entity with members such as:

- corporation
- limited partnership
- individual operating as a small business
- LLC using an employer ID number.

The following table provides guidance for the applicability of member contribution provisions for trusts and estates.

IF the payment entity is...	AND the member is...	THEN member contribution provisions...
<ul style="list-style-type: none"> • revocable trust • irrevocable trust • estate 		do not apply to any member of the organizational structure.
entity with members, including: <ul style="list-style-type: none"> • corporation • limited partnership • individual operating as a small business • LLC using an employer ID number 	revocable trust irrevocable trust estate	<ul style="list-style-type: none"> • apply to the trust/estate • do not apply to the individual members of the embedded trust/estate.
joint operation		see subparagraph 3.

Notice PL-226

4 How Member Contribution Applies to Estates and Trusts (Continued)

B Example

The following example illustrates a corporation with embedded entities. In this example, IMA Corporation is the payment entity. Member contribution:

- values **must** be updated for Any Producer 1, IMA Revocable Trust 1, IMA Revocable Trust 2, IMA Estate, and Any Producer 5
- provisions do **not** apply to Any Producer 6, Any Producer 2, Any Producer 3, or Any Producer 4, because they are members of embedded trusts and estates and the member contribution rule applies to the trust/estate.

IMA Corporation			
1st Level Member	2nd Level Member	3rd Level Member	Type of Member
IMA Limited Partnership			Corporation
	Any Producer 1		Individual
	IMA Revocable Trust 1		Revocable Trust
Any Producer 6			Individual
IMA Revocable Trust 2			Revocable Trust
	Any Producer 2		Individual
IMA Estate			Estate
	Any Producer 3		Individual
	Any Producer 4		Individual
Any Producer 5			Individual

5 Action

A Kansas City Processing

Approximately 2 weeks after the issuance of this notice, Kansas City will trigger payments to reprocess for all joint operations and entities to identify any producers that may have been overpaid because of member contribution provisions not being met.

An Information Bulletin will be issued to notify State and County Offices when this process is executed.

B State Office Action

State Offices shall:

- ensure that County Offices are immediately informed of the contents of this notice
- contact the applicable program manager or specialist in PECD, if additional guidance is needed.

Notice PL-226

5 Action (Continued)

C County Office Action

County Offices shall:

- thoroughly review the provisions in this notice
- **immediately** update **all** “member contribution” values for years 2009 through 2011 based on the COC’s determination that the requisite labor and/or management requirements have been met for the following:
 - joint operations with embedded entities
 - any joint operation or entity that has an embedded revocable trust, irrevocable trust, or estate as a member
- review the Nonpayment and Pending Overpayment Reports accessible through the Common Payment Reports System to help identify members that need updates for member contribution

Note: See 9-CM for additional information on the Common Payment Report System.

- contact their State Office if additional guidance is needed.

Failure to take immediate action may result in producers being paid erroneously or receivables being established for producers previously paid.

Reminders: Changes made to the joint operation and entity files **must** be uploaded to the Kansas City mainframe **before** they are available for web-based payment processing. Depending on the date the update is completed, the upload can take 4 calendar days to 2 weeks.

Web-based payment processes read the joint operation and entity file data from the county listed as the “Rc St & Cty” in the “Multi-County” section of MABDIG.

System 36 payment processes continue to read the joint operation and entity file data recorded on the local system.