

Tax Tips for Conservation Security Program Participants

There are four components of CSP payments: existing practices and new practices payments, which are nontaxable; stewardship payments and enhancement payments, which are taxable. Most farmers get more than one type of payment in a year, so the existing and new practices payments have to be separated out. One useful document for this is a “1245”, or more specifically, Form NRCS-CPA-1245. This form shows all of the payments that the farmer received during the year.

This clarification came on September 25, 2006, when the IRS ruled that CSP qualifies as a small watershed program and described that payments received under the program were eligible for exclusion from producers’ gross income.

The IRS ruled that:

- ◇ Cost-share payments received under the existing practice and new practice components of the CSP are eligible for exclusion from gross income.
- ◇ Payments under the stewardship component are based on the rental rate applicable to the land and are not cost-share payments, and thus are not excludable from gross income.
- ◇ Payments under the enhancement component that are based on an activity’s expected conservation benefits rather than on its cost are not cost-share payments and are not excludable from gross income.
- ◇ It is the program participant’s responsibility to work with their tax advisors to determine how to report the payments. A participant might find additional tax preparation guidance in IRS publications, such as Publication 225, Farmer’s Tax Guide.

The IRS-1099 the participant receives will not show an itemized break-down of all their CSP payments. The participant will need to review their CSP contract and payment applications to determine the payment amount for each payment component, i.e., the stewardship, existing practice, new practice, and enhancement payments.