

Farm Loan Relief Under Inflation Reduction Act Section 22006: Round of Payments for Guaranteed Loans, Late 2023

06/30/2024

Introduction

The Inflation Reduction Act (IRA) of 2022 (Public Law 117-169) was signed by the President on August 16, 2022. IRA Section 22006 provides \$3.1 billion to be made available through Sept. 30, 2031, to deliver assistance through the USDA Farm Service Agency (FSA) to help distressed borrowers with direct or guaranteed FSA loans.

This publication discusses the round of IRA payments announced in late 2023 for distressed **guaranteed borrowers** and subsequent decisions that farmers and ranchers will need to address in light of these USDA payments and any corresponding 1099s issued. This includes the basics of the IRA 22006 payments (additional information relative to late 2023 developments are discussed below), the tax consequences, tax management methods to consider, and farm management considerations.

Section 22006 Basics

Through initial payments in October 2022, the Farm Service Agency (FSA) provided nearly \$600 million in relief to approximately 11,000 borrowers who were 60 or more days delinquent on their FSA direct or guaranteed loan as of September 30, 2022. For direct loan borrowers, this took the form of payments to make their loans current and to cover their next annual installment. For guaranteed borrowers, these payments were equal to the amount the borrower was delinquent as of September 30, 2022, as reported by their lender. FSA continues to use a case-by-case processes for approximately 1,600 complex accounts, including those with pending foreclosure, bankruptcy, or court actions.

As part of IRA 22006 assistance, FSA also provided just over \$200 million in payments to resolve the remaining debts for approximately 2,100 direct loan borrowers who

had their loan collateral liquidated, but had remaining debt that had been or was due to be referred to the Department of Treasury for offset or collections. These targeted payments to these qualifying recipients came after the initial issued 22006 assistance. Payments to these borrowers resolved the remaining outstanding debt. In addition, a combination remaining Covid-19 pandemic relief funds and IRA 22006 funding was used to administer \$66 million in automatic payments to support up to 7,000 direct loans for up to 3,000 borrowers who used FSA's disaster-set-aside option during the pandemic to move their scheduled payments to the end of their loans.

Additionally, in March of 2023, FSA announced approximately \$123 million in automatic payments to FSA direct loan borrowers during a second round of 22006 assistance. This round provided assistance to direct loan borrowers whose interest exceeded principle owed on outstanding qualifying loans; borrowers who were delinquent on a qualifying loan as of October 18, 2022, and remained delinquent as of the announcement; and borrowers with a recent restructure between February 28, 2020 through March 27, 2023, or who had accepted an offer to restructure on or before March 27, 2023, but had not yet closed that restructure.

FSA sent a letter to borrowers who received a Section 22006 payment stating either that a payment was made and was directly applied to the loan, or a check was sent, made out to them and their guaranteed lender, to apply to the loan. FSA direct loan borrowers should not have received a check themselves; the payment was applied directly to their FSA direct loan balance. All FSA borrowers who received Section 22006 assistance in 2022 initially received a 1099-G (Certain Government Payments), which was issued in January 2023. However, corrected 1099-Gs, if necessary, and a new 1099-C (Cancellation of Debt) were issued in April of 2023 to all direct loan borrowers who received Section 22006 payments in 2022. These corrected 1099s provided income tax management opportunities which are discussed later in this fact sheet. Direct loan borrowers who received 22006 assistance in 2023 or later will receive 1099-C (Cancellation of Debt) tax forms. Guaranteed borrowers who receive 22006 assistance will receive 1099-G (Certain Government Payments) tax forms.

Late 2023 Developments and a New Round of IRA Payments

In August 2023, USDA announced additional automatic assistance for guaranteed borrowers.

Distressed **Guaranteed Farm Loan Borrowers** who qualified for late 2023 round of 22006 assistance received letters from USDA FSA explaining these new payments which are, per the letter, to be issued by a US Treasury check. This letter explains to the recipients that they are not required to provide any additional information to USDA. The check was issued in the name of the borrower and the guaranteed lender. The letter provides the dollar amount of debt relief.

There are three potential options which qualify distressed borrowers under this round of payments. It is noted that if a guaranteed loan qualified previously for any 22006 assistance, that loan is not eligible for the three options.

- Option 1: Guaranteed loan was delinquent as of October 18, 2022. The IRA payment will be issued in the amount that will bring the account current as of October 18, 2022. If the account was accelerated on or before October 18, 2022, the IRA payment may include protective advances, liquidation expenses, late fees, and any other expense owed by borrowers according to their promissory note. The funds are required to be applied to the guaranteed loan, first to any delinquency.
- Option 2: Guaranteed loan received a loan restructure between March 1, 2020, and August 11, 2023. The guaranteed loan must not have been paid in full prior to August 11, 2023. The payment amount will be the lesser of the post-restructure annual installment or the amount required to pay the loan in full. The final maturity date of the loan must have been adjusted during the restructure. This option does not include interest rate changes or payment extensions where the final maturity date did not change. The borrower and their lender must have executed a new note or an allonge to support the loan restructure. The funds are required to be applied to the guaranteed loan, first to any delinquency.
- Option 3: Guaranteed loan received a deferral or another type of payment extension in response to COVID-19, disasters, or other revenue shortfalls between March 1, 2020, and September 30, 2022. The guaranteed loan must not have been paid in full prior to August 11, 2023. The IRA payment will be issued in the amount that was deferred or extended for at least 45 days, up to \$100,000. The IRA payment amount will be the lesser of the most recent deferral or extension amount on the loan, or the amount required to pay the loan in full. The funds must first be applied to cure any delinquency, then to

the deferral or extension. Any remaining funds must be applied to the guaranteed loan.

Distressed borrowers receiving payment for this assistance, which is taxable, will receive a 1099-G for payments that exceed \$600. Payments under \$600 fall below the threshold for issuance of a 1099-G, however, those payments are still subject to income and self-employment tax. The lenders who have USDA guarantees did not forgive or cancel any of the debt, thus, a Form 1099-C will not be issued.

Borrowers have the option to decline this assistance. To do so, they should return the US Treasury check to their local FSA Service Center as soon as possible. Returning the payment removes any associated income and self-employment tax liability.

Any distressed guaranteed borrowers who qualify for these forms of assistance and are in bankruptcy are being addressed using the same case-by-case review process [announced in October 2022](#) for complex cases.

Income Tax Consequences of IRA Payments

The Inflation Reduction Act did not provide the authority for these loan payments to be excluded from taxation. Payments provided to borrowers and payments to be applied to FSA farm loan accounts are therefore reported to the Internal Revenue Service.

Borrowers with a Guaranteed Loan

As noted above, 22006 payments to farmers and ranchers with FSA guaranteed loans are not treated as cancellation of debt because the commercial bank did not forgive the guaranteed debt. For the August 2023 round of 22006 assistance for guaranteed borrowers, payments were made in 2023 and 2024 (listed above in the three options). These payments are considered ad-hoc payments and are to be reported on Form 1099-G.

These payments are subject to income tax and self-employment (SE) tax. The program payment is treated as ordinary earned income, which will be taxed at your individual income tax rate plus a 15.3% SE tax. The SE tax is made up of 12.4% for social security on the first \$160,200 for the 2023 tax year, (\$168,600 for 2024), and 2.9% (on 100% of the income). It is possible that an additional 0.9% Medicare tax will be triggered above a threshold amount (\$250,000 for Married Filing Jointly and \$200,000 for Single filers). The Section 22006 payment

for many borrowers will cover a principal payment and an interest payment.

Example 1: Eli's Eel Farm

Eli is married and files a joint tax return using the standard deduction of \$25,900. Eli was in arrears \$100,000. USDA provided an IRA payment of \$100,000 for Eli's guaranteed loans. Eli has no farm profit this year, therefore the \$100,000 is treated as income subject to SE tax. Eli may owe as much as \$8,478 in federal income tax and \$15,300 of SE tax dependent on individual credits, other deductions, etc., for a total of \$23,778. Dependent on the state Eli lives in, there may also be income taxes owed at the state and local municipal level as well. Eli lives in South Carolina so there could be up to an additional \$7,000 in state income tax owed. Since Eli received the program payment, he may owe as much as almost \$30,000 in taxes from the \$100,000 program payment.

Tax Management Options of This Round of IRA Payments

- Borrowers should contact their tax professional and provide the tax professional with the letter advising the borrower of the payment and any additional correspondence or 1099 forms borrowers receive so that appropriate tax planning can include this program payment income. The letter is very important as it explains the reason for the 1099 forms and the options available.
- If the farmer or rancher in consultation with a tax professional determines that they do not wish to receive the assistance, **a process is in place to reject the payment and any income tax consequence.** The farmer should return the US Treasury check to their local FSA Service Center.

For farmers and ranchers who may file an extension for their 2023 income tax return, they should do both of the following:

- Contact their tax professionals and provide them with all pertinent forms and the cover letter accompanying this IRA payment, **and**
- File the extended tax return, which will be due October 15, 2024.

For guaranteed loan borrowers or borrowers who have payments for both direct and guaranteed FSA loans, separate tax management strategies may need to be considered to reduce the tax consequence of these IRA payments. A few options to consider are listed below.

Depreciation

Depreciation will offset some of the tax liability, if there is any carry-over depreciation available or if there have been any capital asset purchases made during the tax year the program payment was received. Be careful of using Section 179 or bonus depreciation at too high of a level, as it will decrease future carry-over depreciation to offset future income.

Net Operating Loss

Producers who have any remaining carryover Net Operating Loss(es) (NOL) may use these to offset taxable income up to 80% of the total taxable income for the year. If taxable income is \$100,000 for the year, and if the borrower has \$250,000 of NOLs, only \$80,000 will be able to be applied, leaving \$20,000 of taxable income.

Income Averaging (Schedule J)

Income averaging is a tax management strategy only available to farmers and commercial fishermen. Income averaging allows a taxpayer to take some of the income from this tax year and apply it to the three previous years' income tax brackets. This can be advantageous if the taxpayer is in a higher income tax bracket this year than in the three previous years. Farmers and ranchers who have guaranteed loans through FSA and who received IRA payments which increased farm income may benefit from income averaging.

Example 2: Jennifer Ann's Berry Farm

Jennifer Ann is married and files jointly. In 2023, Jennifer Ann received an IRA payment on her guaranteed loan resulting in a higher-than-normal tax bracket for her at 35%. Normally, she is in the 12% income tax bracket. Because of this, she should consider Income Averaging. She is going to take \$180,000 of this year's income to be applied to lower unused income tax brackets in the previous three years. The Internal Revenue Code (IRC) requires that the amount of income from this year to be applied to each of the three previous years must be split evenly to the three previous years' brackets. The \$180,000 will be divided by "3" which equals \$60,000 (= \$60,000) that will be applied in each of the previous three tax years at lower income tax brackets that are available. This can be beneficial to many farmers for tax purposes. It is important to understand that this is not the same as amending a tax return. This does not open the taxpayer up to a reset of an audit for previous years' tax returns since they are not being amended.

1. Farmers and ranchers facing this circumstance may qualify for a payment plan or installment agreement with the IRS.
2. Visit <https://www.irs.gov/taxtopics/tc202> to learn more about payment plans.
3. Farmers and ranchers are strongly encouraged not to avoid filing their respective tax returns because they cannot pay. The penalties and interest will increase.

- [Form 1099 Information Returns](#)
- [Self-Employment Tax](#)
- [Optional Method of Paying Self-Employment Tax](#)
- [How to Choose a Tax Professional](#)
- [Tax Estimator Tool](#)

Are There Other Options?

Farmers and ranchers who received IRA payments may decline these payments. Those wishing to do so should consult with a tax professional to **ensure they understand the impact of this option**.

To decline, farmers and ranchers must contact their local FSA office and return the US Treasury check to their local FSA office.

Summary

The farmer or rancher does not have to sign up for the IRA Section 22006 assistance for guaranteed borrowers announced in August 2023 as the USDA FSA already identified eligible program payment recipients, based on information provided by the borrower's guaranteed lender. Guaranteed borrowers that qualify for a payment will receive a jointly payable US Treasury check made out to the borrower and the guaranteed lender. The program payment is considered a taxable event. The payment recipient received or will receive a letter from USDA FSA informing the borrower of the program payment. The borrower received a 1099-G from the USDA FSA in early 2024 for tax year 2023 and will receive one in early 2025 for tax year 2024. There are options available to guaranteed loan borrowers to manage the resulting tax liability. The 22006 assistance recipient should also work with their tax professional to inform them of the assistance, and evaluate options available to minimize the resulting tax liability.

Additional Topics

This fact sheet was written as part of Rural Tax Education, a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets, and additional information related to agricultural income tax please see RuralTax.org.

Other Links

- [Inflation Reduction Act Assistance for Distressed Borrowers:](#)
- [USDA Tax Information Page](#)

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

USDA is an equal opportunity provider, employer, and lender. Rural Tax Education is part of the National Farm Income Tax Extension Committee. The land-grant universities involved in Rural Tax Education are affirmative action/equal opportunity institutions.

This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA21CPT0012032. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture. In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.

Published May 2024

[Back to Top](#)

[Download PDF Version](#)

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal

tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.