Reporting CRP Payments
By Parman R. Green

The tax reporting cloud has been removed from Conservation Reserve Program (CRP) payments. On March 3, 2000 the Sixth Circuit Court of Appeals reversed the Wuebker v. Commissioner Tax Court case. The Sixth Court ruled CRP payments are subject to self-employment tax if the CRP land bears a “direct nexus” relationship (connection) to the taxpayer’s trade or business of farming or ranching.

Whether you agree with this ruling or not, the ruling does confirm the time tested axiom that “the substance of a transaction is more important than the form used”.

This is an election year and several politicians are entering this CRP taxation arena. U.S. Sen. Sam Brownback has introduced the Conservation Reserve Program Taxation Fairness Act, which (if enacted) would provide that farmers were not, are not, and would not be liable for self-employment tax on CRP payments.

Be careful what you wish for – farm income vs. rental income has some advantages. Remember that tax management is a balancing activity – between income, gift, and estate taxes.