Internal Revenue Service
Small Business / Self-Employed
Taxpayer Education and Communication

IRS Stakeholder Headliners

...and more

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TAX TREATMENT OF PEANUT QUOTA PAYMENTS

The Internal Revenue Service recently issued Notice 2002-67, which addresses the federal tax treatment of payments from the Department of Agriculture to peanut quota holders. Recent agricultural legislation repealed the marketing quota program for peanuts and directs the Department of Agriculture to make payments to peanut quota holders for the lost value of the quota resulting from the repeal.

Notice 2002-67 states that peanut quota holders who held a quota for investment purposes generally should treat any gain as a capital gain and any loss as a capital loss. Peanut quota holders who used a quota in the trade or business of farming and held the quota for more than one year generally may be able to treat any gain as a capital gain and any loss as an ordinary loss. For most taxpayers, capital gain tax rates are lower than ordinary income tax rates.

Under certain circumstances all or part of the gain should be treated as ordinary income. For instance those who previously deducted amounts for amortization, depletion or depreciation would be required to report all or part of the gain as ordinary income.

The Notice provides more detailed information on the taxation of gain or loss and other tax issues related to the payments. Attached are copies of the following:

1. IRS News Release No: IR-2002-103 titled "IRS Answers Questions About Tax Treatment of Peanut Quota Payments."

IR-02-103.doc

2. IRS Notice 2002-67, which includes a discussion in a question and answer format, the tax consequences of payments by the USDA to farmers and others as compensation for the lost value of peanut quotas. It will appear in Internal Revenue Bulletin 2002-42, dated October 21, 2002.

N-02-67.doc