

# TIMELY INFORMATION

## Agriculture & Natural Resources

### Cash for Alabama Farmers Cooperative Equity

Many producers in the state have recently received letters from the Alabama Farmers Cooperative making a onetime offer to purchase their equity in the coop for cash. Where did the equity come from? All patrons to Alabama Farmers Cooperative (AFC) share in the profits that AFC makes each year. Those profits are then distributed to each patron in the form of patronage dividends at the end of each business year. However, when the profits are distributed, only a portion of the profits are distributed in cash, with the balance going into an equity account held by AFC that is used for future expansion and/or operations. The portion that goes into the equity account is usually redeemed at some point in the future.

Throughout the years each equity holder has been receiving a Patronage Dividend 1099 from AFC that shows the total amount of the patronage for the previous business year. The cash portion of the equity is sent to cover the tax liability generated by the total patronage, and the equity portion goes into the equity holder's account. The fact that taxes have been paid on the equity already means that when the equity is redeemed the redemption is non-taxable.

With the fundamentals out of the way let's address the issues that arise if you take the onetime offer from AFC to purchase the equity. First, is the cash offer taxable? The cash you receive from AFC will **NOT** be taxable because taxes were paid on the equity in previous years. Second, what about the equity not received in cash (total equity less cash offer)? One it is gone forever, two it **IS** a tax deduction. That's right a tax deduction. The Farmers Tax Guide (Pub 225) addresses this issue in the section entitled "Income From Cooperatives". I quote "You can deduct on Schedule F, Part II, any loss incurred on the redemption of a qualified written notice of allocation you received in the ordinary course of your farming business. The loss is the difference between the stated dollar amount of the qualified written notice you included in income and the amount you received when you redeemed it."

**Example:** Total equity stated is \$50,000 and the cash offer is \$10,000. The \$10,000 cash is non-taxable and the difference \$40,000 (\$50,000 - \$10,000) is listed as a deduction on Schedule F, Part II.

Should you take the one time offer from AFC? That's a good question. AFC states in the letter that if the offer is not taken, the equity will be redeemed over a 33 year period starting in 2008. AFC also states that the redemption will be affected by AFC's financial performance. Simply stated, if AFC makes enough profit then the equity will be redeemed, if not it may take longer than 33 years to redeem the equity.

If you choose to take the offer, make sure that your accountant is furnished all the paperwork involved in the transaction.



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