

2005



Department of the Treasury
Internal Revenue Service

Instructions for Form 1099-PATR

(Revised December 2005)

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Pass-through credits. The American Jobs Creation Act of 2004 added two credits to the list of pass-through credits on Form 1099-PATR. The small ethanol producer credit (Form 6478) is available for tax years ending after October 22, 2004. The credit for low sulfur diesel fuel production (Form 8896) is available for tax years ending after December 31, 2002.

The Energy Tax Incentives Act of 2005 also added two new pass-through credits. The renewable electricity, refined coal, and Indian coal production credit (Form 8835) and the small agri-biodiesel producer credit (Form 8864) are available for tax years ending after August 8, 2005.

The Hurricane Katrina Emergency Tax Relief Act of 2005 added an additional pass-through credit, the Hurricane Katrina employee retention credit (Form 5884-A).

See *Box 10* on page PATR-2.

Deduction for capital costs for sulfur reduction. The Energy Tax Incentives Act of 2005 added a pass-through deduction for capital costs incurred by small refiner cooperatives when complying with EPA regulations. See *Box 10* on page PATR-2.

Deduction for domestic production activities income. The American Jobs Creation Act of 2004 also added new section 199, income attributable to domestic production activities. A maximum deduction percentage equal to 9% is to be phased in over 5 years. The deduction percentage for 2005 and 2006 is 3%. The deduction is the applicable percentage of the lesser of the qualified production activities income (QPAI) of the taxpayer for the taxable year, or the taxable income (determined without regard to section 199) for the taxable year.

Section 199(d)(3) and Notice 2005-14 provide special rules for cooperatives to pass through to their patrons receiving certain patronage dividends or certain qualified per-unit retain allocations from the cooperative a deduction equal to their portion of the cooperative's QPAI that would be deductible by the cooperative, and must have been designated by the cooperative in a written notice mailed to its patrons during the payment period under section 1382(d). The cooperative must have been engaged in the manufacturing, producing, growing, extracting, or marketing of any agricultural or horticultural product during the period. Notice 2005-14 is available on page 498 of Internal Revenue Bulletin 2005-7 at www.irs.gov/pub/irs-irbs/irb05-07.pdf.

Box 6 that was previously used to report pass-through credits will be used to report the deduction under section 199. The open box below boxes 8 and 9 is designated as box 10 and will be used to report additional pass-through credits not reported in boxes 7 or 8.

Reminder

In addition to these specific instructions, you should also use the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G. Those general instructions include information about:

- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- Who must file (nominee/middleman)
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS website at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 1099-PATR

File Form 1099-PATR, Taxable Distributions Received From Cooperatives, for each person to whom the cooperative has paid at least \$10 in patronage dividends and other distributions described in section 6044(b) or from whom you withheld any federal income tax under the backup withholding rules regardless of the amount of the payment. A cooperative determined to be primarily engaged in the retail sale of goods or services that are generally for personal, living, or family use of the members may ask for and receive exemption from filing Form 1099-PATR. See Form 3491, Consumer Cooperative Exemption Application, for information about how to apply for this exemption. Report dividends paid on a cooperative's capital stock on Form 1099-DIV, Dividends and Distributions.

Exceptions. Generally, you are not required to file Form 1099-PATR for payments made to a corporation, a tax-exempt organization, the United States, a state, a possession, or the District of Columbia. See Regulations section 1.6044-3(c).

Statements to Recipients

If you are required to file Form 1099-PATR, you must provide a statement to the recipient. For more information about the requirement to furnish an official form or acceptable substitute statement to recipients in person, by statement mailing, or electronically, see part H in the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.

2nd TIN Not.

You may enter an "X" in this box if you were notified by the IRS twice within 3 calendar years that the payee provided an incorrect taxpayer identification number (TIN). If you mark this box, the IRS will not send you any further notices about this account. However, if you received both IRS notices in the same year, or if you received them in different years but they both related to information returns filed for the same year, do not check the box at this time. For purposes of the two notices in 3-year rule, you are considered to have received one notice. You are not required to send a second "B" notice to the taxpayer on receipt of the second notice. See Backup Withholding in the General Instructions for Forms 1099, 1098, 5498, and W-2G for more information.

TIP For information on the TIN Matching System offered by the IRS, see the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Account Number

The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 1099-PATR. Additionally, the IRS encourages you to designate an account number for all Forms 1099-PATR that you file. See part P in the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Box 1. Patronage Dividends

Enter the total patronage dividends paid in cash (qualified or "consent" checks), qualified written notices of allocation (face amount), and other property (except nonqualified written notices of allocation).

Box 2. Nonpatronage Distributions

This box applies only to farmers' cooperatives exempt from tax under section 521. Enter the total nonpatronage distributions paid in cash (qualified or "consent" checks), qualified written notices of allocation (face amount), and other property. Do not include nonqualified written notices of allocation.

Box 3. Per-Unit Retain Allocations

Enter the total per-unit retain allocations paid in cash, qualified per-unit retain certificates (face amount), and other property.

Box 4. Federal Income Tax Withheld

Enter backup withholding. For example, persons who have not furnished their TIN to you in the manner required are subject to withholding at a 28% rate on payments required to be reported in boxes 1, 2, 3, and 5 to the extent such payments are in cash or qualified check. See Regulations section 31.3406(b)(2)-5 for more information on backup withholding by cooperatives.

Box 5. Redemption of Nonqualified Notices and Retain Allocations

For farmers' cooperatives qualifying under section 521 only, enter all redemptions of nonqualified written notices of allocation issued as patronage dividends or nonqualified written notices of allocation issued as nonpatronage allocations. Also enter nonqualified per-unit retain certificates issued with respect to marketing.

Pass-Through Credits and Deductions

Report in the appropriate boxes the patron's share of unused credits and deductions that the cooperative is passing through to the patron.

Box 6. Domestic Production Activities Deduction



The amount of the deduction does not reduce the taxable income of the cooperative under section 1382.

The deduction for QPAI applies to any cooperative that is engaged in manufacturing, producing, growing, or extracting (MPGE) in whole or significant part of any agricultural or horticultural product, or the marketing of agricultural or horticultural products. If no written notice (see below) was sent within the payment period, leave box 6 blank. If any amount of a patronage dividend or qualified per-unit retain allocation is received by a patron from the cooperative, and such amount is allocable to QPAI that is deductible under section 199(a), then the amount is deductible from the gross income of the patron and is reported in box 6.

To determine the portion of the cooperative's QPAI that would be deductible, the cooperative's taxable income is

computed without taking into account any deduction allowable under section 1382(b) or (c) relating to patronage dividends, per-unit retain allocations, and nonpatronage distributions. In the case of a cooperative engaged in the marketing of agricultural and horticultural products, the cooperative is treated as having manufactured, produced, grown, or extracted in whole or in significant part any qualifying production property marketed by the cooperative that its patrons have manufactured, produced, grown, or extracted. Agricultural or horticultural products also include fertilizer, diesel fuel, and other supplies used in agricultural or horticultural production that are manufactured, produced, grown, or extracted by the cooperative.

Written notice. In order for the patron to qualify for the deduction, the cooperative is required to designate the patron's portion of the section 199 deduction in a written notice mailed to the patron no later than the 15th day of the ninth month following the close of the taxable year. The cooperative may use the same written notice, if any, that it uses to notify patrons of their respective allocations of patronage dividends, or may use a separate timely written notice to comply with the written notice requirement for this deduction.

Box 7. Investment Credit

Enter the total investment credit for the patron.

Box 8. Work Opportunity Credit

Enter the total work opportunity credit for the patron.

Box 9. Patron's AMT Adjustment

Enter the total alternative minimum tax (AMT) patronage dividend adjustment for the patron.

Box 10. Other Credits and Deductions

For the patron, state separately in box 10 the type and amount of each of the following credits and deduction:

- The small ethanol producer credit (Form 6478)
- The empowerment zone and renewal community employment credit (Form 8844)
- The Indian employment credit (Form 8845)
- The welfare-to-work credit (Form 8861)
- The low sulfur diesel fuel production credit (Form 8896)
- The renewable electricity, refined coal, and Indian coal production credit (Form 8835)
- The small agri-biodiesel producer credit (Form 8864)
- The Hurricane Katrina employee retention credit (Form 5884-A)
- The deduction for capital costs incurred by small refiner cooperatives when complying with EPA sulfur regulations.