Farmers ATG - Chapter Six - Raisin Grapes

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NOTE: This guide is current through the publication date. Since changes may have occurred after the publication date that would affect the accuracy of this document, no guarantees are made concerning the technical accuracy after the publication date.

Contents

Overview of Industry

Sources of Information

The following general information has been secured through interviews with the Raisin Bargaining Association (RBA), the Raisin Administrative Committee (RAC), several raisin packers and growers, newspaper and magazine articles, RBA's contract with signatory packers, individual contracts between growers and packers, and statistics from the RAC.

Other than government agencies, the major stakeholders on the supply side of this industry include 1) the large single Cooperative packer and its member growers 2) RBA member packers 3) Non-RBA packers 4) RBA member-growers and 5) Independent growers.

The scope of this chapter does not include a discussion of the Cooperative and its member growers, Non-RBA growers, and Non-RBA packers. However, the majority of this chapter would apply to them.

The Cooperative is a RBA signatory packer, and RBA growers can deliver their raisins to the Cooperative. These growers do not become members of the Cooperative, and the Cooperative members are not bound by the field price established by the RBA/packer negotiations.

Grape Use, Raisin Production, and Raisin Varieties

Raisins are essentially produced from raisin variety grapes. A raisin variety grape grower may contract to sell these same grapes to a wine or juice processor, or to a table (fresh) grape packer. This would be the personal decision of the grower, mostly based on price, but on other business factors, too. In the 1990's, California's total annual grape production use averaged as follows: Raisins (45%), Wine (43%), and Table (12%). Three California counties, Fresno, Madera, and Tulare, produced nearly 100% of the nation's supply of raisin grapes and 40-45% of the world's supply.

Natural Seedless, Dipped Seedless, and Golden Seedless raisins are virtually all produced from Thompson Seedless grapes. For the 1995 crop, these three varieties of raisins accounted for 98.3% of the domestic raisin production. Both Dipped Seedless and Golden Seedless are "dehydrator" dried, whereas Natural Seedless are field or sun-dried.

In the 1960's and 1970's, California produced an average 260,000 annual tons. In the 1980's, domestic production ballooned to almost 400,000 annual tons, but raisin demand lagged far behind. These conditions culminated in the disastrous 2000 crop year of 439,531 tons with oversupply and low demand that hurt and depressed the raisin industry until the 2004 year recovery with lower supply and higher prices.

The Industry Stakeholders

RAC: The raisin industry has been based on a federal marketing order system since 1949. The marketing order for raisins has been fairly successful. The Raisin Administrative Committee (RAC) is overseen by the Agriculture Market Service of the United States Department of Agriculture. The RAC does not get involved in price establishment for the domestic market. The marketing order gets involved in market allocation (free and reserve tonnages), and blended raw product for export. With the addition of freight and import duties, the foreign consumers pay prices for California raisins that are quite comparable to our domestic consumers.

The free tonnage quantity must meet the domestic market demand and a major portion of the export demand. A new program implemented with the harvested 1995 crop required the entire domestic and export demand to be supplied with free tonnage. Income derived from the sale of reserve tonnage for free tonnage use is utilized under a cash adjustment program to keep our packers competitive in export markets.

The RAC never technically "owns" reserve tonnage. The reserve tonnage is maintained by the packers under the custodianship of the RAC. The marketing order dictates how reserve tonnage can be disposed and how the income derived from its disposition is disbursed to the grower equity holders. The reserve tonnage, in essence, becomes a mandatory industry co-op under the custodianship of the RAC.

The raisin trade demand is computed and announced on or before August 15th of each year. It is never estimated. It is established by a set formula, and since the formula was adopted, has never been changed once it has been computed and announced.

During the first week of October, the RAC sets the preliminary free tonnage percentage. The reason the figure is preliminary is because the final size of the crop has not and will not be determined until February of the next calendar year. This percentage is based on the trade demand; the preliminary free tonnage percentage is set conservatively. Normally, the final crop estimate and final free tonnage percentage is set by February 15th, following the harvest year.

Under the marketing order agreement, the signatory packers must report grower deliveries weekly to the RAC. The RAC billings to the packers for assessments are due to the RAC within ten business days of invoice date.

The RAC does not get involved in the terms and conditions of the sale of free tonnage raisins by growers to packers. No RAC actions will accelerate or delay payments between the growers and their respective packers for the sale of free tonnage raisins.

RBA: The RBA is a non-profit cooperative association established in 1966. It has approximately 2,000 raisin grower members (40% of the total raisin growers).

The benefits of membership for growers is a unified representative body. The cost of RBA membership to growers is 1% of the grower's crop proceeds payable by the packers from the grower's funds. The RBA returns these funds to the growers six months later.

When the RBA was formed, the original founding members felt it would be most prudent to execute a Master Contract with processors (packers) on behalf of the Association's grower members. These processors were deemed signatory packers. The Master Contract provided the foundation for price negotiations for members of the Association. The elimination of open price contracts was the primary catalyst responsible for the formation of the RBA.

This Master Contract is more formally called the "Raisin Bargaining Association, Inc. - Contract of Sale." It is for the mutual benefit of all and outlines the duties and responsibilities of member growers and signatory packers. There is a two-year contract for "Thompson Seedless" raisins between the RBA and the signatory packers. Under this Contract, a raisin "season" is defined as "that period of time commencing with September 1 of one calendar year and ending with August 31 of the following calendar year."

RBA members are required to complete Individual Agreements which set forth a number of key elements including, but not limited to, the name of the grower, the number of tons to be delivered, the number of containers required, and terms of payment. Most growers and their respective packers enter into these written Individual Agreements prior to harvest and delivery. The RBA supplies its signatory packers with Individual Agreement forms they can use with their respective growers.

However, a large number of growers continue the practice of setting payment terms through a handshake agreement, often by telephone. This handshake agreement is inconsistent with the requirement of the Master Contract to execute an Individual Agreement. Unfortunately, the practice was allowed for years to the point where it became quite routine between some packers and growers. The RBA has advised certain packers and member growers that this practice of using an oral agreement for payment terms is outdated. The number of verbal agreements has declined over the years.

Independent Packers: All packers other than the Cooperative. These are the signatory packers under the RBA contract. The terms "packer," "packing house" and "processor" are used interchangeably in the industry. "Processor" is the more correct term. The raisins pass through a manufacturing or improving process that transforms them from an inedible raw material to a finished consumable food product.

RBA Growers: Member growers, the 2,000 raisin growers discussed above.

Non-RBA Packers: Other than the Cooperative, there are a few small packers that are not members of the RBA. Together, they produce a small fraction of 1% of the total finished raisin products.

Independent Growers: All growers other than RBA member growers and Cooperative growers.

Raisin Grower/Packer Contract for Raisin Delivery

Sometime before September 25th (RBA required date), a RBA grower "may" enter into an individual written agreement with a packer to deliver his raisins for sale and processing to an

RBA member raisin packer. The word “may” is used because some times this agreement is verbal. The relationship between a grower and his packer is usually a long-term one. It is based on the quality of service, trust, and fairness, rather than price.

Raisins are normally harvested in September, then field dried for 11 to 21 days. The raisins are normally delivered to the raisin packers in October and November, but some may be delivered as early as the last week of September or as late as December. The packing house buys the “free tonnage” raisins from the grower when they are delivered and pass USDA inspection. They are also graded at delivery for quality and moisture; where growers can earn bonuses. This “free tonnage” price is bargained for between the RBA, its member growers, and the signatory packers. See discussion of “Free Tonnage” to follow:

The Packer shall acquire legal title to said raisins, subject to this Agreement, upon establishment of a reasonable price as provided under Paragraph 14. *[Raisin Bargaining Association, Inc. - Contract of Sale, Para 14(g)(3)]*

Said “reasonable price” shall be ascertained in the following manner: The Association shall announce an opening price or prices which the Association believes to be a “reasonable price” for each variety and grade or grades for any season on or before October 6th of such season. Such announcement shall be made upon the basis of consultations with individual packers and an examination by the Association of all available economic and supply data which influence the sale and purchase price of raisins. *[Raisin Bargaining Association, Inc. - contract of Sale, Para 14(b)]*.

Concept of "Free Tonnage"

There are really two raisin businesses: domestic and export. The domestic price applies to the United States, Canada, and Mexico. The domestic price is kept high by the packer/grower price negotiations to protect our domestic raisin industry. If a packer chooses to sell raisins in the domestic market, he must do so at a price which will return his raw product, processing cost, and any profits the packer sets for himself. A packer may sell all of his free tonnage in the domestic market, export market, or a combination of both. Historically, roughly 70% of our annual raisin sales are domestic and 30% are export; however, some packers are much heavier in one market or another.

To compete on the world market where some foreign governments subsidize their raisin industry and production costs are lower, our United States sellers must enter the foreign market place with a much lower price to be competitive.

The RAC establishes a “free tonnage” quantity of raisins that it feels the industry can sell worldwide. As stated above, the preliminary free tonnage percentage is established during the first week of October, and the final free tonnage percentage is established by February 15th.

All raisins not designated as “free tonnage” are known as “reserves” or “reserve pool.” No packer secures permission from the RAC to sell any raisins in any outlet. Under the terms of reserve tonnage, offers are recommended by the RAC and approved by the Secretary. If packers choose to sell some of their free tonnage into the export market, they have no price regulations from the RAC. If they choose to sell into a specific export market, they can do so, and if they submit proof of export by providing the RAC with a copy of their ocean-on-board bill of lading, the RAC will pay them a cash adjustment amount which results in a blended raw product price. However, the RAC does not get involved in the price at which packers sell their raisins, either domestic or export.

The USDA Secretary must establish the free and reserve percentages. They become effective when published in the Federal Register.

The preliminary and final free tonnage percentages, as established by the RAC can be found at www.raisins.org and selecting Marketing Policy, then going to Part II - Pooling Operations Under The Raisin Program, #12, Reserve Pool Percentages, Natural Raisins, 1987-2001. The 2002 to 2004 figures were provided by fax.

Free Tonnage Percentage			
Crop Year	**Preliminary**	**Final**	**Date Established**
1997	61	66	07-01-98
1998	85	100	01-15-99
1999	73	85	06-23-00
2000	35	53	08-01-01
2001	56	63	07-19-02
2002	45	53	04-02-03
2003	65	70	04-22-04
2004	100	100	10-15-04

This "free tonnage" is the amount the packers must purchase from their growers as established by RBA-Packer Contract. This Contract states the "Packer shall make an initial payment for raisins under this Agreement which are of standard quality and grade as herein described, excluding those raisins that have failed incoming inspection, on the basis of the preliminary free tonnage percentage recommended by the Raisin Administrative Committee... No part of such payment shall be refundable."

For example, "free tonnage" works this way: let's assume a grower with 100 tons delivers it all to his packer by November 1, 1999 under an established free tonnage price of $1,425 per ton. Also, the preliminary free tonnage percentage announced in October of 1999 is 73%, and the final free tonnage percentage announced on February 15, 2000 is 85% (an additional 12%). Without consideration of any specifics in an individual contract with a packer regarding crop payment dates, the grower's entitlement to receive proceeds for the 1999 crop would be as follows:

Number of Tons	100
100 X's Final Free Tonnage Percentage	85%
"Free Tonnage" Tons	85
X's Price Per Ton	$1,425
Crop Proceeds Established Earned (E/E)	121,125
Less: Crop Proceeds Previously E/E (73 x1,425)	104,025
Additional Proceeds Established/Earned	$17,100

Concept of "Price Per Ton"

As stated above, the "free tonnage" price is bargained for between the RBA, its member growers, and the signatory packers. Also, it was stated that there are really two raisin businesses; domestic and export. To give an idea of the disparity in price between "free tonnage" and "reserves" for recent years, examine the following which is found at www.raisins.org, select Raisin Industry News & Reports, then 2001-2002 Annual Report Statistical Tables, then Table 10:

Crop Year	Free Tonnage	Reserves Weighted	Average
1997	66% @ $1,250	34% @ $357.00	$946.38
1998	100% @ $1,290	0% @ $0	$1,290.00
1999	85% @ $1,425	15% @ $0	$1,211.25
2000	53% @ $877.50	47% @ $294.00	$603.00
2001	63% @ $880	37% @ $261.00	$651.00
2002	53% @ $745	47% @ $205.00 As of 7/04	As of 7/04 $490.00
2003	70% @ $810	30% @ $0.00 Not Final	As of 7/04 $567.00
2004	100% @ $1,210	0% @$0	Not Final $1,210.00

Current amounts sometimes need to be obtained by contacting the RAC, which was done for the 2002, 2003 and 2004 amounts.

Reserve pools remain "open" until all of the tonnage in that pool is sold, income received, and expenses paid. Each pool stands on its own. All pools are audited by a public CPA firm, and following this final audit, the income in each pool is paid to equity holders. As income is received, the RAC makes progress payments, but each pool remains "open" until the final audit and final payment to equity holders is completed. Payments to equity holders (growers) in a reserve pool have no requirements schedule, but as a practice are made as sufficient funds are accumulated.

Note: The RAC does not accept deferred payment requests from growers for the reserve pool payments.

Interplay of Grower Receipt Requirements Under the RBA-Grower Contract and "Real World" Considerations

The Contract states, "Packer shall pay that portion of such payment (referring to payments based on the preliminary free tonnage percentage) to be paid to each grower-member of the Association (RBA) who delivers such raisins to Packer immediately after full delivery by such grower/member, provided that grower-member and Packer may defer such payment by mutual agreement in accordance with the Raisin Bargaining Association - Individual Agreement."

The RBA's meaning of "immediately" within the context of Para #17 is that it would be difficult for packers to make payment immediately upon the completion of delivery. The USDA work is not immediately available, and the raisins may require reconditioning. Additionally, since packers borrow money from banks to finance operations, their lenders would have to be contacted to make funds available for payment potentially every day. These factors alone would make it difficult to make such a prompt payment as suggested. If a packer and its grower could arrive at such unusual payment terms, the practice would be allowed under the Master Contract. However, if such a practice is taking place, it would be the absolute exception.

Further, in the Master Contract in Para #17, payment based on the final free tonnage is discussed: "Packer shall pay additional payments for such raisins to such grower-members and to the Association (RBA) on the basis of the difference between such final free tonnage percentage and such preliminary free tonnage percentage recommended by the Raisin Administration Committee no later than ten (10) working days after such final free tonnage percentage is published in the Federal Register."

This recordation in the Federal Register usually takes place in the summer or as late as the fall of the year following the harvest year.

A grower member of the RBA has a 2 years bargained for price Master Contract that is used in the individual written agreements with RBA member packers. Membership in the RBA costs member growers 1% of their gross raisin proceeds, netted from the checks paid by the packers. The RBA returns these funds to the grower after holding and using them for six months. The RAC makes progress payments from each raisin pool to the respective growers who earned them. Non-RBA growers will have to negotiate their raisins' price with packers, many of which have been doing business together for decades.

Growing Production Cycle for a Mature Vineyard

October - December	Post-harvest - Pruning, Cane Tying, Suckering
March - August	Herbicides Applied, Discings to Control Weeds, Irrigation
May	Fertilization (liquid nitrogen fertilizer and zinc)

May - July	Insect Spraying
September - October	Harvesting, Drying, Delivery to Processor, Inspection

> **Note:** If the raisins do not pass USDA inspection (red tagged), they may be either returned to the grower, reconditioned by the packer, or reconditioned by an outside service. Reconditioning may include several procedures such as additional screening, vacuuming, or submersion into water.
>
> Upon passing USDA inspection, the title to the raisins passes from the grower to the packer.

Development of a New Vineyard

A sample of vineyard development cost as complied by the University of California - Cooperative Extension “Raisins, Thompson Seedless in the San Joaquin Valley” (1997) is shown in Chapter 4, Expenses.

It takes approximately three years to develop a producing vineyard. For example, if the seedling vine were planted in March 1997, “first leaf,” March 1999 would represent “third leaf,” with the first marketable harvest being in September 1999. Therefore, the preproductive period would be, at a minimum, 2 ½ years. Within the regulations under IRC § 263A, “grapes” are identified as a plant that has a nationwide weighted average preproductive period in excess of two years and, thus, is subject to UNICAP rules. See Notice 2013-18, 2013-14 IRB 742, 2013 WL 617333 (Supersedes Notice 2000-45).

Audit Techniques

1. If the grape grower has not properly elected out of UNICAP, all preproductive costs as defined in Treas. Reg. § 1.263A-4(b)(1)(i) are subject to capitalization. This is a very comprehensive list of costs. Also, this capitalization of costs under IRC § 263A supersedes cost deductions allowed under IRC § 175 and 180.
2. A general discussion of IRC § 263A and “Capitalization of Production Period Cost with Respect to Plants” is found in Chapter 4, Expenses.
3. Pre-audit indications that the grower may be developing a new ranch can be abnormally high fertilizer, labor and water costs, or large grape stake expense being taken as an IRC § 179 deduction. A deduction for “seedlings” may be claimed on the tax return. Spread analysis may show abnormally large nonrecurring expenses being claimed in a particular year.
4. Ask initial interview questions about any new ranch development. A field inspection of all ranches should reveal whether this potential issue exists.

Mature Productive Operating Vineyard

A typical grower's business relationships consist of acquiring farm assets, hiring and paying for labor through a Farm Labor Contractor and specialty Outside Service providers, while receiving income from the packer and sometimes loans from either the packer or a lending institution.

Method of Accounting

Most growers will elect, if allowable, to be on the cash receipts and disbursements method of accounting. This will allow the grower opportunities to manipulate the reporting of income and expenses. It is not unusual for a grower to take actions to defer income and accelerate expenses. In most cases this accounting method is correct under the IRC and supportable under case law. But sometimes these manipulations will result in potential issues for the agent.

Audit Techniques

1. A spread analysis will indicate if there is possible improper reporting of expenses and income. If large fluctuations are detected, additional audit work needs to be performed.
2. When inspecting the cash receipts journal (or its equivalent), be aware of large deposits in early January. This could be an indication of a deferral from a prior year's harvested crop. Also, review the bank statements from the first month of the subsequent year.
3. When inspecting the cash disbursements journal (or its equivalent), be aware of checks written for large amounts in the last days of the fiscal year (See Chapter 4, Expenses). Look for checks paid to related parties. Look at the backs of these checks to be sure that they were presented to the bank by the payee within a reasonable period of time. If not, this may give rise to an issue of whether or not the grower actually paid the expense in the period for which he is seeking an expense deduction.

Rancher or Farmer

These terms are used interchangeably. In California there is a tendency to refer to this not as a farm, but as a "raisin ranch." A raisin rancher can be anyone. It could be a hands-on rancher living on his ranch, making all the decisions, doing his own pruning, acting as his own farm labor contractor, etc. The contrasting situation is an absentee raisin rancher who may have a totally unrelated career, who manages the ranch from a desk or hires a professional ranch manager. The agent will develop the factual background during the initial interview.

Audit Techniques

The facts may support a passive loss material participation issue under IRC § 469.

Gross Income

Raisin Receipts

Wide fluctuations in reported receipts seen in the Spread Analysis may be explained by factors that may or may not be in the grower's control. The grower may be buying and selling ranches, he may be pulling out vines to plant new ones, or he may have lost a portion of his crop receipts to rain, etc.. The agent should be concerned about grower controllable decisions that concern income tax reporting. The agent must identify the packer and the business arrangement between the grower and the packer. Most growers only deliver product to one packer.

Audit Techniques

1. In the Initial Document Request (IDR) specifically ask for all grower-packer contracts and for the "Grower Payment Reports" for the year under examination. Consider a "frontload approach." Have the documents mailed to you prior to the first audit meeting. These documents are discussed later in this subsection.
2. A pre-audit indicator that the grower is deferring raisin receipts is a packer listed on Schedule B, Form 1040. Rather than an outright loan by grower to the packer, this interest is being earned on crop proceeds being left with the packer. The terms vary from packer to packer, but a standard arrangement is that the packer will pay prime rate, simple interest, no compounding, and interest beginning ten days after final delivery. The interest terms are set by the packer and are not part of any written agreement.
3. If delivery and payment are based on a verbal understanding with nothing in writing, it appears that the RBA Master Agreement is controlling if the farmer is an RBA grower. Thus, regardless of when the grower received payment from the packer, the amount based on the preliminary free tonnage percentage would be constructively received in the harvest year. This is when the price is fixed and determinable, and the grower has the unrestricted right to this amount. The amount based on the final free tonnage percentage is not established until the year following the harvest year. Therefore, that portion is not constructively received until the year following the harvest year.
4. If the delivery and payment are based on an individual written agreement, inspect the agreement. If it was executed after delivery, it appears the grower would have no bargaining power for payment terms because he has already performed. If the contract is executed prior to the first delivery to the packer and includes specific payment arrangements that state that grower cannot receive money prior to a certain date, and that date is in the following year, this appears to be a valid, bona fide deferred contract for tax purposes.
   Whereas, a deferred payment contract, with the specific language "I will advise you when I want payment." probably is not a valid, deferred contract for tax purposes because the grower controls when he receives his payment and can readily ask for it anytime, including in the harvest year . It is not quite settled whether under a valid, bona fide deferred contract situation the grower can defer the receipts into years following the year following the harvest year. Constructive receipt and deferred payment contracts are covered under IRC § 451.
5. Inspect all "Grower Payment Reports," also known as "Settlement Statements," issued by the packer. They include extensive information regarding deliveries, weights, bonuses earned, reductions for advances, assessments, shaking, hauling, etc. Potential issues are whether the grower is properly treating all advances as taxable in the year received, and whether the grower is both reporting a net proceeds amount for tax purposes and also

duplicating the expense elsewhere on the Schedule F. Bank records should be analyzed for any unexplained deposits.

Patronage Dividends

These are not dividends in the ordinary sense (i.e. reportable on Schedule F, not Schedule B). They are received by the grower from the Cooperative. They are distributions of funds from the Cooperative to the member. They are always taxable in the year received and the Cooperative is required to issue Forms 1099-PATR. The Cooperative does not allow the growers to enter into any deferred payment contracts for patronage dividends.

RAC Payments

These are progress payments made by the RAC from individual reserve pools by crop year and grape variety. They are always taxable in the year received. The RAC does issue Forms 1099. The RAC does not allow the growers to enter into any deferred payment contracts for these RAC payments.

Audit Techniques

1. Inspect RAC check stubs for running totals for each reserve pool.
2. If the above is not available, consider contacting the local USDA field office to confirm the amounts paid to the grower.

Expenses and Depreciation

There are no expenses/costs that are particularly unique to raisin grape growers other than staking and trellis system costs. The agent wants to ascertain the Schedule F presented is not a blended farm commodities operation, but includes only costs of growing grapes. If other commodities are involved, the agent has to adjust his audit work accordingly.

Audit Techniques

1. A large deduction for “Cost of Pulled Vines” may indicate that the grower may have made a recent ranch purchase and: (a) an unreasonable high allocation of purchase cost was placed on the vines and (b) these soon to be pulled vines, in substance, had a much smaller value than the one assigned. This would be an issue of overstated expenses (vines) and an understated value of the land.
2. A “Cost of Purchased Crop” shown as a COGS or expense item would indicate that the grower purchased an immature crop. Was this done at arms-length from an unrelated party? Inspect the purchase escrow for the amount the grower was charged and compare this cost with what is claimed on the tax return (See Rev. Rul. 85-82, 1985-1 C.B. 57.)
3. Scan the detailed fixed asset schedule to determine if any of the assets lend themselves to personal use or if asset purchase invoice testing is justified. In the area of claimed expenses and depreciation, the agent should base his/her work on the audit risks.

Related Party Transactions

Related party transactions may not be evident from an inspection of the tax return, but can be developed from the initial interview. Check for any non arms-length transactions and related parties within the context of IRC § 267. Some examples of related party transactions are loans between the grower and packer, rentals between them and sales and purchases of ranches, equipment, etc. Also, the grower may be related to a goods and service provider.

Audit Techniques

1. Watch for formal and informal agreements between related parties in the allocation of income and expenses among themselves to verify that all receipts and expenses are fully and properly allocated among related parties. If the allocations are not properly being done, consider IRC § 482 for potential issues.
2. Watch for differences in method of accounting between related parties and apply IRC § 267(a)(2) when applicable.

Entities

Most raisin growers are proprietorships, showing their ranching activity on Schedule F's. Others examined may be corporations, general partnerships, family limited partnerships, or trusts. The agent must be prepared to administer all the tax laws, as applicable.

References

1997 University of California - Cooperative Extension "Raisins, Thompson Seedless in the San Joaquin Valley." Available at www.agecon.ucdavis.edu

Exhibit A: Cites for Code, Regulations, Revenue Rulings and Court Cases

Internal Revenue Code Section	**Description**	**Page**
IRC § **61**	Gross income consists of all income, from all sources, such as compensation for services, business income, interest, rents, dividends and gains from the sale of property. Only items specifically exempt may be excluded. Gross income is the starting point in determining tax liability and is broadly defined.	1-1, 2-16
IRC § **77**	Election to report Commodity Credit Loans as income when received	2-8, 2-9, 5-1, 5-7

Internal Revenue Code Section	Description	Page
IRC § **108**	Income from Discharge of Indebtedness	4-4
IRC § **114**	Extraterritorial Income Exclusion – repealed in 2004 by PL 108-357	4-11
IRC § **121**	Exclusion of Gain from Sale of Principal Residence	3-3
IRC § **162**	The issue of trade or business expenses	4-1, 4-3, 4-4
IRC § **165**	Losses	2-13, 3-7
IRC § **166**	Bad Debts	2-13
IRC § **168**	Accelerated Cost Recovery System	3-4, 4-4
IRC § **168(k)**	Bonus Depreciation	3-5
IRC § **175**	Soil & Water Conservation Expenditures	4-6, 6-8
IRC § **179**	Election to Expense Certain Depreciable Business Assets	3-4, 3-5, 6-9
IRC § **180**	Expenditures by Farmers for Fertilizer, etc.	4-5, 6-8
IRC § **183**	In the case of an activity engaged in by an individual or an S corporation, if such activity is not engaged in for profit, no deduction attributable to such activity shall be allowed under this chapter except as provided in this section.	1-4
IRC § **199**	Domestic Production Deduction	3-7, 4-11
IRC § **212**	Expenses for the Production of Income	4-4
IRC § **263**	Capital Expenditures	4-4
IRC § **263A**	Uniform Capitalization Rules	1-6, 4-3, 4-4, 4-8, 4-9, 4-10, 4-11, 6-8.
IRC § **267**	Related party transactions.	1-2, 1-10, 2-10, 2-15, 2-16, 4-4, 6-12
IRC § **268**	Sale of Land with Unharvested Crop	3-3

Internal Revenue Code Section	**Description**	**Page**
IRC § **280F**	Limitation on Depreciation for Luxury Automobiles, Listed Property.	3-4
IRC § **301**	Distributions of Property	2-12
IRC § **446**	Accounting Methods-Examiner authority to change	2-2
IRC § **447**	Method of Accounting for Corporations Engaged in Farming.	1-3, 2-2, 2-3, 2-15
IRC § **448**	Limitation on Use of Cash Method of Accounting.	2-2, 2-3
IRC § **451**	General Rule for Taxable Year of Inclusion of Gross Income	2-4, 6-11
IRC § **453**	Installment Method of Reporting Sale	4-4
IRC § **464**	Limitations on Deductions for Certain Farming Expenses	2-2, 4-2
IRC § **465**	Deductions Limited to Amount at Risk	1-6
IRC § **469**	Passive Activity Losses and Credits Limited`	1-4, 2-16, 4-3, 6-10
IRC § **481**	Adjustments required by changes in method of accounting.	4-11
IRC § **482**	Allocation of Income and Deductions Among Taxpayers	1-10, 2-16, 4-3, 4-4, 6-12
IRC § **483**	Interest on Certain Deferred Payments	4-4
IRC § **613**	Percentage Depletion	3-7
IRC § **677**	Income for Benefit of Grantor	1-5
IRC § **704**	Partner's Distributive Share	1-5, 4-3
IRC § **1015**	Basis of Property Acquired by Gifts and Transfers in Trust	3-2
IRC § **1016**	Adjustments to Basis	3-2
IRC § **1031**	Exchange of Property Held for Productive Use or Investment	3-1
IRC § **1231**	Property Used in the Trade or Business and Involuntary Conversions	3-3
IRC §**1245**	Depreciation Recapture	3-3, 3-5, 4-11

Internal Revenue Code Section	**Description**	**Page**
IRC § **2032**	Alternate Valuation	3-2
IRC § **2032A**	Valuation of Certain Farm, etc., Real Property	3-2
IRC § **2505**	Unified Credit Against Gift Tax	1-4
IRC § **3505**	Liability of Third Parties Paying or Providing for Wages	4-12, 4-13
IRC § **6302**	Mode or Time of Collection	4-15
IRC § **7512**	Separate Accounting for Certain Collected Taxes, etc.	4-16
IRC § **7872**	Treatment of Loans With Below- Market Interest Rates	2-13

Regulation	**Topic**	**Page**
Treas. Reg. § **1.61-4**	Gross income of farmers defined.	2-8
Treas. Reg**.** §**1.77-1** and §**1.77-2(a)(1)**	Election to consider Commodity Credit Corporation loans as income.	2-9
Treas. Reg. §**1.162-12**	Expenses of Farmers	4-1
Treas. Reg . §**1.263A-4(a)(4)**	Uniform Capitalization Rules for Farming Business – definition of "farming"	2-3
Treas. Reg. §**1.263A-4(d)(4)(ii)**	Required use of IRC 168(g) (2) by the taxpayer or related person making the election out.	4-4
Treas. Reg. §**1.263A-4(b)(2)(i)(D)**	Example 4 of required capitalization	4-9
Treas. Reg. §**1.263A-4(b)(1)(i)**	Preproductive period costs for plants	4-10, 6-8
Treas. Reg. §**1.263A-4(b)(2)(i)(C)(1)**	Preproductive period beginning	4-10
Treas. Reg. §**1.263A-4(b)(2)(i)(C)(2)(i)**	Preproductive period ending	4-10
Treas. Reg. §**1.263A-4(b)(2)(i)(C)(2)(ii)**	Marketable Quantities defined	4-10

Regulation	Topic	Page
Treas. Reg. §**1.274-5T(f)(5)(ii)**	Exception for 10% direct or indirect ownership employees.	4-3
Treas. Reg . §**1.301-1(m)**	Cancellation of shareholder indebtedness treated as distribution of property.	2-12
Treas. Reg. §**1.446-1(c)(2)(i)**	Accounting Methods – Inventory	2-3
Treas. Reg. § **1.451-2(a)**	Definition of "Constructive Receipt"	2-5
Treas. Reg. § **1.482-1(i)(5)**	Definition of "Controlled Taxpayer"	2-17
Treas. Reg. § **1.482-2**	Rules for determination of the true taxable income of "controlled taxpayers" in specific situations	2-16
Treas. Reg. § **1.1015-1**	New owner's basis after transfer	3-2
Treas. Reg. § **31.6302-1(g)**	Agricultural employers	4-15

Revenue Rulings and Revenue Procedures	Chapter Section	Page
Rev. Rul. **65-296**	Natural Resources (Depletion)	3-6
Rev. Rul. **66-58**	Capital Gains and Losses for Cotton Allotment Sale	3-7
Rev. Rul. **67-51**	Additional First Year Depreciation Allowance – Fruit Trees not Allowed as IRC 179 Deduction	3-5
Rev. Rul. **74-306**	Losses for Cotton Allocation	3-7
Rev. Rul. **79 - 229**	Prepaid Expenses	4-2, 4-3
Rev. Rul. **80-19**	Excess Sales Price Taxable as Ordinary Income	2-9
Rev. Rul. **82-214**	Depletion (Ground Water)	3-6
Rev. Rul. **85-82**	Expenses to Farmers – Unharvested Crop Costs	3-8, 6-12
Rev. Rul. **87-103**	Commodity Certificates	5-7

Court Cases	Cite	Page

Court Cases	**Cite**	**Page**
Benes v. Commissioner	42 T.C. 358, 381 (1964), aff'd, 355 F. 2d 929 (6 th Cir. 1966)	2-4
Young Door Co., Eastern Div. v. Commissioner	40 T.C. 890 (1963)	2-4, 2-5
Gullet v. Commissioner	31 B.T.A. 1067, 1069 (1935)	2-4
Ross v. Commissioner	169 F. 2d 483, 490 (1 st Cir. 1948)	2-5
Amend v. Commissioner	13 T.C. 178, 185 (1949)	2-5
Basila v. Commissioner	36 T.C. 111, 116 (1961)	2-5
Hamilton Nat'l Bank of Chattanooga v. Commissioner	29 B.T.A. 63, 67 (1933)	2-5
Robinson v. Commissioner	44 T.C. 20 (1965)	2-5
Oates v. Commissioner	18 T.C. 570 (1952), aff'd, 207 F. 2d 711 (7 th Cir. 1953)	2-5
Oliver v. United States	193 F. Supp. 930, 933 (E.D. Ark. 1961)	2-5
Thompson v. Commissioner	322 F. 2d. 122 (5 th Cir. 1963), aff'g and rev'g 38 T.C. 153 (1962)	2-9
United States v. Isaak	400 F. 2d 869 (9 th Cir. 1968)	2-9
Utley v. Commissioner	906 F.2d 1033 (5 th Cir. 1990)	2-17
Louisiana Land & Exploration Co. vs. Commissioner	161 F. 2d 842 (5 th Cir. 1947)	3-6
Lillie v. Commissioner	45 T.C. 54 (1965), aff'd per curiam, 370 F. 2d 562 (9 th Cir. 1966)	4-1
Social Psychological Services, Inc. v. Commissioner	T.C. Memo. 1993-565	4-3
Estate of Straughn v. Commissioner	55 T.C. 21 (1970)	4-6
Amfac, Inc. v. Commissioner	626 F. 2d 109 (9 th Cir. 1980)	4-6
Behring v. Commissioner	32 T.C. 1256 (1959)	4-6
Pelaez and Sons, Inc. v. Commissioner	114 T.C. 473 (2000), aff'd, 253 F.3d 711 (11 th Cir. 2001)	4-10
