

A close-up, shallow depth-of-field photograph of a stack of copper coins, likely pennies, on the left side of the slide. The coins are stacked vertically, with the top few in sharp focus and the rest blurred. The lighting is warm and golden, creating a soft glow around the coins.

Tax Issues for Grants

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This material is for education purposes. It is not meant to be legal or tax advice. Consult a tax professional for individual situations.

Rural Tax Education

RuralTax.org



- Website hosted by Utah State University
- Material developed, managed, and owned by the **National Farm Income Tax Committee**
- Informational Material on Ag, Timber, and Rural Tax topics include but not limited to:
 - Disaster/Weather Losses
 - Treatment of Government Payments
 - Farm Losses and Hobby Rules
 - Self-Employment Taxes
 - Estate and Gift Taxes
 - Like Kind Exchanges
 - Depreciation
 - Etc...

A close-up, shallow depth-of-field photograph of several stacks of gold coins. The coins are stacked vertically, and the focus is sharp on the top few coins of the most prominent stack in the foreground, while the stacks behind it are blurred. The lighting is warm, creating a golden glow.

Introduction

- Several new grant programs for farmers and for-profit farm and food businesses.
- In most cases, the funds from grant awards are taxable income.
- There may be offsetting tax deductions.
- Individual situations and circumstances vary. Consult a tax professional.

Grants are Taxable ... Unless

- Proceeds from grants are taxable unless there is a specific statute that exempts the program from taxation.
- Very few grant programs have a tax exemption.
 - State statute – exempts from state taxes but not federal.
 - Federal statute – exempts from federal tax
 - May still be taxable by the state.

Tax Effects

- Net tax effect depends.
 - What funds are used for?
 - When the funds are used and when grant proceeds are received?
- Examples are illustrative.
 - Individual facts and circumstances vary.
 - Consult a tax professional about your unique circumstances.

Example: Related Purchase Same Year

In 2023, Jose applied for a grant to purchase cold storage equipment for his produce; the grant was approved. Jose purchased the cold storage equipment in May of 2023 for \$23,490. Jose began using the storage equipment in July 2023. He submitted the receipts for the cold storage equipment received a check for \$23,490 in August 2023.



Example: Related Purchase Same Year

In 2023, Jose applied for a grant to purchase cold storage equipment for his produce. The grant was approved, and Jose purchased the cold storage equipment in May of 2023 for \$23,490. Jose began using the storage equipment in July 2023. He submitted the receipts for the cold storage equipment and received a check for \$23,490 in August 2023.

- Grant proceeds: *Schedule F: Income From Farming* line 4 (government payments) - \$23,490.
- Depreciation: *Schedule F: Income From Farming* line 14 (depreciation) - \$23,490.
 - Note: Depreciation has options and rules. Jose elected to expense the entire amount using Section 179 Election to Expense.
- Net effect: no additional taxable income.



Example: Related Purchase Same Year

In 2023, Jose received a grant for \$25,000 to purchase cold storage equipment for his produce. Jose also committed \$5,000 in matching funds. Jose purchased the cold storage equipment in May of 2023 for \$30,000. Jose began using the storage in July 2023. He submitted the receipts for the cold storage equipment to his State Department of Agriculture and received a check for \$25,000 in August 2023.



Example: Related Purchase Same Year

In 2023, Jose received a grant for \$25,000 to purchase cold storage equipment for his produce. Jose also committed \$5,000 in matching funds. Jose purchased the cold storage equipment in May of 2023 for \$30,000. Jose began using the storage in July 2023. He submitted the receipts for the cold storage equipment to his State Department of Agriculture and received a check for \$25,000 in August 2023.

- Grant proceeds: *Schedule F: Income From Farming* line 4 (government payments) - \$25,000.
- Depreciation: *Schedule F: Income From Farming* line 14 (depreciation) - \$30,000.
 - Note: Depreciation has options and rules. Jose elected to expense the entire amount using Section 179 Election to Expense.
- Net effect: decrease in taxable income of \$5,000
 - Jose spent \$30,000 for the equipment, but \$25,000 was offset from the grant. Jose spent \$5,000 more than he received.
 - Tax return shows \$25,000 in income less \$30,000 depreciation = - \$5,000.



Example: Related Purchase Different Year

In 2023, Jose applied for and was awarded a grant to purchase cold storage equipment for his produce. Jose purchased the cold storage equipment in August of 2023 for \$23,490. Jose began using the equipment in October 2023. He submitted the receipts for the cold storage equipment and received a check for \$23,490 in January 2024.



Example: Related Purchase Different Year

In 2023, Jose applied for and was awarded a grant to purchase cold storage equipment for his produce. Jose purchased the cold storage equipment in August of 2023 for \$23,490. Jose began using the equipment in October 2023. He submitted the receipts for the cold storage equipment and received a check for \$23,490 in January 2024.

- 2023 tax return:
 - Depreciation: *Schedule F: Income From Farming* line 14 (depreciation) - \$23,490.
 - Net effect: decrease in taxable income of \$23,490.



Example: Related Purchase Different Year

In 2023, Jose applied for and was awarded a grant to purchase cold storage equipment for his produce. Jose purchased the cold storage equipment in August of 2023 for \$23,490. Jose began using the equipment in October 2023. He submitted the receipts for the cold storage equipment and received a check for \$23,490 in January 2024.

- 2024 tax return:
 - Grant proceeds: *Schedule F: Income From Farming* line 4 (government payments) - \$23,490.
 - Net effect: increase in taxable income of \$23,490.

Note: Tax professional can create a tax management plan that may help offset the timing issues and reduce the effects.



Grants: Non-farming

- Farming: activities to first saleable point (i.e. strawberries).
 - *Schedule F: Income from Farming*
 - *De minimis or small amounts of processed product may still be included on Schedule F: Income from Farming.*
- Non-Farming: Any processing beyond the first saleable point (i.e. strawberry jam).
 - *Schedule C: Profit or Loss From Business*

Grants: Non-farming

Farm Business

- *Schedule F: Income from Farming*
- *Income from selling strawberries*
- *Expenses to grow strawberries*



Farm sells strawberries at market value to Jam business

Jam Business

- *Schedule C: Profit or Loss From Business*
- *Income from selling jam*
- *Expenses to produce jam including buying the strawberries*



Source USDA FLICKR site.

Example: Non-farm

Anne grows strawberries. In 2023, Anne applied for and was awarded a grant for a bottling plant to produce strawberry jam. Anne purchased the bottling line and installed it in August of 2023. The total cost of purchasing the equipment and installation is \$75,000. Anne began using the bottling equipment in October 2023. She submitted the receipts and received a check for \$75,000 in November 2023 from the grant award.



Example: Non-farm

Anne grows strawberries. In 2023, Anne applied for and was awarded a grant for a bottling plant to produce strawberry jam. Anne purchased the bottling line and installed it in August of 2023. The total cost of purchasing the equipment and installation is \$75,000. Anne began using the bottling equipment in October 2023. She submitted the receipts and received a check for \$75,000 in November 2023 from the grant award.

- 2023 tax return
 - Grant proceeds: *Schedule C: Profit or Loss From Business*, line 6 (Other income) - \$75,000.
 - Depreciation: *Schedule C: Profit or Loss From Business* - \$75,000.
 - Net effect: no additional taxable income.



Example: Non-farm multiple years

Anne grows strawberries. In 2023, Anne applied for and was awarded a grant for a bottling plant to produce strawberry jam. Anne purchased the bottling line and installed it in August of 2023. The total cost of purchasing the equipment and installation is \$75,000. Anne began using the bottling equipment in October 2023. She submitted the receipts and received a check for \$75,000 in January 2024 from the grant award.

- 2023 tax return
 - Depreciation: *Schedule C: Profit or Loss From Business* - \$75,000.
 - Net effect: decreased taxable income.
- 2024 tax return
 - Grant proceeds: *Schedule C: Profit or Loss From Business*, line 6 (Other income) - \$75,000.
 - Net effect: increased taxable income.



Tax Management

- Tax professional can work with you to create a plan.
- Management tools may include but not be limited to:
 - Depreciation
 - Income averaging
 - Placed in service date

Resources

- Tax topics on RuralTax.org
 - How to choose a tax professional
 - Depreciation
 - Farm, Farming and Who's a Farmer
 - Income Averaging
- Webinars on Farmers.gov/taxes
 - Upcoming webinar topics
 - Crop insurance
 - Depreciation
- IRS Publication 225: Farmers Tax Guide.

Questions and Comments

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