



## Keepseagle Settlement Payment and Your Form 1099 Information Returns\*

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### Introduction

#### **“All Keepseagle Awardees Must File A Tax Return”**

Receiving either the Track A or Track B settlement payment was the first step in finalizing your Keepseagle settlement. All settlement recipients will need to file a federal income tax return and report this settlement as income regardless of their current income level, land status, current employment status and even if they have not filed a Federal income tax return before. Each settlement recipient will be receiving a Form 1099 MISC and/or a Form 1099-C around mid-January. **Recipients must file a tax return to comply with IRS regulations. Many recipients may qualify for a tax refund and will not be able to get it unless they file a return.**

This article is intended to cover the most common actions each Keepseagle award recipient will need to take once the Form 1099 has been received. Individual's circumstances will vary and your situations may have complicating factors, such as estate or where additional debt forgiveness occurred. **This information is intended for educational purposes only. Seek the advice of your tax professional regarding the application of these general principles to your individual circumstances.**

**Note:** All recipients of a Keepseagle Settlement payment will need to file a federal income tax return reporting this payment as income regardless of their current income level, land status, current employment status and even if they have not filed an income tax return before. Failure to file a return with the correct income included could result in additional amounts owed to the IRS for interest and penalties. Recipients may qualify for a tax refund. You will not be able to receive a tax refund if a return is not filed.

\* In partnership with the Intertribal Agriculture Council, the Western, Southern, and North Central Centers for Extension Risk Management Education, and participating land-grant universities. The information reflects the views of the author(s) and has not been sanctioned by the Internal Revenue Service.

## Form 1099 Informational Returns

The 1099 tax forms are informational forms used to report various types of income (other than wages, salaries, and tips). For each form filed, one copy is sent to the Internal Revenue Service (IRS) and another copy to the recipient of the payment. The IRS will then look for and match the amounts from the Form 1099 which are to be reported on the recipient's Federal tax return.

Although there are several common 1099 forms used for IRS tax reporting purposes, the focus of this article will be on Form 1099-MISC and Form 1099-C. Form 1099-MISC is used to report income from a variety of sources while Form 1099-C is used to report income resulting from the cancellation of debt. Awardees under Track A will or already have received an award of \$50,000, and have had on their behalf \$12,500 directly paid to the IRS in the form of tax relief; both parts will be reflected on the **Form 1099-MISC**. Awardees under Track B will have received an award, with amounts varying up to \$250,000, and they are not entitled to any tax relief payment on their awards. Their payments are also reported on Form 1099-MISC. In addition, claimants who qualified for relief/forgiveness of farm loan debt owed to USDA as part of their claim as part of either track will receive a **Form 1099-C reporting the amount of debt forgiveness**. In addition, both Track A and Track B claimants who received debt relief will also have a payment of 25% of the amount of the forgiven principle made directly to the IRS to offset taxes due, and this amount will also be reported on a Form 1099-MISC.

**Note:** Because Track B awardees do not receive tax relief payments on their cash awards, it is advised that Track B recipients consult with an income tax professional early in order to plan for and manage any taxes that will be owed.

The following sections cover the reporting requirements for both Form 1099-MISC and Form 1099-C payments received.

## Reporting Your Payments

### Track A and Track B Settlement Form 1099-MISC

The Form 1099-MISC will include two amounts. One is in Box 3 "Other Income" and the other is in Box 4 "Federal Income Tax Withheld". The amount in Box 3 will be the amount of the check received plus the amount paid to the IRS for income tax withheld on your behalf.

For Track A recipients, this will be \$62,500 (\$50,000 + \$12,500). The effect is that the amount from Box 3 will be included in your income. This will increase your taxable income and income tax owed. However, the amount from Box 4 (\$12,500) will be deducted from the income tax owed. It may be that the net is a refund that will be paid to you. If the tax owed is more than the income tax paid, you will need to pay the additional income tax to the IRS.

For Track B recipients, the amount in Box 3 that will be included in income varies with the amount of the award. For Track B recipients there is no tax relief payment, so Box 4 is blank. In this case, they will need to pay additional income tax to the IRS.

**Note:** The Form 1099-MISC received will include both the amount received directly in the settlement and the amount paid to the IRS on the recipient’s behalf. The amount will be \$62,500 for Track A recipients and will vary for Track B recipients.

**Example 1 Part 1:** Joe Elder qualified for and received a settlement under **Track A**. Joe receives a check for \$50,000 and \$12,500 is paid to the IRS in Joe’s name. Joe receives a 1099-MISC showing \$62,500 in Box 3 “Other Income” and \$12,500 in Box 4 “Federal Income Tax Withheld”.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0115		<b>Miscellaneous Income</b>
PAYER'S name, street address, city, state, ZIP code, and telephone no.  USDA		1 Rents \$	<b>2012</b>	
		2 Royalties \$	Form 1099-MISC	
PAYER'S federal identification number		3 Other income \$ 62,500		4 Federal income tax withheld \$ 12,500
		RECIPIENT'S identification number		5 Fishing boat proceeds \$
RECIPIENT'S name  Joe Elder		7 Nonemployee compensation \$		6 Medical and health care payments \$
		Street address (including apt. no.)		This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
City, state, and ZIP code		8 Substitute payments in lieu of dividends or interest \$		
Account number (see instructions)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$	
15a Section 409A deferrals \$		11		12
15b Section 409A income \$		13 Excess golden parachute payments \$		14 Gross proceeds paid to an attorney \$
16 State tax withheld \$		17 State/Payer's state no.		18 State income \$

Form 1099-MISC (keep for your records) Department of the Treasury - Internal Revenue Service

The tax treatment and reporting requirements will differ depending on whether or not you were farming in 2012. If you were a farmer in 2012, report the full amount from Form 1099-MISC Box 3 “Other Income” on Line 8: Other Income of Schedule F (Form 1040), Profit or Loss from Farming. This amount is subject to self-employment tax if you were engaged in the business of farming in 2012. Identify this amount on Line 8 as “USDA Settlement”. Refer to Example 1 Part 2.

**Note:** Although in some cases farm income derived from trust land may be exempt, it is still necessary to file a return with the amount from the 1099-MISC on a Schedule F (Form 1040). You are encouraged to seek professional assistance in filing these tax returns.

**Example 1 Part 2:** Joe Elder was farming in 2012. After receiving the Form 1099-MISC seen in Example 1 Part 1 (above), Joe files a tax return showing the amount from Box 3 Form 1099-MISC as “Other Income” on Line 8: Other Income of Schedule F (Form 1040), Profit or Loss from Farming. Identify this amount on Line 8 as “USDA Settlement”.

<b>SCHEDULE F</b> <b>(Form 1040)</b>		<b>Profit or Loss From Farming</b>		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. ▶ Information about Schedule F and its separate instructions is at <a href="http://www.irs.gov/form1040">www.irs.gov/form1040</a> .		<b>2012</b> Attachment Sequence No. <b>14</b>
Name of proprietor <b>JOE ELDER</b>			Social security number (SSN)	
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual
F Did you “materially participate” in the operation of this business during 2012? If “No,” see instructions for limit on passive losses.			D Employer ID number (EIN), (see instr)	
c If election to defer to 2013 is attached, check here <input type="checkbox"/>		e Amount deferred from 2011		d
7 Custom hire (machine work) income		7		
8 Other income (see instructions)		8		62,500

Joe includes the amount from Box 4 Form 1099-MISC on line 62 Form 1040 as part of his payments of federal tax.

<b>Form 1040</b>		Department of the Treasury—Internal Revenue Service (99)		<b>2012</b>		OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2012, or other tax year beginning				, 2012, ending		, 20	
Your first name and initial <b>Joe</b>		Last name <b>Elder</b>		See separate instructions. Your social security number			
If a joint return, spouse's first name and initial		Last name		Spouse's social security number			
Home address (number and street). If you have a P.O. box, see instructions.						Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).						▲ Make sure the SSN(s) above and on line 6c are correct. Presidential Election Campaign	
<b>Payments</b>		61 Add lines 55 through 60. This is your total tax		▶		61	
62 Federal income tax withheld from Forms W-2 and 1099		62		\$12,500			
63 2012 estimated tax payments and amount applied from 2011 return		63					

If you were not a farmer or actively involved in a farming business in 2012, report the full amount from Form 1099-MISC Box 3 “Other Income” on Line 21 of Form 1040 “Other Income”. Identify this amount as “USDA Settlement”. Refer to Example 1 Part 3.

**Example 1 Part 3:** Joe Elder, after receiving the Form 1099-MISC seen in Example 1 Part 1 (above), files a tax return showing the amount from Box 3 Form 1099-MISC as “Other Income” on Line 21 of his Form 1040.

<b>Form 1040</b> Department of the Treasury—Internal Revenue Service (99) <b>2012</b> U.S. Individual Income Tax Return		OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space
For the year Jan. 1–Dec. 31, 2012, or other tax year beginning _____, 2012, ending _____, 20		See separate instructions.	
Your first name and initial <b>Joe</b>	Last name <b>Elder</b>	Your social security number	
If a joint return, spouse's first name and initial	Last name	Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct. <b>Presidential Election Campaign</b>
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).			

19	Unemployment compensation	19	
20a	Social security benefits	20a	
		b	Taxable amount
21	Other income. List type and amount	21	\$62,500
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22	
23	Reserved	23	
24	Certain business expenses of reservists, performing artists, and		

Joe includes the amount from Box 4 Form 1099-MISC on Line 62 of his Form 1040 as part of his payments of federal tax.

60	Other taxes. Enter code(s) from instructions	60	
61	Add lines 55 through 60. This is your total tax ▶	61	
<b>Payments</b>	62 Federal income tax withheld from Forms W-2 and 1099	62	\$12,500

**Example 2:** Frank Farmer qualified for a Track B settlement at the maximum level and receives a check for \$250,000. He received a Form 1099-MISC with \$250,000 in Box 3 “Other Income” and nothing in Box 4 “Federal Tax Withheld”. Frank also farms and has raised farm income of \$48,000.

USDA		\$	<b>2012</b>	<b>Miscellaneous Income</b>
		2 Royalties		
		\$	Form 1099-MISC	<b>Copy B For Recipient</b>
		3 Other income	4 Federal income tax withheld	
		\$ 250,000	\$	
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds	6 Medical and health care payments	

**Example 2 continued:** Frank reports his raised farm income of \$48,000 on Line 2, Schedule F and the \$250,000 settlement income on Line 8, resulting in a total of \$298,000 of gross farm income. Frank’s resulting net farm income (gross income less expenses) is reported on IRS Form 1040 on Line 18.

<b>SCHEDULE F (Form 1040)</b>		<b>Profit or Loss From Farming</b>		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. ▶ Information about Schedule F and its separate instructions is at <a href="http://www.irs.gov/form1040">www.irs.gov/form1040</a> .		<b>2012</b> Attachment Sequence No. 14	
Name of proprietor <b>Frank Farmer</b>				Social security number (SSN)	
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	
E Did you "materially participate" in the operation of this business during 2012? If "No," see instructions for limit on passive losses				<input type="checkbox"/> Yes <input type="checkbox"/> No	
F Did you make any payments in 2012 that would require you to file Form(s) 1099 (see instructions)				<input type="checkbox"/> Yes <input type="checkbox"/> No	
G If "Yes," did you or will you file required Forms 1099?				<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>Part I Farm Income—Cash Method.</b> Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)					
1a	Sales of livestock and other resale items (see instructions)	1a			
b	Cost or other basis of livestock or other items reported on line 1a	1b			
c	Subtract line 1b from line 1a	1c			
2	Sales of livestock, produce, grains, and other products you raised	2			48,000
3a	Cooperative distributions (Form(s) 1099-PATR)	3a		3b Taxable amount	
4a	Agricultural program payments (see instructions)	4a		4b Taxable amount	
5a	Commodity Credit Corporation (CCC) loans reported under election	5a		5c Taxable amount	
b	CCC loans forfeited	5b		5c Taxable amount	
6	Crop insurance proceeds and federal crop disaster payments (see instructions)				
a	Amount received in 2012	6a		6b Taxable amount	
c	If election to defer to 2013 is attached, check here <input type="checkbox"/>	6d		6d Amount deferred from 2011	
7	Custom hire (machine work) income	7			
8	Other income (see instructions)	8			250,000
9	<b>Gross income.</b> Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)	9			298,000

## Settlement Form 1099-C – Cancellation of Debt

Form **1099-C** is used to report cancellation or forgiveness of \$600 or more of debt. Cancellation of debt is generally reported on Form 1040 Line 21. However, **Qualified Farm Indebtedness** may be excluded from income if specific requirements are met under Internal Revenue Code Sec. 108. IRS Publication 4681, *Cancelled Debts, Foreclosures, Repossessions, and Abandonments*, contains detailed information on this subject.

Because of complexities in the tax rules for the treatment of cancellation of debt, settlement recipients are strongly urged to consult a qualified tax professional for help in completing their return. Seeking help will be beneficial to ensure that only the minimum tax liability will result from the cancellation of debt.

## Other Tax Impacts

The settlement may have implications on other tax issues as well. It may affect earned income credit, child care credit, and tax on social security benefits. The net result may be that the

recipient gets a tax refund or that the recipient may owe Federal income tax. Each case may be different.

**Example 3:** Say that Joe Elder from Example 1 was retired and receiving \$12,000 of social security benefits. Assuming that Joe is single, and social security benefits and the settlement of \$62,500 were his only sources of income. The settlement would cause part of Joe's social security benefits to be taxable. The net effect after deductions would be that Joe would owe \$11,894 in taxes. However, as he would be able to apply his \$12,500 of tax payments, Joe would ultimately receive a refund of \$606.

## Trainings and Workshops

A series of workshops and webinars will be occurring across the nation to further assist awardees with tax filing and reporting issues. Please visit the **Intertribal Ag Council's website: [IndianAgLink.com](http://IndianAgLink.com)** for a list of trainings. You may also visit the regional Extension Risk Management Education Centers at [ExtensionRME.org](http://ExtensionRME.org) for workshops occurring in your area. For more tax topics and information go to [RuralTax.org](http://RuralTax.org).

## IRS Publications

More information on these and other Form 1099s can be found in "A Guide to Information Returns" on the IRS website at [www.irs.gov](http://www.irs.gov). Enter "A Guide to Information Returns" in the search box in the top right-hand portion of the page. Detailed information on specific Form 1099s can also be found by entering the form name (ex. "Form 1099-MISC") in the search box. The search results will include the specified form, and instructions for completing the form.

## Additional Topics

This fact sheet was written as part of Rural Tax Education, a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets, and additional information related to agricultural income tax, please see [RuralTax.org](http://RuralTax.org).

Related articles that might be helpful include:

- Form 1099 Informational Returns

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

The land-grant universities involved in Rural Tax Education are affirmative action/equal opportunity institutions.