



Revenue Ruling No. 06-006

May 10, 2006

Individual Income Tax

Definition of Farmer for Purposes of Estimated Payments

Purpose

The purpose of this Revenue Ruling is to provide guidance to Revenue employees and taxpayers in determining who qualifies as a farmer for the purposes of estimated payments under R.S. 47:117(B).

Background

Revised Statutes 47:117, enacted in 1960, provides for the declaration of estimated payments by individuals. Subsection B specifically addresses the declaration of estimated payments by farmers, who are defined as individuals whose estimated gross income from farming for the taxable year is at least two-thirds of their total estimated gross income from all sources.

In 1960, the Louisiana Legislature, in enacting R.S. 47:117, had the same intent as Congress had when enacting Internal Revenue Code Sections 6073 and 6654, which provide special rules for declarations of estimated payments by farmers. At the time, the term "farmer" was defined in several Internal Revenue Code (IRC) sections including the now repealed IRC § 6073 and current IRC § 6654 as either an individual whose estimated gross income from farming or fishing is at least two-thirds of the total estimated gross income from all sources for the taxable year or an individual whose gross income from farming or fishing shown on the return of the individual for the preceding taxable year is at least two-thirds of the total gross income from all sources shown on the return. IRS Publication 225 discusses what constitutes farm income for purposes of IRC § 6654.

In further explanation of the term farmer, the IRS issued Revenue Ruling 87-121 to discuss whether or not the income of flow thru entities, such as an S corporation, which participate in farming activities would qualify their shareholders as farmers if the two-thirds test is met. Rev. Rul. 87-121 analyzed the legislative history of the Subchapter S Revision Act of 1982. The legislative history stated that the conduit rule for determining the character of items realized by the corporation and included in the shareholder's pro rata share will be the same as the partnership rule under § 702(b) of the IRC and that gross income determinations by a shareholder will parallel the partnership rules under § 702(c). Treasury Regulation 1.702-1(c)(1)(iv) states that a partner is required to include his distributive share of partnership gross income in determining the partner's gross income from farming for purposes of the estimated tax provisions. Because the gross income determinations made by a shareholder of an S corporation parallel the gross income determinations made by a partner in a partnership, an individual shareholder must also include the shareholder's pro rata share of the S corporation's gross income from farming for purposes of determining the shareholder's individual gross income from farming for estimated tax purposes. The Louisiana Legislature had the same intent and purpose as Congress when defining farmer for estimated tax purposes; therefore, Louisiana's definition of farmer requires a similar analysis to the one above.

Ruling

A farmer for Louisiana estimated tax purposes is an individual whose estimated gross income from farming for a taxable year is at least two-thirds of his or her total estimated gross income

from all sources for the taxable year. The individual's gross income from farming will include the individual's pro rata share of farming income from any pass-thru entities such as S corporations, partnerships and limited liability companies. If the individual's gross income from farming, including income from pass-thru entities, is at least two-thirds of his or her total estimated gross income, the individual will be considered a farmer for purposes of R.S. 47:117(B).

A Revenue Ruling is issued under the authority of LAC 61III.101.C. A Revenue Ruling is written to provide guidance to the public and to Department of Revenue employees. It is a written statement issued to apply principles of law to a specific set of facts. A Revenue Ruling does not have the force and effect of law and is not binding on the public. It is a statement of the department's position and is binding on the department until superseded or modified by a subsequent change in statute, regulation, declaratory ruling, or court decision.