

**NORTH DAKOTA DEPARTMENT OF HUMAN SERVICES
BISMARCK, NORTH DAKOTA
May 17, 2012**

IM 5142

TO: County Social Service Directors
Economic Assistance Policy Regional Representatives
Economic Assistance Policy Quality Control Reviewers

FROM: Maggie Anderson, Director, Medical Assistance

SUBJECT: **Cooperative Distributions and Healthcare Coverage**

PROGRAMS: Medicaid and Healthy Steps

EFFECTIVE: Upon Issuance

RETENTION: Until manualized

**SECTIONS
AFFECTED:**

510-05-85-15(k)	Unearned Income
510-05-85-20(4)(f)	Earned Income
510-07-40-20(k)	Unearned Income
510-07-40-25(4)	Earned Income

Agriculture Tax Tips explains patronage dividends (cooperative distributions) as follows:

"If you buy farm supplies through a cooperative, you may receive income from the cooperative in the form of patronage dividends. If you sell your farm products through a cooperative, you may receive either patronage dividends or a per-unit retain certificate from the cooperative.

A per-unit retain certificate is any written notice that shows the stated dollar amount of a per-unit retain allocation made to a farmer by the cooperative. A per-unit retain allocation is an amount paid to patrons for products sold for them that is fixed without regard to the net earnings of the cooperative. These allocations can be paid in money, other property, or qualified certificates."

These per-unit retail allocations are included on the 1099-PATR "Taxable Distributions Received From Cooperatives" in Box 3, (see example below)

that the farmer receives from the cooperative, and is required to be reported on the farmer's Schedule F as a cooperative distribution currently line 3(a) on the 2011 Schedule F. The IRS allows farmers 2 basic ways to treat the per-unit retain allocations—

1. The preferred method is for the farmer to include the per-unit allocations in the amount on lines 2(a) and/or 2(b) "sales of products you raised" of the Schedule F. When these per-unit allocations are treated in this way the taxable amount of the cooperative distributions reported on line 3(b) of Schedule F do not include the per-unit retain allocations.
2. The alternative method is for the farmer to include the per-unit retain allocation on both lines 3(a) and 3(b) and to not include it with the sales figures on lines 2(a) or 2(b) of Schedule F.

Because Medicaid and Healthy Steps consider cooperative distributions as unearned income and not as self-employment in the determination of benefits, **workers will need to request copies of the 1099-PATR in addition to the Schedule F.**

For example, Farmer Jones received the follow 1099-PATR forms:

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0118		2012 Form 1099-PATR	Taxable Distributions Received From Cooperatives
PAYER'S name, street address, city, state, ZIP code, and telephone no. Local Grain Cooperative Address City State Zip and Phone #		1 Patronage dividends \$ 8,500.00	2 nonpatronage distributions \$ 190,000.00		
PAYER'S federal identification number ##-####-####	RECIPIENT'S identification number ###-##-####	4 Federal income tax withheld \$	Copy B For Recipient 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.		
RECIPIENT'S name Farmer Jones		5 Redemption of nonqualified notices and retain allocations \$			6 Domestic production activities deduction \$
Street address (including apt. no.) Rural Route		7 Investment credit \$			
City, state, and ZIP code Anytown, ND 58999		8 Work opportunity credit \$	9 Patron's AMT adjustment \$		
Account number (see instructions) FAJ123		10 Other credits and deductions \$			
Form 1099-PATR		(keep for your records)		Department of the Treasury - Internal Revenue Service	

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Another Grain Cooperative Address City State Zip and Phone #		1 Patronage dividends \$ 7,000.00	OMB No. 1545-0118 2012	Taxable Distributions Received From Cooperatives
		2 Nonpatronage distributions \$	Form 1099-PATR	
		3 Per-unit retain allocations \$ 44,500.00		
PAYER'S federal identification number ##-####-####	RECIPIENT'S identification number ###-##-####	4 Federal income tax withheld \$		Copy B For Recipient 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.
RECIPIENT'S name Farmer Jones		5 Redemption of nonqualified notices and retain allocations \$	6 Domestic production activities deduction \$	
Street address (including apt. no.) Rural Route			7 Investment credit \$	
City, state, and ZIP code Anytown, ND 58999		8 Work opportunity credit \$	9 Patron's AMT adjustment \$	
Account number (see instructions)	JOF321	10 Other credits and deductions \$		
Form 1099-PATR		(keep for your records)	Department of the Treasury - Internal Revenue Service	

The following schedule F illustrates the preferred reporting of these per-unit retain allotments. You will note that there is a difference between lines 3(a) and 3(b). Line 3(a) of the schedule F includes the total of boxes 1 and 3 from both 1099-PATR forms. If you look at the 1099-PATRs, you will note that boxes #3 include Per-unit Retain Allocations of \$190,000 and \$44,500 respectively for a total of \$234,500. The IRS considers this to be 'ordinary income' to the farmer, so this amount is included in the Sales figures for line 2.

Note: The gross patronage dividends total \$250,000 of which \$234,500 is per-unit retain allocations and \$13,500 is considered taxable by the IRS. This leaves \$2,000 difference unaccounted for. For tax purposes, patronage dividends that are for the farmer's personal use; or for the purchase of capital assets are not taxable for the business. Such items ARE countable unearned income for Medicaid and Healthy Steps purposes.

Bottom line, in determining the self-employment income, we deduct the amount on line 3 (b) of the schedule F from line 9 of the schedule F. The taxable amount that is listed on line 3(b) (\$13,500 in this example) may not always include the gross cooperative distributions that must be counted as unearned income for Health Care Coverage. To get that, the worker must total the amounts in Box 1 of the 1099 PATR (\$15,500 in this example).

For Medicaid, \$338,500 is the gross farming income to be entered on the self-employment work screen. (The Gross Income amount from line 9 of Schedule F \$352,000, minus the taxable portion of the Cooperative Dividends from line 3(b) of Schedule F - \$13,500 = \$338,500). The remaining amount from line 3(a) - \$15,500 is the Cooperative Dividends, and entered as unearned income.

For Healthy Steps, \$26,500 is the net farming income to be entered on the Healthy Steps Self-employment work screen. (The Net Farm Profit or Loss from line 34 \$40,000, minus the taxable portion of the Cooperative Dividends from line 3(b) of Schedule F - \$13,500 = \$26,500). The \$15,500 is the Cooperative Dividends and must be entered as unearned income.

- Remember, if the Schedule F and/or 1099-PATR shows both spouse's names, the income is split between the spouses—as with any such income
- If this is a partnership, we follow the same formula, with the addition of applying the partner's share when entering it in the system.

**SCHEDULE F
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Farming

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.
▶ See Instructions for Schedule F (Form 1040).

OMB No. 1545-0074

2011
Attachment
Sequence No. **14**

Name of proprietor: **Farmer Jones---Method One** Social security number (SSN): **###-##-####**

A Principal crop or activity: **small grains and horses** **B** Enter code from Part IV: **1 1 1 1 0 0** **C** Accounting method: Cash Accrual **D** Employer ID number (EIN), (see instr):

E Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on passive losses. Yes No

F Did you make any payments in 2011 that would require you to file Form(s) 1099 (see instructions) Yes No

G If "Yes," did you or will you file all required Forms 1099? Yes No

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a Specified sales of livestock and other resale items (see instructions)	1a	5,000	00			
b Sales of livestock and other resale items not reported on line 1a	1b					
c Total of lines 1a and 1b (see instructions)	1c	5,000	00			
d Cost or other basis of livestock or other items reported on line 1c	1d	1,500	00			
e Subtract line 1d from line 1c	1e			3,500	00	
2a Specified sales of products you raised (see instructions)	2a			335,000	00	
b Sales of products you raised not reported on line 2a	2b					
3a Cooperative distributions (Form(s) 1099-PATR)	3a	250,000	00	3b Taxable amount	3b	13,500 00
4a Agricultural program payments (see instructions)	4a			4b Taxable amount	4b	
5a Commodity Credit Corporation (CCC) loans reported under election	5a			5c Taxable amount	5c	
b CCC loans forfeited	5b			5c Taxable amount	5c	
6 Crop insurance proceeds and federal crop disaster payments (see instructions)						
a Amount received in 2011	6a			6b Taxable amount	6b	
c If election to defer to 2012 is attached, check here <input type="checkbox"/>	6d Amount deferred from 2010			6d		
7a Specified custom hire (machine work) income (see instructions)	7a			7a		
b Custom hire income not reported on line 7a	7b			7b		
8a Specified other income (see instructions)	8a			8a		
b Other income not reported on line 8a (see instructions)	8b			8b		
9 Gross income. Add amounts in the right column (lines 1e, 2a, 2b, 3b, 4b, 5a, 5c, 6b, 6d, 7a, 7b, 8a, and 8b). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)	9					352,000 00

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).

10 Car and truck expenses (see instructions). Also attach Form 4562	10			23 Pension and profit-sharing plans	23		
11 Chemicals	11	30,000	00	24 Rent or lease (see instructions):			
12 Conservation expenses (see instructions)	12			a Vehicles, machinery, equipment	24a		
13 Custom hire (machine work)	13	45,000	00	b Other (land, animals, etc.)	24b		
14 Depreciation and section 179 expense (see instructions)	14	60,000	00	25 Repairs and maintenance	25	15,000	00
15 Employee benefit programs other than on line 23	15			26 Seeds and plants	26	95,500	00
16 Feed	16			27 Storage and warehousing	27	6,000	00
17 Fertilizers and lime	17	20,000	00	28 Supplies	28		
18 Freight and trucking	18	17,000	00	29 Taxes	29	8,500	00
19 Gasoline, fuel, and oil	19	10,000	00	30 Utilities	30		
20 Insurance (other than health)	20	5,000	00	31 Veterinary, breeding, and medicine	31		
21 Interest:				32 Other expenses (specify):			
a Mortgage (paid to banks, etc.)	21a			a _____	32a		
b Other	21b			b _____	32b		
22 Labor hired (less employment credits)	22			c _____	32c		
				d _____	32d		
				e _____	32e		
				f _____	32f		
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions	33					312,000	00
34 Net farm profit or (loss). Subtract line 33 from line 9	34					40,000	00
If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.							
35 Did you receive an applicable subsidy in 2011? (see instructions)							<input type="checkbox"/> Yes <input type="checkbox"/> No
36 Check the box that describes your investment in this activity and see instructions for where to report your loss.							
a <input type="checkbox"/> All investment is at risk.	b <input type="checkbox"/> Some investment is not at risk.						

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11346H

Schedule F (Form 1040) 2011

The following Schedule F shows the alternate treatment of the per-unit retain allocations. All other items are the same except for the sales and the cooperative distributions.

The amount on line 3(a) is the total amount of cooperative distributions. (Note that the sale amount on line 2 is much smaller than it was under method one. This is because the per-unit retain allocations are included on line 3(b) under this method. The gross Cooperative Distributions total \$250,000 of which \$248,000 is considered taxable by the IRS. That leaves \$2,000 difference unaccounted for. For tax purposes, cooperative distributions that are for the farmer's personal use; or for the purchase of capital assets are not taxable for the business. Such items ARE countable unearned income for Medicaid and Healthy Steps purposes.)

For Medicaid:

- \$338,500 is the gross farming income to be entered on the self-employment work screen.
 - The Gross Income amount from line 9 of Schedule F \$352,000, minus
 - The Taxable portion of the Cooperative Dividends from line 3(b) of Schedule F - \$248,000 PLUS
 - Box 3 of the 1099 PATR's \$234,500 equals \$338,500.
- The total of box 1 of the 1099 PATR's (\$15,500) is the countable unearned income from cooperative dividends.

For Healthy Steps:

- \$26,500 is the net farming income to be entered on the Healthy Steps Self-employment work screen.
 - The Net Farm Profit or Loss from line 34 \$40,000, minus
 - The Taxable portion of the Cooperative Dividends from line 3(b) of Schedule F - \$248,000 PLUS
 - Box 3 of the 1099 \$234,500 equals \$26,500.
- The total of box 1 of the 1099 PATR's (\$15,500) is the countable unearned income from cooperative dividends.

Note that the results are the same, and in either case, the worker will need copies of the 1099 PATR to correctly determine unearned income and the self-employment income from the farming operations.

**SCHEDULE F
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Farming

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.
▶ See Instructions for Schedule F (Form 1040).

OMB No. 1545-0074

2011

Attachment
Sequence No. **14**

Name of proprietor
Farmer Jones---Method Two

Social security number (SSN)
###-##-####

A Principal crop or activity
small grains and horses

B Enter code from Part IV
▶ **1 1 1 1 0 0**

C Accounting method:
 Cash Accrual

D Employer ID number (EIN), (see instr)

E Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on passive losses. Yes No

F Did you make any payments in 2011 that would require you to file Form(s) 1099 (see instructions) Yes No

G If "Yes," did you or will you file all required Forms 1099? Yes No

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method). Complete Parts II and III, and Part I, line 9.)

1a	Specified sales of livestock and other resale items (see instructions)	1a	5,000	00		
b	Sales of livestock and other resale items not reported on line 1a	1b				
c	Total of lines 1a and 1b (see instructions)	1c	5,000	00		
d	Cost or other basis of livestock or other items reported on line 1c	1d	1,500	00		
e	Subtract line 1d from line 1c	1e	3,500	00		
2a	Specified sales of products you raised (see instructions)	2a	100,500	00		
b	Sales of products you raised not reported on line 2a	2b				
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	250,000	00	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 2011	6a			6b	Taxable amount
c	If election to defer to 2012 is attached, check here <input type="checkbox"/>	6d	Amount deferred from 2010		6d	
7a	Specified custom hire (machine work) income (see instructions)	7a				
b	Custom hire income not reported on line 7a	7b				
8a	Specified other income (see instructions)	8a				
b	Other income not reported on line 8a (see instructions)	8b				
9	Gross income. Add amounts in the right column (lines 1e, 2a, 2b, 3b, 4b, 5a, 5c, 6b, 6d, 7a, 7b, 8a, and 8b). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)	9	352,000	00		

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).

10	Car and truck expenses (see instructions). Also attach Form 4562	10			23	Pension and profit-sharing plans	23		
11	Chemicals	11	30,000	00	24	Rent or lease (see instructions):			
12	Conservation expenses (see instructions)	12			a	Vehicles, machinery, equipment	24a		
13	Custom hire (machine work)	13	45,000	00	b	Other (land, animals, etc.)	24b		
14	Depreciation and section 179 expense (see instructions)	14	60,000	00	25	Repairs and maintenance	25	15,000	00
15	Employee benefit programs other than on line 23	15			26	Seeds and plants	26	95,500	00
16	Feed	16			27	Storage and warehousing	27	6,000	00
17	Fertilizers and lime	17	20,000	00	28	Supplies	28		
18	Freight and trucking	18	17,000	00	29	Taxes	29	8,500	00
19	Gasoline, fuel, and oil	19	10,000	00	30	Utilities	30		
20	Insurance (other than health)	20	5,000	00	31	Veterinary, breeding, and medicine	31		
21	Interest:				32	Other expenses (specify):			
a	Mortgage (paid to banks, etc.)	21a			a	-----	32a		
b	Other	21b			b	-----	32b		
22	Labor hired (less employment credits)	22			c	-----	32c		
					d	-----	32d		
					e	-----	32e		
					f	-----	32f		
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions	33	312,000	00					
34	Net farm profit or (loss). Subtract line 33 from line 9	34	40,000	00					

If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.

35 Did you receive an applicable subsidy in 2011? (see instructions) Yes No

36 Check the box that describes your investment in this activity and see instructions for where to report your loss.

a All investment is at risk. b Some investment is not at risk.

Cooperative Dividends or patronage dividends are entered in the systems as follows:

In the Vision system---on the Income window, highlight the individual whose income you are entering and click on the 'Action' button and click on "Create". Select the income Category of 'Unearned' and the Type of 'Other Unearned Income' from the drop-down boxes. Click on the 'Action' button and then 'Workscreen'. Click on 'Action', then 'Create'. This brings up the 'Create Income/Expense' pop-up box. Enter the amount and then click on "OK". This brings you back to the Income Work Screen. If this is for a full year, change the 'period' to '12'. If this income is 'owned' by more than one individual, be sure to enter their share percentage at this time. The system will calculate the appropriate monthly income. Enter the Frequency Type and the Verification.

The screenshot displays the 'Income Work Screen' interface. On the left, the 'Create Income/Expense' form is visible, showing the following details:

- Benefit Month: 05-2012
- Month Received: 05-2012
- Category: UNEARNED
- Type: OTHER UNEARNED INCOME
- Amount: 1291.67
- Frequency Type: MONTHLY
- Verification: HARD COPY

On the right, the 'Income Work Screen' summary table is shown:

Type	Extra Check	Hours	Amount
INCOME		0.00	15500.00

Summary statistics below the table:

- Total Gross Income: 15500.00
- Total Expenses: 0.00
- Total Capital Gains: 0.00
- Total Cost of Goods: 0.00
- Period: 12
- Share: 100.00

TANF section:

- Disregard/Exemption: 0.00
- Adjusted Income: 0.00
- Actual Deduction: 0.00
- Period/Share Adjusted: 0.00

Medicaid section:

- Disregard/Exemption: 0.00
- Adjusted Income: 15500.00
- Actual Deduction: 0.00
- Period/Share Adjusted: 1291.67

In our case, Farmer Jones is the only one listed on the Schedule F or the 1099-PATR, so he has a 100% share. His annual cooperative distribution is \$15,500, so divide that by 12 to get the monthly income of \$1,291.67. In TECS, go to the UNIN screen, enter "OT" under TY column and the monthly prorated amount of the cooperative distribution under the 'Amount' column and your verification type. Note that in TECS the worker will have to do the calculations manually prior to entering the information in the system.