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sanctioned USDA beef quality grading system that is the basis of conventional consumer wisdom on beef quality.

Moreover, dwelling too closely on the environmental problems of grain feeding may cause a strong backlash from the conventional beef industry. Furthermore, even the word "grain" is a very attractive word, especially to natural foods customers, who of course associate it positively with human consumption and transfer this to cattle without realizing the differences in cattle nutritional requirements. In summary, despite our strong commitment to the concept of grassfed beef, we wonder if some lessons may just be too hard and expensive to teach, at least at this point of consumer consciousness.

11) Quality of life and sustainability on a personal level

We wanted to start a marketing cooperative to preserve our way of life, but the time and pressure of running our own beef operation, and our financial losses, actually detracted dangerously from family life and our farm operations. Ironically, while trying to devise a way to produce beef in an environmentally sustainable way, we accidentally fell into a pressured schedule that was destructive to the values of family we were trying to preserve, and that was unsustainable on a personal level. Thus our business risk also became a personal risk. Agriculture is already hard enough. We strongly believe that supplemental enterprises must be consistently operated at a personal cost that will be compatible with farmers' values and way of life.

Summary

The Tallgrass Prairie Producers Co-op recommends that projects to market added-value beef be developed with a sound business plan, adequate capital, professional management, cost-effective operations, consistent supply, compliance with legal standards and access to low-cost processing and volume markets. All the costs of the business must be accounted for in order to protect the core values and goals of the farmers.

Many have described our odyssey as a remarkably successful effort that took us much farther than most groups of this type ever get. One expert characterized our activities as a "successful test market" of a product that could some day be taken to the commercial level with adequate capital and professional guidance.

In recent months, our co-op has been exploring the possibility of joining together to develop a cooperative tourism enterprise in which we would host guests on our ranches and offer authentic experiences in ranch daily life and prairie ecology. We also are considering remaining as a ranching cluster that shares production ideas and economic information in an effort to assist and advise each other on economically and ecologically successful ranching strategies.

We don't know where all this will lead us. What we do know is that we have been fortunate to know each other and have developed tremendous loyalty, respect, and affection for one another. No matter what happens, we have been through an adventure together that we will never forget, and we will always be friends.

Changing CCC loan reporting *

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The choices in reporting Commodity Credit Corporation (CCC) loans have been clear for many years. But in early 2002, the Internal Revenue Service ruled that a change in reporting methods from treating CCC loans as income to reporting CCC loans as loans has been modified and relaxed. That is a significant change for affected taxpayers.

The basic CCC loan pattern

As is well known, an eligible taxpayer may use agricultural commodities as collateral for a loan from the Commodity Credit Corporation. The loans are, basically, non-recourse so that, at maturity, if the

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loan plus interest is not paid, the commodity may be forfeited to the CCC as full payment for the loan.

No election made. If the election has not been made to treat CCC loans as income when the loan proceeds are received, the taxpayer has no taxable income until the commodity serving as collateral for the loan is sold or forfeited to the CCC as payment on the loan. Thus, the mere taking out (and payment of) a CCC loan does not in itself have income tax consequences. Income tax is due on forfeiture of the commodity to CCC or sale of the commodity after discharge of the CCC loan.

Election made to treat CCC loan as income. A taxpayer may elect to report CCC loans as income in the taxable year in which the loan is received. The election, once made, applies to all subsequent taxable years unless permission is obtained from the Internal Revenue Service to change back to treating CCC loans as loans.

The election to treat CCC loans as income applies to all commodities for that taxpayer. Actually, the election involves reporting as income the value of the commodity held as collateral up to the amount of the loan rather than reporting the loan itself as income. As the regulations state—

> "If a taxpayer elects or has elected...to include in his gross income the amount of a loan from the Commodity Credit Corporation...then—
>
> "(1) No part of the amount realized by the Commodity Credit Corporation upon the sale or other disposition of the commodity pledged for such loan shall be recognized as income to the taxpayer, unless the taxpayer receives an amount in addition to that advanced...as the loan."

IRS has ruled that a Section 77 election, once made, applies to all loans in that year.

For loans redeemed the same year, the courts have been divided. The Fifth Circuit Court of Appeals in the 1963 case of *Thompson v. Commissioner* held that no income was realized from the loan allocable to a commodity that was redeemed in the same taxable year that the CCC loan was taken out. As the court stated—

> "§ 77 does not prescribe that the loan is income. It prescribes that it should be 'considered as income' and when so done, the method of computing income so adopted shall be adhered to..."

The Ninth Circuit Court of Appeals, on the other hand, held in 1968 in *United States v. Isaak* that the loan amount was income, even though redeemed the same year. As the court noted, the loan is the taxable event.

Changing methods of reporting

A taxpayer who has been reporting CCC loans as loans may shift at any time to reporting CCC loans as income. The question is the procedure for shifting from reporting CCC loans as income to reporting such loans as loans.

Before 2002, under the regulations, application for permission to change had to be filed within 90 days after the beginning of the taxable year to be covered by the return. IRS has established procedures for taxpayers to receive a 90-day extension of time for applying for a change in method of accounting under the regulations. Note that, in general, requests for a change in method of accounting for several years have been able to be filed until the due date of the return with extensions.

Effective for taxable years ending on or after December 31, 2001, IRS has ruled that a taxpayer reporting CCC loans as income can switch automatically to treating CCC loans as loans. For the year of change, all loans that year are reported as loans. Loans taken out previously continue to be treated as if the election to report loans as income was still in effect. As the 2002 guidance states, the change is made on a "cut-off" basis.

This change can be very helpful for those wishing to shift back to treating CCC loans as loans late in the taxable year.