

# Domestic Production Activities Deduction (DPAD)

## Frequently Asked Questions



**Q: *What is the Domestic Production Activities Deduction?***

**A:** The Domestic Production Activities Deduction (DPAD), otherwise known as IRS section 199 deduction, allows a tax incentive for taxpayers engaged in domestic manufacturing, processing, growing, or extracting activities. Agricultural cooperatives were included in this legislation and have received special rules. For 2014, the deduction equals the less of 9% of taxable income realized from the above activities or 50% of W-2 wages paid. Therefore, a producer with no employees would not benefit from the DPAD. However, there are special tax rules which allow farmer cooperatives to claim the DPAD for agricultural products marketed for the members.

**Q: *What is a Per-Unit Retain Allocation?***

**A:** The IRS defines the term “per-unit retain allocation” (PUR) to be any allocation by a farmer cooperative to a patron with respect to products marketed for him/her, the amount of which is fixed without reference to the net earnings of the cooperative. Based on recent IRS rulings, gross grain payments made by The Garden City Co-op, Inc. are considered to be per-unit retains paid in money.

**Q: *Why are these PUR's being reported to me now?***

**A:** The IRS has required cooperatives to report Per-Unit Retain Allocations for several years. However, most grain cooperatives have traditionally considered grain payments to be inventory purchases and not per-unit retain allocations. Recent IRS rulings have clarified that grain payments should be treated as per-unit retains paid in money.

**Q: *The Per-Unit Retains reported to me do not agree with the check payments I received. Why?***

**A:** Your net grain checks from The Garden City Co-op, Inc. will probably not agree with the amount reported in Box 3 of the Patronage 1099. Your aggregate amount of bushels delivered times the price and less discounts (moisture, test weight, foreign material, etc.) should be reported as PUR's. Deductions from payments for services such as storage and drying are excluded from the PUR calculation. Check-off deductions are also excluded in the PUR calculation.

**Q: *Do I need to show the amount of the Per-Unit Retain on my tax return?***

**A:** Yes, please consult your tax preparer for proper reporting.

**Q: *Can I claim the DPAD deduction on my tax return?***

**A:** The tax code allows for The Garden City Co-op, Inc. to use the deduction, pass it through to the producer, or to use a portion and pass through a portion to the producer. After consulting with our tax preparer and local tax preparers, your board directors has elected to pass through 50% of the 2014 DPAD deduction. The Garden City Co-op, Inc. will pass to its members over \$845,000 in DPAD deductions. This amount will be reported in Box 6 of the Patronage 1099. Again, please contact your tax preparer for proper reporting.