



Flue-Cured Tobacco...

SCOOP

...A newsletter from
 Flue-Cured Tobacco Cooperative
 Stabilization Corporation
www.ustobaccofarmer.com

Cooperative Completes Exclusive Marketing Agreement Grower Meetings

Flue-Cured Tobacco Cooperative staff recently held six Exclusive Marketing Agreement grower meetings. The meetings were held over a series of days beginning on Tuesday, January 3, 2006, at the Berrien County Agricultural Center in Nashville, GA. The last meeting was held on Tuesday, January 10, 2006, at the US Flue-Cured Tobacco Growers, Inc. facility in Timberlake, NC. General Manager, Arnold Hamm, made a presentation to each group that lasted approximately an hour. During the sixty minute presentation, Mr. Hamm outlined the entire agreement and specifically noted the major changes in the Exclusive Marketing Agreement for 2006.

Following the presentation, Flue-Cured Tobacco Cooperative staff assisted growers with the signing of Exclusive Marketing Agreements.

Notable changes for the 2006 Exclusive Marketing Agreements are:

1. An increase in the total amount of advance pounds offered.
2. A price structure designed to produce tobacco from all stalk positions and to provide growers of quality tobacco with an equitable return for their efforts.

3. Requirements to ensure that tobacco is actually planted on the farm of the Exclusive Marketing Agreement signer and **a tightening of enforcement of rules pertaining to Exclusive Marketing Agreement signers who may have a beneficial interest in other tobacco marketing contracts.**
4. **Tobacco will no longer be accepted in burlap sheets.**
5. Payment for Advance Grade tobacco on the day of delivery.
6. Carryover tobacco will not be accepted under the Exclusive Marketing Agreement. If you have carryover tobacco from 2005, it must be sold during the Non-Exclusive Marketing Agreement sales period.
7. No more than 70% of a grower's contract pounds, graded as leaf or tips will be accepted for delivery and no more than 30% of grower's contract pounds, graded in primings, lugs and cutters will be accepted for delivery to the association. Failure to comply with this rule may result in contract pound penalties for 2007 and subsequent years.
8. Failure to comply with the terms and conditions of the agreement or its rules and regulations may result in a poundage penalty for the 2007 and subsequent marketing years.



Exclusive Contract Grower Meeting in Wilson, NC

Flue-Cured Tobacco Cooperative Stabilization Corporation is the grower owned and supported cooperative that serves flue-cured tobacco growers in Virginia, North Carolina, South Carolina, Georgia, Alabama and Florida.

President

Albert Johnson

Vice Presidents

Kenneth Dasher
D. Lamar DeLoach
Andrew Q. Shepherd
Jimmy Pate

General Manager

Arnold Hamm

DIRECTORS

District 1	Kenneth Dasher Live Oak, Florida
District 2	D. Lamar DeLoach Statesboro, Georgia
District 3	Albert M. Johnson Galivants Ferry, South Carolina
District 4	James C. Pate Rowland, North Carolina
District 5	Keith Beavers Mt. Olive, North Carolina
District 6	McDaniel Wynne Stokes, North Carolina
District 7	Keith Parrish Benson, North Carolina
District 8	Richard J. Jenks Apex, North Carolina
District 9	Claude B. French Reidsville, North Carolina
District 10	Andrew Q. Shepherd Blackstone, Virginia
Public Director	James T. Hill, Jr. Kinston, North Carolina

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Non-Exclusive Marketing Agreement Information

Flue-Cured Tobacco Cooperative will offer Non-Exclusive Marketing Agreements again in 2006. The Board of Directors have not completed the final details of the Non-Exclusive Marketing Agreements for 2006. After Board approval, notification of the sign-up period will be provided in a timely manner.

If you have an Exclusive Marketing Agreement with the Cooperative, then you are automatically signed up for the Non-Exclusive Marketing Agreement. If your tobacco is contracted with someone other than the Cooperative, you will have to sign a Non-Exclusive Marketing Agreement at the appropriate time. Non-Exclusive Marketing Agreements do not have poundage assigned. Therefore, they are not as time sensitive to execute as the Exclusive Marketing Agreement.

One suggested change from last year is to hold a Non-Exclusive auction sale approximately every three to four weeks during the season. This way, growers will not have to wait to sell lower stalk tobacco until the end of the season.

The Non-Exclusive Marketing Agreement sales will be sold by auction. The trade will be notified of sale dates and invited to bid on the tobacco.

Board Approves New Location for 2006 Annual Meeting

The Board of Directors recently approved holding the 2006 Flue-Cured Tobacco Cooperative Stabilization Corporation Annual Meeting at our U.S. Flue-Cured Tobacco Growers, Inc. facility in

Timberlake, NC. The Board discussed the cost savings generated by not renting the facility at the NC State Fairgrounds. In addition, the Board would like for Cooperative members to attend the annual meeting and tour the impressive facility. Look for more information in an upcoming newsletter.

Mark Your Calendar!

2006 Annual Meeting of the Flue-Cured Tobacco Cooperative Stabilization Corporation
Friday, June 9, 2006
US Flue-Cured Tobacco Growers, Inc.
250 Crown Boulevard
Timberlake, N.C.
10:00 am

2006 District Meetings

District 8

District Meeting
Director Richard J. Jenks
Tuesday, February 14, 2006
Time: 1:00 p.m.
U.S. Flue-Cured Tobacco Growers, Inc.
250 Crown Boulevard
Timberlake, NC
Tour of factory after district meeting

District 4

Election Meeting
Director James C. "Jimmy" Pate
Wednesday, February 15, 2006
Time: 2:00 p.m.
O.P. Owens Agricultural Center
455 Caton Road
Lumberton, NC

District 9

Election Meeting
Director Claude B. French
Thursday, February 16, 2006
Time: 2:00 p.m.
Rockingham County Cooperative
Extension Office
525 Highway 65
Reidsville, NC

District 6

Election Meeting
Director Dan Wynne
Monday, February 27, 2006
Time: 2:00 p.m.
Pitt County Agricultural Center
403 Government Circle
Greenville, NC

Important Tax Information

The Flue-Cured Tobacco Cooperative Stabilization Corporation would like to provide informative timely information about the tobacco buyout funds tax implications. It seems that there is great confusion with the 2005 1099S for former quota owners that are being received with all ten years quota buyout payment included. Even though the quota owner only received one buyout payment in 2005. The following information explains how to handle the tax reporting of the 1099S for former tobacco quota owners. This information was obtained from NC State University Extension Specialist Guido van der Hoeven. This is only a guide and is to be used for explanative purposes only. Everybody's situation is different. Consult your tax professional for your own specific situation.

Method to Report Tobacco Quota Income Listed on 1099S and 1099B (Lump sum) Information Returns

The tax reporting of the tobacco quota buyout payments is complicated. Former quota owners receiving tobacco quota buyout payments or lump-sum buyouts are strongly encouraged to seek competent professional tax advice and preparation.

During the latter part of January 2006, informational forms for reporting real estate transactions, IRS Form 1099S, hit former tobacco quota owner's mailboxes. The forms report the entire amount of the tobacco quota buyout since the quota is treated as an interest in real estate (land). The 1099S is issued regardless of whether

the former quota owner chose to take ten installment payments or a lump-sum payment with a third party. USDA is issuing the 1099S correctly. The purchase of a real estate interest (tobacco quota) by USDA is reported in full the year of the transaction regardless of the manner of payment (installment versus complete payment). The question of how to report the amount, accurately and completely, on a taxpayer's return is now raised. This is especially difficult if that individual received the first of ten installment payments and not the full amount in 2005. Below is a suggested method to report the values found on the issued 1099S and subsequent 1099B for lump sum transactions for the tobacco quota buyout.

STEP ONE

- A. The tobacco quota owner should report the full amount of the 1099S on his or her Schedule D, Capital Gains and Losses (Form 1040), as a sale.
- B. The cost basis of this entry is also the full amount of the 1099S resulting in a net gain of \$0 on Schedule D. This reports the 1099S on the return so that IRS can find it for Information Matching purposes.

Step Two is different across taxpayers depending on individual facts and circumstances, below find three scenarios that cover most individuals. Use Step Two that most nearly fits your situation.

STEP TWO – 1 Cash-basis taxpayers who owned quota and who will be receiving ten installment payments, the first of which received in 2005, have additional entries as follows:

1. The tobacco quota owner must now calculate the percentage gain for the installment payments using IRS Form 6252, Installment Sale

Income. Following the instructions, for Form 6252, the unstated interest must be calculated (*discussed in other articles*) that amount along with the cost basis of the tobacco quota must be subtracted from the total capital transaction (all ten payments as indicated on the 1099S) to determine the capital gain (profit percentage) or loss from the tobacco quota sale. The calculated profit percentage is used to calculate the gain on the 2005 payment received. The profit percentage is also carried forward to be used for the following annual installment payments (2006-2014); unless the taxpayer elects out of installment reporting.

2. The net value from IRS Form 6252 will flow to Part 1 of IRS Form 4797, Sale of Business Assets, to become part of the calculation of IRC §1231 gains or losses determined for each tax year.
3. The net capital gain value for the 2005 payment only will now flow to Schedule D and be part of the taxpayer's capital gains income. By following this procedure the correct capital gains are calculated and reported for 2005, even though it seems as if some double reporting occurred. Double reporting is eliminated by the zeroing out of gains or losses in **Step 1**.
4. If there is a net loss on Form 4797 (for IRC §1231 assets) the loss value will flow directly to the front of IRS Form 1040 and treated as an ordinary loss; not subject to capital loss rules.

STEP TWO – 2 Cash-basis taxpayers who will be received a lump-sum payment in 2005 for their nine remaining quota payments will receive two 1099 forms: first a 1099S from

USDA and then a 1099B from the financial institution reporting the lump-sum payment.

1. Report the total amount on 1099B in the same way the 1099S amount was reported in Step One (items A and B) above.
2. The tobacco quota owner reports the income from the total amount received in cash in 2005 (both the initial installment payment plus the lump sum payment) on IRS Form 4797 Part 1 as the tobacco quota buyout and subtracts all of the cost basis to calculate gains or losses.
3. The net gain value, after all IRC §1231 transactions are considered, flows to Schedule D for the computation of total capital gains.
4. If a net loss is calculated, the net loss flows from Form 4797 to the front of IRS Form 1040 and is treated as an ordinary loss against other ordinary income.

STEP TWO – 3 Cash-basis taxpayers who will be receiving a lump-sum payment in 2006 after receiving the initial installment in 2005. Note, these individuals may

receive two 1099 forms; one a 1099S from USDA, the second a 1099B from the financial institution reporting the lump-sum payment in 2005 even though the payment comes in 2006.

1. Report the 1099B in a similar fashion the same way the 1099S amount was reported in Step One (items A and B).
2. Report the first installment payment received in 2005 (the one from USDA) on Form 4797 Part 1 using one tenth of the cost basis value to calculate gains or losses for 2005.
3. If a net gain is generated, that value flows to Schedule D for calculation of total capital gains on the taxpayer's return.
4. If a net loss is generated, then this value flows to the front of Form 1040 and is treated as an ordinary loss.
5. For 2006, the cash-basis taxpayer will report the lump-sum payment received in 2006 on Form 4797 with the remainder of the cost basis (9/10) subtracted from this income to calculate gains or losses. The taxpayer then follows points 3 and 4 of this list for proper tax treatment of the 2006 lump sum amount received.

NOTE: For former quota owners who amortized their tobacco quota purchases, reporting needs to address the recapture of the amortization taken. The topic is addressed in *Tax Reporting for Buyout Payments of Amortized Tobacco Quota*. This article is found at www.tobaccobuyout.cals.ncsu.edu. Other articles addressing tobacco buyout tax issues are available from this website.

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**Flue-Cured Tobacco
Cooperative Stabilization
Corporation sales staff is
already in talks with Chinese
tobacco officials about 2006
purchases.**

**We need to strive to
produce the best quality
tobacco crop possible that is
separated by stalk position.
The customer demands it.
Currently 100% of our
tobacco exports go to Asia.
We are working on the
European market as well.**