



Information Regarding Box 3 of IRS Form 1099-PATR (2010)

Foremost Farms USA has received questions from tax preparers and members regarding the dollars reported in Box 3 of Internal Revenue Service (IRS) Form 1099-PATR (2010). IRS rules require that Foremost Farms use this box to report the total dollar value of milk purchased in 2010 as “per-unit retain allocation paid in money”. Box 3 is in effect for IRS use only.

The apparent reason why the IRS requires the milk checks to be reported in Box 3 of Form 1099-PATR is to put members on notice that as per-unit retain allocations paid in money, Foremost Farms has already computed a Section 199 deduction (Domestic Production Activities Deduction) by adding back the milk checks in determining its qualified production income. As such, members are precluded by Treas. Reg. Section 1.199-6(l) from including the milk checks they receive in computing their own Section 199 deduction. This provision is meant to prevent the possibility of a member claiming a double Section 199 deduction on the same milk income.

Each member’s Section 199 deduction allocated by Foremost Farms is reported in Box 6 of Form 1099-PATR (2010).

Members should continue to prepare their income tax returns and report their gross receipts on the same basis as they have done in prior years. The amount reported in Box 3 of Form 1099-PATR does not change the amount of gross receipts reported on a member’s tax returns. Members should continue to determine their taxable gross receipts on their tax returns based on their books and records and present accounting methods.

If you have further questions, please contact Mark Graupman, Foremost Farms’ corporate controller, at (608) 355-8751.