Conservation Security Program (CSP) Talking Points
Internal Revenue Service (IRS) Ruling on CSP Payments

- On September 25, 2006, the IRS ruled that the CSP qualifies as a small watershed program and has described when payments received under the program are eligible for exclusion from producers' gross income.

- The IRS ruled that:

    - Cost-share payments received under the existing practice and new practice components of the CSP are eligible for exclusion from gross income.
    - Payments under the stewardship component are based on the rental rate applicable to the land and are not cost-share payments, and thus are not excludable from gross income.
    - Payments under the enhancement component that are based on an activity's expected conservation benefits rather than on its cost are not cost-share payments and are not excludable from gross income.

- The CSP Interim Final Rule identifies that CSP payments for enhancement activities are based on the activities' expected conservation benefit, rather than on the activities' cost.

- **Beyond that statement, Natural Resources Conservation Service (NRCS) employees shall not provide advice on how a producer should handle their particular tax reports or accounting.** By policy, NRCS employees are not authorized to advise conservation program contract participants on the tax implications of conservation payments.

- It is the program participant's responsibility to work with their tax advisors to determine how to report the payments. A participant might find additional tax preparation guidance in IRS publications, such as Publication 225, Farmer's Tax Guide.

- The IRS-1099 the participant receives will not show an itemized break-down of all their CSP payments. The participant will need to review their CSP contract and payment applications to determine the payment amount for each payment component, i.e., the stewardship, existing practice, new practice, and enhancement payments.