

SECTION 199 DOMESTIC PRODUCTION ACTIVITIES DEDUCTION (DPAD) UPDATE

EXPLANATION OF 1099-PATR BOX 3 "EARNINGS" FOR AG VALLEY COOP 2009 CALENDAR YEAR GRAIN PURCHASES FOR DOMESTIC PRODUCTION ACTIVITIES DEDUCTION (DPAD)

There is a permanent deduction for businesses that have manufacturing or production taxable income, called the "Domestic Production Activities Deduction" (referred to as DPAD). The deduction is based on a percentage, phased in over 6 years, and applies to most partnerships, corporations, LLCs, sole proprietorships and other pass thru entities including cooperatives. The deduction for Ag Valley Cooperative's Fiscal Year Ended 2009 (2008 crop) is 6% of "qualified production activities income". That increases to 9% for tax years beginning after December 31, 2009. The deduction is also limited to 50% of qualified wages paid by Ag Valley Cooperative. The wage limitation does not apply a second time to an amount passed thru, if any, to the member on his return.

For the year ended Fiscal Year Ended 2009, Ag Valley Cooperative has computed the DPAD in accordance with these rules and has elected to retain this deduction at the cooperative level and will NOT pass it on to its members.

As a grower, you may be eligible to compute your own Domestic Production Activities Deduction on your farming operations. Since we have used the net payments (grain payments Ag Valley Coop has issued to you) when calculating DPAD, the tax laws state that you cannot double count those net payments when computing your own DPAD for your farming operation. These net payments are the amount that will be shown in Box 3 on your form 1099-PATR that you will receive in January.

Please consult with your tax advisor for further information on the Domestic Production Activities Deduction and how it applies to your individual situation.

Ag Valley Cooperative
Edison, NE