



## LIVESTOCK SALES AND PRIZE WINNINGS RELATED TO 4-H PROGRAMS: TAXABLE INCOME AND CHARITABLE CONTRIBUTIONS

4-H Youth raising livestock and other farm animals to be sold at auctions, county and state fairs and other 4-H events, has long been a vital part of the 4-H educational experience. The income received and the funds paid at these events are subject to Federal tax laws and Internal Revenue Service (IRS) regulations. The Tax Reform Act of 1986 gave specific attention to “gross income amounts received on the sale of animals” and such income of \$600 or more is taxable income to the recipient regardless of the educational purposes surrounding the raising of the animals or the use of the funds.

Additionally, the 4-H entities involved in these sales should provide clarification to the purchaser of the animal as to the ownership of the animal and whether a charitable contribution may be claimed for the purchase of the animal.

The following is provided to assist State and local 4-H programs in the conduct of these livestock sales and other related activities, as well as continuing to insure the proper use of the 4-H Name and Emblem:

Livestock sales / Prize or Contest winnings:

1. The individual or 4-H entity receiving the gross income/ winnings of \$600 or more is required to report the gross income/ winnings to the IRS regardless of the educational purpose or benefit to the sale.
2. In most cases, the 4-H member would be issued an IRS Form 1099-MISC by the organization sponsoring the sale. Please note there are specific rules regarding the issuance of 1099-MISCs. Applicability needs to be determined.
3. In the majority of situations, the 4-H member remains the owner of the animal and presents it for sale to the auction or other event in anticipation of receiving the proceeds/ winnings.
4. In the situation that the ownership of the animal remains with the 4-H member, the sponsoring organization is only a conduit for the sale of the animal. (see item #1 under Charitable Contributions)
5. The net income to the 4-H member is not subject to Self-Employment Tax if the project is primarily for educational purposes and not for profit. (See reference section)

Charitable Contributions:

1. When acting as a conduit for the sale of the animal, the sponsoring organization cannot view the sales proceeds as income to the organization and should clarify for the purchaser that they have not made a charitable contribution to the organization, but have purchased the animal through the organization for the direct benefit of the 4-H member.
2. The purchaser of the animal may claim a deduction, net of the fair market value of the animal, as a charitable contribution to a qualified organization when it is determined that the organization owns the animal, which it is selling and that the funds will remain with the organization to be expended on 4-H educational programs and activities.

This Fact Sheet is provided only for the most general use and information to 4-H members and organizations. Due to the complexity and varied applicability of IRS regulations, 4-H members, organizations and contributors are encouraged to seek guidance from their tax advisors regarding specific situations.

References:

<http://www.irs.gov/pub/irs-pdf/1099MISC.pdf>

<http://www.irs.gov/publications/p225.ch12.html>

<http://www.irs.gov/taxtopics/index.html>

IRS Publication 225 Farmer’s Tax Guide, Chapter 12: Self Employment Tax.

**4-H Club or FFA Project.** If an individual participates in a 4-H Club or FFA project, any net income received from the sales or prizes related to the project may be subject to income tax. Report the net income on line 21 of Form 1040. If necessary, attach a statement showing gross income and expenses. The net income may not be subject to Self Employment tax if the project is primarily for educational purposes and not for profit, and is completed by the individual under the rules and economic restrictions of the sponsoring 4-H or FFA organization. Such a project is generally not considered a trade or business.



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