Farm Income Taxes 101

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This presentation is for informational purposes only and is not tax advice. Please consult your tax advisor to determine the applicability to your own personal situation

Let's start with definitions ...

What is a Farm?

Per the IRS (Internal Revenue Service): A business that undertakes farming activities and produces income reportable on Schedule F (Form 1040), Profit or Loss from Farming.

Who is a Farmer?

Per Tax Law: Someone who operates a farming business with the intent of making a profit.

For-Profit Farming

Farming is presumed to be conducted for-profit if it produced a profit in at least 3 years of the past 5 tax years. If this "years-of-profit" test isn't met, the IRS will consider other factors.

Hobby Farming (Not-For-Profit Farming)

Farming is a hobby if it is primarily for fun or recreation without any intention of making a profit.

- Income from a hobby farm is reported as "Other Income"
- Losses from a hobby farm cannot offset unrelated income

Record-Keeping

- Accurate financial records allow the farm to measure the farm's financial performance
- Farmers can choose any suitable record-keeping system that clearly identifies sources of income, deductible expenses, and other items reported on the tax return.
- Generally, records must be kept for at least 3 years from when your tax return was due
 or filed or within 2 years of the date the tax was paid, whichever is later.
- Method of Accounting
 - · Cash Method: Income reported in the tax year actually or constructively received
 - Generally used by individual farmers
 - Accrual Method: Income reported in the tax year it was earned and expenses reported in the year in which the expense were incurred.
 - · Generally used by farm corporations and partnerships.

The Characterization of Farm Assets

Inventory (Reported on Schedule F – Ordinary Tax Rates):

- · Livestock raised and/or held for sale
- Livestock or products you bought for resale

Business Assets (Reported on Form 4797 – Ordinary or Capital Gains Rates)

- Land & Buildings
- Farm Equipment & Fencing
- Livestock held for Breeding and Dairying purposes

What is Farm Income?

Farm income includes (not an exhaustive list):

- The sale of dairy goats that are raised and/or held for sale
- The sale of milk, cheese, soap, etc.
- The sale of semen
- Stud fees received
- Show premiums and other monetary prizes
- Most government agricultural assistance payments
- Barter income
- Farm consulting or related income

What are Farm Expenses?

Deductible Farm Expenses:

The ordinary and necessary costs of operating a farm for profit are deductible farm expenses.

- "Ordinary" means what most farmers do; and
- · "Necessary" means what is useful and helpful in farming.

Personal v. Farm Expenses:

Some expenses you pay during the tax year may be part personal and part business. These may include expenses for gasoline, oil, fuel, water, rent, electricity, telephone, automobile upkeep, repairs, insurance, interest, and taxes.

 You must allocate these mixed expenses between their business and personal portions.

Examples of Farm Expenses (not an exhaustive list)

- · Feed, hay and straw
- · Veterinary & medicine expenses
- · Repairs & maintenance
- Show entries, pen fees, etc.
- Marketing and sponsorships
- · Membership and registration fees
- Supplies
- Website
- Insurance
- Diesel & gas
- · Breeding fees
- Travel (hotel, airfare, tolls & mileage)
 - 2023 Mileage Rate: 65.5 cents/mile

Business Asset Capitalization

Depreciation

Generally, business (farm) assets cannot be expensed. They must be depreciated over their estimated useful life as they are deemed to have a useful life greater than 1 year.

- Buildings (Typically 20 Year Useful Life)
- Farm Equipment & Vehicles (Typically 5 Year Useful Life)
 - Note: Cannot take both depreciation expense & mileage for the same vehicle)
- Fencing (Typically 7 Year Useful Life)
- Livestock purchased for Breeding and Dairying purposes (Typically 5 Year Useful Life)

Exception to Capitalization (High Level Description):

- Special Bonus Depreciation: Can deduct 80% of the cost of a business asset purchased in 2023.
 This special bonus depreciation is being phased out over the next three years.
- Section 179 Expense; Can deduct 100% of the cost of a business asset in the year purchased, however, the farm cannot be in a net loss position because of the Section 179 Expense.

	EDULE F n 1040)	Profit	or Loss From F	arming		OMB No. 15	15-0074
Departr	ment of the Treasury	Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065. Go to www.irs.gov/ScheduleF for instructions and the latest information.			35.	2022 Attachment Sequence No. 14	
Name	of proprietor				Social sec	curity number	
A Pri	ncipal crop or acti	vity	B Enter code from Part IV	C Accounting method:	D Employe	er ID number (EIN) (see instr.)
E Did	d you "materially p	articipate" in the operation of this busi	ness during 2022? If "No	" see instructions for limit o	n passive lo	sses Yes	□ No
F Did	d you make any pa	yments in 2022 that would require you	to file Form(s) 1099? Se	e instructions		. 🗌 Yes	☐ No
		rill you file required Form(s) 1099? .					☐ No
Par	t I Farm Inc	come - Cash Method. Complete	Parts I and II. (Accru	ual method. Complete P	arts II and	III, and Part	l, line 9.)
1a	Sales of purchas	sed livestock and other resale items (se	ee instructions)	1a			
ь	Cost or other ba	sis of purchased livestock or other iter	ms reported on line 1a	1b			
c	Subtract line 1b	from line 1a				1c	
2	Sales of livestoc	k, produce, grains, and other products	you raised		[2	
3a	Cooperative dist	ributions (Form(s) 1099-PATR) .	3a	3b Taxable amount .	[3b	
4a	Agricultural prog	ram payments (see instructions) .	4a	4b Taxable amount .	[4b	
5a	Commodity Cred	dit Corporation (CCC) loans reported u	nder election		[5a	
ь	CCC loans forfei	ted	5b	5c Taxable amount .	L	5c	
6	Crop insurance	proceeds and federal crop disaster page	yments (see instructions)				
а	Amount received	d in 2022	6a	6b Taxable amount .	L	6b	
c	If election to def	er to 2023 is attached, check here .		6d Amount deferred fro	m 2021	6d	
7	Custom hire (ma	chine work) income			[7	
8	Other income, in	cluding federal and state gasoline or f	uel tax credit or refund (s	ee instructions)	[8	
9		Add amounts in the right column (lir enter the amount from Part III, line 50.				9	

Form	4797		luntary Conve Under Section		perty capture Amount (F(b)(2))	s		20 22
	tment of the Treasury	Go to www.irs		o your tax return.	the latest informati	on.		Attachment Sequence No. 27
Nam	(s) shown on return					Identifying r	_	
10		proceeds from sales or ex ent) that you are including					1a	
t		mount of gain that you are					1b	
•		nount of loss that you are					1c	
Pa	t Sales or E	xchanges of Proper ualty or Theft—Most	ty Used in a T	rade or Busine	ess and Involunta	ary Conver	sion	s From Other
2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or o basis, plu improvements expense of s	s and	(g) Gain or (loss Subtract (f) from t sum of (d) and (d)

10/27/2023

10	Car and truck expenses (see		23	Pension and profit-sharing plans	23	
	instructions). Also attach Form 4562	10	24	Rent or lease (see instructions):		
11	Chemicals	11	a	Vehicles, machinery, equipment	24a	
12	Conservation expenses (see instructions)	12	b	Other (land, animals, etc.)	24b	
13	Custom hire (machine work)	13	25	Repairs and maintenance	25	
14	Depreciation and section 179 expense		26	Seeds and plants	26	
	(see instructions)	14	27	Storage and warehousing	27	
15	Employee benefit programs other than		28	Supplies	28	
	on line 23	15	29	Taxes	29	
16	Feed	16	30	Utilities	30	
17	Fertilizers and lime	17	31	Veterinary, breeding, and medicine .	31	
18	Freight and trucking	18	32	Other expenses (specify):		
19	Gasoline, fuel, and oil	19	a		32a	
20	Insurance (other than health)	20	b		32b	
21	Interest (see instructions):		c		32c	
а	Mortgage (paid to banks, etc.)	21a	d		32d	
b	Other	21b	e		32e	
22	Labor hired (less employment credits)	22	f		32f	
33	Total expenses. Add lines 10 through 3	2f. If li	e 32f is negative, see instru	ctions	33	
34	Net farm profit or (loss). Subtract line 33 from line 9					
	If a profit, stop here and see instructions	for w	ere to report. If a loss, com	plete line 36.		
35	Reserved for future use.					
36 a	Check the box that describes your inves All investment is at risk.		n this activity and see instru Some investment is not at			