

Taxes and Beginning Farmers 2/12/13

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Farmer's Tax Guide

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Farmer's Tax Guide

For use in preparing
2012 Returns

Acknowledgment: The valuable advice and assistance given us each year by the National Farm Income Tax Extension Committee is gratefully acknowledged.

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Introduction

You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant. A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards.

This publication explains how the federal tax laws apply to farming. Use this publication as a guide to figure your taxes and complete your farm tax return. If you need more information on a subject, get the specific IRS tax publication covering that subject. We refer to many of these free publications throughout this publication. See [chapter 16](#) for information on ordering these publications.

The explanations and examples in this publication reflect the Internal Revenue Service's interpretation of tax laws enacted by Congress, Treasury regulations, and court decisions. However, the information given does not cover every situation and is not intended to replace the



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General rules of tax system

- If you get it, it is income
- Income is taxable.
 - Unless specifically excluded from tax.
- “There is no table under which you can pass cash.”

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Rural Tax

RURAL TAX EDUCATION

Home

- Keepseagle Settlement
- Tax Topics
- Sample Tax Returns
- Small Farm Tax Guide
- Related Links
- Contributors

Welcome to the Rural Tax Education website. This website provides farmers and ranchers, other agricultural producers and Extension educators with a source for agriculturally related income and self-employment tax information that is both current and easy to understand.

Tax issues are important for agricultural operations because income and self-employment taxes are a major cost and also because more and more USDA programs are being linked to a producer's federal income tax return.

Webinars

Coming Soon!

Hot Topic

11:46 AM
1/18/2013

Benefits of filing a farm return

- Don't have to make estimated tax payments if
 - you file by 3/1 (4/15 in 2013)
 - Or make 1 est.tax payment by 1/15
- Cash basis farmers can report income from sale of farm products when product is sold.
- Current deduction of fert. and lime
- Farm income averaging
- But, must use longer property recovery periods

Money from business

- **Profit**
 - from operating
- **Gain**
 - from sale of asset
 - taxed at Capital Gain rates
- **Return of capital**
 - not taxable



Farm Income Tax Basics

- Start-up decisions
- Hobby or business
- Farm or not-farm
- Business income & expenses
- Depreciation
- Sales of business property
- Employer-employee issues
- Self-Employment tax

Start-up Decisions

- How to keep financial records
 - System you are comfortable with
 - Can keep up to date
 - Catch all income and deductible expenses
- Register business name w/Sec'y of State
 - <http://corps.sec.state.vt.us/>
 - Choice of entity- legal decision, tax implications
- Open business checking account

Start-up Costs

- May deduct up to \$5,000
 - FTG p. 25

- Amortize all or the rest, over 180 months
 - FTG p.47

Hobby or business?

- ‘Not-for-profit farming’ FTG p.27-28
 - For profit use 1040 Schedule F
 - Not-for-profit
 - Income on Form 1040 line 20
 - Exp on Sch A, limits on expenses
 - Like hobbies
- Farming for profit- 9 factors, FTG p 27

What is a Farm?

“Business of farmingcultivate, operate or manage a farm for profit....not timber...”

“A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. ...fish farm...plant nursery...”

“orchards, plantations, ranches greenhouses.....bees...”

NOT: Processing, Ag Tourism
FTG p 1, 28, 74, 81, 84



Farm Records and Tax Reports

- Categorized list of income, expenses
- List of assets bought, sold, or traded
- 1099 info returns
- Payroll records
- Amounts product sold
- Inventory
- Accounts receivable



Department of the Treasury
Internal Revenue Service

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Starting a Business and Keeping Records



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Introduction

This publication provides basic federal tax information for people who are starting a business. It also provides information on keeping records and illustrates a record-keeping system.

Throughout this publication we refer to other IRS publications and forms where you will find more information. In addition, you may want to contact other government agencies, such as the Small Business Administration (SBA). See page 24 to find out how to get more information.

IRS mission. Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can email us at taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications

Business profits

- $\text{Income} - \text{Expense} = \text{Profit}$
- Profit moves onto Form 1040
 - Taxed at Fed and State levels
- No tax on business profits (at business level)
 - Sole proprietor, partnership, LLC taxed as partnership

Farm Income

Reported on Schedule F (Part I)

Sales of products raised or grown, sales of farm products purchased for resale, income from farm related services, payments from Agricultural Programs ...includes barter (p17)

Income from normal business operations

Money received during the year

Farm Expenses

Reported on Schedule F (Part II)

“Ordinary + necessary costs of operating a farm for profit are deductible business exp.”

Car +truck, c.hire, deprec., feed, fert+lime, freight +t, gas fuel oil, ins, int, labor hired, rent/lease, repairs, seeds +plants, supplies, taxes, utilities, vet br med, other expenses

*Biz Expenses paid during the year by cash, check, credit card. **NOT personal expenses***

Form 1040 Schedule F

Part I Income

Part II Expenses

SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. ▶ Information about Schedule F and its separate instructions is at www.irs.gov/form1040 .		2012 Attachment Sequence No. 14
Name of proprietor:			Social security number (SSN)	
A Principal crop or activity	B Enter code from Part IV	C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	D Employer ID number (EIN), (see instr)	
E Did you "materially participate" in the operation of this business during 2012? If "No," see instructions for limit on passive losses <input type="checkbox"/> Yes <input type="checkbox"/> No				
F Did you make any payments in 2012 that would require you to file Form(s) 1099 (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No				
G If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No				
Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method, Complete Parts II and III, and Part I, line 9.)				
1a Sales of livestock and other resale items (see instructions)	1a			
b Cost or other basis of livestock or other items reported on line 1a	1b			
c Subtract line 1b from line 1a			1c	
2 Sales of livestock, produce, grains, and other products you raised			2	
3a Cooperative distributions (Form(s) 1099-PATR)	3a		3b Taxable amount	3b
4a Agricultural program payments (see instructions)	4a		4b Taxable amount	4b
5a Commodity Credit Corporation (CCC) loans reported under election			5a	
b CCC loans forfeited	5b		5c Taxable amount	5c
6 Crop insurance proceeds and federal crop disaster payments (see instructions)				
a Amount received in 2012	6a		6b Taxable amount	6b
c If election to defer to 2013 is attached, check here <input type="checkbox"/>			6d Amount deferred from 2011	6d
7 Custom hire (machine work) income			7	
8 Other income (see instructions)			8	
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 7d, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)			9	
Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).				
10 Car and truck expenses (see instructions). Also attach Form 4562	10		23 Pension and profit-sharing plans	23
11 Chemicals	11		24 Rent or lease (see instructions):	
12 Conservation expenses (see instructions)	12		a Vehicles, machinery, equipment	24a
13 Custom hire (machine work)	13		b Other (land, animals, etc.)	24b
14 Depreciation and section 179 expense (see instructions)	14		25 Repairs and maintenance	25
15 Employee benefit programs other than on line 23	15		26 Seeds and plants	26
16 Feed	16		27 Storage and warehousing	27
17 Fertilizers and lime	17		28 Supplies	28
18 Freight and trucking	18		29 Taxes	29
19 Gasoline, fuel, and oil	19		30 Utilities	30
20 Insurance (other than health)	20		31 Veterinary, breeding, and medicine	31
21 Interest:			32 Other expenses (specify):	
a Mortgage (paid to banks, etc.)	21a		a	32a
b Other	21b		b	32b
22 Labor hired (less employment credits)	22		c	32c
			d	32d
			e	32e
			f	32f
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions			33	
34 Net farm profit or (loss). Subtract line 33 from line 9			34	
If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.				
35 Did you receive an applicable subsidy in 2012? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No				
36 Check the box that describes your investment in this activity and see instructions for where to report your loss.				
a <input type="checkbox"/> All investment is at risk. b <input type="checkbox"/> Some investment is not at risk.				

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11346H Schedule F (Form 1040) 2012

Depreciation



- Using up/ wearing out
- ‘Spread’ cost over years
- Identify item, date, amount paid

- Very specific rules, # years and method
- # years Actual life not same as D life
- Section 179, ‘expense deduction’
- “Listed Property” business+ personal use
- Farm property recovery periods, table, p. 43

Sale of Business Property

- Usually not a farm product
- Usually on the farm > 1 year
- Could be a gain or a loss
- Not Ordinary Income
 - Likely taxed at lower, Capital Gains rate, no SE tax
- Records important
 - Date of purchase, sale, sales price, is trade involved



Hired Labor

- Wages, taxes, benefits deductible expenses
- Can hire family members
- Taxes, withholding
 - Federal and State, based on W-4
 - Fed, State unemployment tax
 - Fed Soc Security Tax
- Workers Compensation Insurance (\$10,000)
- Employer has responsibilities to employees

Employees

- Need Employer ID number, Form SS-4
 - Legal obligations, [form I-9](#)
- Employee, you control
 - What is done and how to do it
 - How worker is paid and if reimburse expenses
 - Have continuing relationship
- Independent Contractor, [IRS Pub 15-A](#)
 - Same service for others, runs a business
- Can hire payroll service

Owner's Labor

- Owner does NOT get paid a wage/salary
 - Except in a corporation
- Owner is not an employee
- Owner takes a 'draw' not taxable
- Owner 'gets' profit, their return to investment and time
 - Used for living, reinvest, principal payments
- Owner pays tax on profit

Self- Employment Tax

- Paid by owner of business
 - Based on profit shown on Schedule F or C
 - Owner is usually not an employee
- Schedule SE
- Income not subject to SE tax
 - Sale of business property
 - Rent
 - Investment income
- Social Security benefit based on SE Tax paid

Vermont Taxes

- Income Tax, begin w/Fed data
- Homestead Declaration
 - All residents, watch business use of building
- Property Tax
 - Use Value Appraisal of Farm and Forest Land
 - Gross sales > \$2,000 or at least 25 A
 - Maps, application due in Montpelier by 9/1
- Sales Tax, not on food
- VT Dept of Tax, <http://www.state.vt.us/tax/index.shtml>

DIY or Professional?

- Been doing your own?
- Comfort level
- Hire someone first few years
- TurboTax not like talking w/your pro

How to choose

- Ask your friends, interview a couple
- Registered Preparer, EA, CPA

Form 1040

Wages

Business Income

Capital Gain

Farm income

Form 1040 Department of the Treasury—Internal Revenue Service **2012** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning . . . 2012, ending . . . 2012

Your first name and initial Last name
 If a joint return, spouse's first name and initial Last name
 Home address (number and street). If you have a F.O. box, see instructions. Apt. no.
 City, town or post office, state, and ZIP code. If you have a foreign address, also complete space below (see instructions).
 Foreign country name Foreign province/state/country Foreign postal code

Filing Status
 1 Single
 2 Married filing jointly (even if only one had income)
 3 Married filing separately. Enter spouse's SSN above and full name here. ▶
 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
 5 Qualifying widow(or) with dependent child

Exemptions
 6a Yourself. If someone can claim you as a dependent, do not check box 6a.
 b Spouse
 c Dependents:
 (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) If child under age 17 qualifying for child tax credit (see instructions)
 If more than four dependents, see instructions and check here
 d Total number of exemptions claimed

Income
 7 Wages, salaries, tips, etc. Attach Form(s) W-2
 8a Taxable interest. Attach Schedule B if required
 9a Ordinary dividends. Attach Schedule B if required
 10 Taxable refunds, credits, or offsets of state and local income taxes
 11 Alimony received
 12 Business income or (loss). Attach Schedule C or C-EZ
 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here
 14 Other gains or (losses). Attach Form 4797
 15a IRA distributions 15a Taxable amount
 16a Pensions and annuities 16a Taxable amount
 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
 18 Farm income or (loss). Attach Schedule F
 19 Unemployment compensation
 20a Social security benefits 20a Taxable amount
 21 Other income. List type and amount
 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶

Adjusted Gross Income
 23 Educator expenses
 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ
 25 Health savings account deduction. Attach Form 8889
 26 Moving expenses. Attach Form 3903
 27 Deductible part of self-employment tax. Attach Schedule SE
 28 Self-employed SEP, SIMPLE, and qualified plans
 29 Self-employed health insurance deduction
 30 Penalty on early withdrawal of savings
 31a Alimony paid b Recipient's SSN ▶
 32 IRA deduction
 33 Student loan interest deduction
 34 Tuition and fees. Attach Form 8817
 35 Domestic production activities deduction. Attach Form 8809
 36 Add lines 23 through 35
 37 Subtract line 36 from line 22. This is your adjusted gross income ▶

Boxes checked on 6a and 6b:
 No. of children on 6c who:
 • lived with you
 • did not live with you due to divorce or separation (see instructions)
 Dependents on 6c not entered above
 Add numbers on lines above ▶

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113209 Form 1040 (2012)

More Questions?

- www.IRS.gov
- www.ruraltax.org

Next Webinar: March 26, at 7 pm EST

Starting a Goat Dairy

Author, Carol Delaney of the *Starting a Goat Dairy Guide* will present.

<http://www.uvm.edu/newfarmer>, click on “Webinars”

We'd like your feedback:

<https://www.surveymonkey.com/s/VTNFPWebinars>