

# Taxes and Beginning Farmers 2/2/11

Dennis Kauppila, UVM Extension

Lauren Jarvi, EA, CFP

M. Sciabarrasi, UNH Coop Extension

C.Zintel, Farm Credit East, Bedford, NH



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## Pub 225 Farmer's Tax Guide

[www.irs.gov](http://www.irs.gov)

A comprehensive guide to all the subjects related to filing income taxes for farm businesses



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## Farm Income Tax Basics

- . Start-up Decisions
- . Hobby or Business
- . Business Income & Expenses
- . Depreciation
- . Sales of Business Property
- . Employer-employee Issues
- . Self-Employment Tax



M. Sciabarrasi, UNH Cooperative Extension

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## Types of Taxes

### Person, not business

- State, Fed Income
- Property
- Tax on Capital Gain
- Estate

### Businesses only

- Schedule C or F
- Self Employment
- Employer paperwork
- Sales
- Excise




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## Start-up Decisions

- Choice of entity
- How to keep financial records
  - System you are comfortable with
  - Can keep up to date
  - Catch all deductible expenses
- Register business name w/Sec'y of State
- Open business checking account




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## Hobby or business?

- 'Not-for-profit farming' FTG p.26
  - For profit, deduct expenses on Sch F
  - Not-for-profit
    - Income on Form 1040 line 21
    - Exp on Sch A, limits on expenses
    - Like all hobbies
- Farming for profit- 9 factors, FTG p 27



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## Business profits

- Income – Expense = 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

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## Farm Income

Reported on Schedule F (Part I or Part III)

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*

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## 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

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

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## Sale of Business Property

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



FTG p. 48-59

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## 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
- Not subject to SE tax
  - Sale of business property
  - Rent
  - Investment income




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## 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




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## 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
  - Does same service for others
  - In biz for themselves



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## Owner's Labor

- Owner does NOT get paid a wage/salary
- Owner is not an employee
- Owner takes a 'draw' not taxable
- Owner gets profit- return to investment and time
- Owner pays tax on profit



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## Estate Tax

- If you die with lots of assets, your heirs may have to pay an Estate Tax
- Federal > \$5 million
- VT > \$2 million
- BIG political football



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## Vermont Taxes

- 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 Taxation, [www.state.vt.us/tax](http://www.state.vt.us/tax)




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## 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
- Registered Preparer, EA, CPA




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## More Questions?

### Resources

- [www.IRS.gov](http://www.IRS.gov)
- [www.ruraltax.org](http://www.ruraltax.org)
- Dennis Kauppila – [dennis.kauppila@uvm.edu](mailto:dennis.kauppila@uvm.edu)

Thank you!




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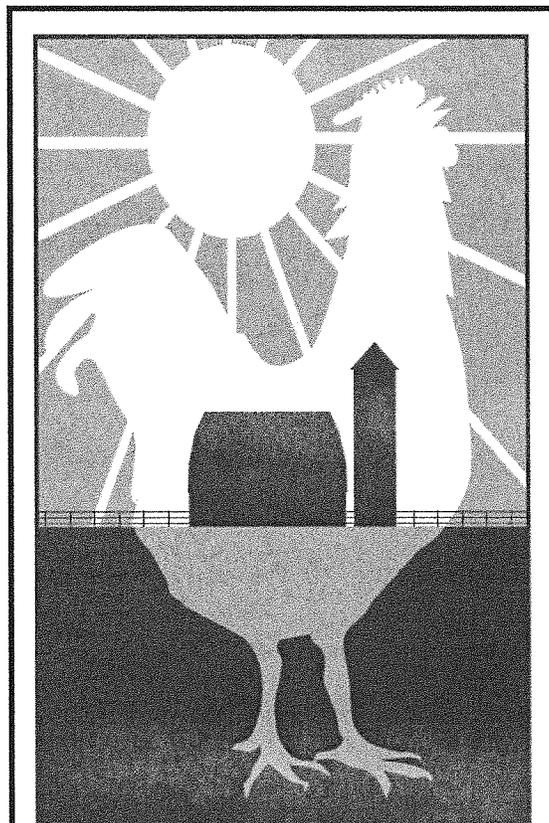
**Publication 225**

Cat. No. 11049L

# Farmer's Tax Guide

For use in preparing  
**2010** Returns

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



**Get forms and other information  
faster and easier by:**

**Internet [IRS.gov](http://IRS.gov)**

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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 law or change its meaning. This publication covers subjects on which a court may have made a decision more favorable to taxpayers than the interpretation of the Service. Until these differing interpretations are resolved by higher court decisions, or in some other way, this publication will

Name, Address, and SSN

See separate instructions.

PRINT CLEARLY

For the year Jan. 1–Dec. 31, 2010, or other tax year beginning , 2010, ending , 20

Your first name and initial

Last name

Your social security number

If a joint return, spouse's first name and initial

Last name

Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions.

Apt. no.

Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, see instructions.

Checking a box below will not change your tax or refund.

Presidential Election Campaign

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

Filing Status

- 1 Single, 2 Married filing jointly, 3 Married filing separately, 4 Head of household, 5 Qualifying widow(er) with dependent child

Exemptions

- 6a Yourself, 6b Spouse, 6c Dependents

Table with 5 columns: (1) First name, Last name, (2) Dependent's social security number, (3) Dependent's relationship to you, (4) Check box for child tax credit

Boxes checked on 6a and 6b, No. of children on 6c who lived with you, Dependents on 6c not entered above, Add numbers on lines above

Income

- 7 Wages, salaries, tips, etc. Attach Form(s) W-2, 8a Taxable interest, 8b Tax-exempt interest, 9a Ordinary dividends, 9b Qualified dividends, 10 Taxable refunds, credits, or offsets of state and local income taxes, 11 Alimony received, 12 Business income or (loss), 13 Capital gain or (loss), 14 Other gains or (losses), 15a IRA distributions, 15b Taxable amount, 16a Pensions and annuities, 16b Taxable amount, 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E, 18 Farm income or (loss), 19 Unemployment compensation, 20a Social security benefits, 20b Taxable amount, 21 Other income, 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income

Table with 2 columns: Line number, Amount

Adjusted Gross Income

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

Table with 2 columns: Line number, Amount

Tax and Credits

38 Amount from line 37 (adjusted gross income) . . . . . 38

39a Check  You were born before January 2, 1946,  Blind. Total boxes  
if:  Spouse was born before January 2, 1946,  Blind. checked ▶ 39a

b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b

40 Itemized deductions (from Schedule A) or your standard deduction (see instructions) . . . . . 40

41 Subtract line 40 from line 38 . . . . . 41

42 Exemptions. Multiply \$3,650 by the number on line 6d. . . . . 42

43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- . . . . . 43

44 Tax (see instructions). Check if any tax is from: a  Form(s) 8814 b  Form 4972 . . . . . 44

45 Alternative minimum tax (see instructions). Attach Form 6251 . . . . . 45

46 Add lines 44 and 45 . . . . . ▶ 46

47 Foreign tax credit. Attach Form 1116 if required . . . . .	47		
48 Credit for child and dependent care expenses. Attach Form 2441 . . . . .	48		
49 Education credits from Form 8863, line 23 . . . . .	49		
50 Retirement savings contributions credit. Attach Form 8880 . . . . .	50		
51 Child tax credit (see instructions) . . . . .	51		
52 Residential energy credits. Attach Form 5695 . . . . .	52		
53 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> . . . . .	53		

54 Add lines 47 through 53. These are your total credits . . . . . 54

55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- . . . . . ▶ 55

Other Taxes

56 Self-employment tax. Attach Schedule SE . . . . . 56

57 Unreported social security and Medicare tax from Form: a  4137 b  8919 . . . . . 57

58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required . . . . . 58

59 a  Form(s) W-2, box 9 b  Schedule H c  Form 5405, line 16 . . . . . 59

60 Add lines 55 through 59. This is your total tax . . . . . ▶ 60

Payments

61 Federal income tax withheld from Forms W-2 and 1099 . . . . . 61

62 2010 estimated tax payments and amount applied from 2009 return . . . . . 62

63 Making work pay credit. Attach Schedule M . . . . . 63

64a Earned income credit (EIC) . . . . . 64a

b Nontaxable combat pay election  64b

65 Additional child tax credit. Attach Form 8812 . . . . . 65

66 American opportunity credit from Form 8863, line 14 . . . . . 66

67 First-time homebuyer credit from Form 5405, line 10 . . . . . 67

68 Amount paid with request for extension to file . . . . . 68

69 Excess social security and tier 1 RRTA tax withheld . . . . . 69

70 Credit for federal tax on fuels. Attach Form 4136 . . . . . 70

71 Credits from Form: a  2439 b  8839 c  8801 d  8885 . . . . . 71

72 Add lines 61, 62, 63, 64a, and 65 through 71. These are your total payments . . . . . ▶ 72

Refund

73 If line 72 is more than line 60, subtract line 60 from line 72. This is the amount you overpaid . . . . . 73

74a Amount of line 73 you want refunded to you. If Form 8888 is attached, check here . . . . . ▶  74a

Direct deposit? See instructions. ▶ b Routing number . . . . . ▶ c Type:  Checking  Savings

d Account number . . . . .

75 Amount of line 73 you want applied to your 2011 estimated tax ▶ 75

Amount You Owe

76 Amount you owe. Subtract line 72 from line 60. For details on how to pay, see instructions ▶ 76

77 Estimated tax penalty (see instructions) . . . . . 77

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)?  Yes. Complete below.  No

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature Date Your occupation Daytime phone number

Spouse's signature. If a joint return, both must sign. Date Spouse's occupation

Paid Preparer Use Only

Print/Type preparer's name Preparer's signature Date Check  if self-employed PTIN

Firm's name ▶ Firm's EIN ▶

Firm's address ▶ Phone no. ▶

If you have a qualifying child, attach Schedule EIC.

**SCHEDULE F  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Farming**

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.  
▶ See Instructions for Schedule F (Form 1040).

OMB No. 1545-0074

**2010**

Attachment  
Sequence No. 14

Name of proprietor \_\_\_\_\_ Social security number (SSN) \_\_\_\_\_

**A** Principal product. Describe in one or two words your principal crop or activity for the current tax year. \_\_\_\_\_ **B** Enter code from Part IV

**C** Accounting method: (1)  Cash (2)  Accrual **D** Employer ID number (EIN), if any

**E** Did you "materially participate" in the operation of this business during 2010? If "No," see instructions for limit on passive losses.  Yes  No

**Part I Farm Income—Cash Method.** Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 11.) Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1			
2	Cost or other basis of livestock and other items reported on line 1	2			
3	Subtract line 2 from line 1				3
4	Sales of livestock, produce, grains, and other products you raised				4
5a	Cooperative distributions (Form(s) 1099-PATR)	5a		5b Taxable amount	5b
6a	Agricultural program payments (see instructions)	6a		6b Taxable amount	6b
7	Commodity Credit Corporation (CCC) loans (see instructions):				
a	CCC loans reported under election			7c Taxable amount	7c
b	CCC loans forfeited	7b			
8	Crop insurance proceeds and federal crop disaster payments (see instructions):				
a	Amount received in 2010	8a		8b Taxable amount	8b
c	If election to defer to 2011 is attached, check here <input type="checkbox"/>			8d Amount deferred from 2009	8d
9	Custom hire (machine work) income				9
10	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)				10
11	<b>Gross income.</b> Add amounts in the right column for lines 3 through 10. If you use the accrual method to figure your income, enter the amount from Part III, line 51				11

**Part II Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses such as taxes, insurance, or repairs on your home.

12	Car and truck expenses (see instructions). Also attach Form 4562	12		25	Pension and profit-sharing plans	25	
13	Chemicals	13		26	Rent or lease (see instructions):		
14	Conservation expenses (see instructions)	14		a	Vehicles, machinery, and equipment	26a	
15	Custom hire (machine work)	15		b	Other (land, animals, etc.)	26b	
16	Depreciation and section 179 expense deduction not claimed elsewhere (see instructions)	16		27	Repairs and maintenance	27	
17	Employee benefit programs other than on line 25	17		28	Seeds and plants	28	
18	Feed	18		29	Storage and warehousing	29	
19	Fertilizers and lime	19		30	Supplies	30	
20	Freight and trucking	20		31	Taxes	31	
21	Gasoline, fuel, and oil	21		32	Utilities	32	
22	Insurance (other than health)	22		33	Veterinary, breeding, and medicine	33	
23	Interest:			34	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	23a		a	-----	34a	
b	Other	23b		b	-----	34b	
24	Labor hired (less employment credits)	24		c	-----	34c	
				d	-----	34d	
				e	-----	34e	
				f	-----	34f	
35	<b>Total expenses.</b> Add lines 12 through 34f. If line 34f is negative, see instructions			35		35	
36	<b>Net farm profit or (loss).</b> Subtract line 35 from line 11. Partnerships, see instructions.			36		36	
	• If a profit, enter the profit on both Form 1040, line 18, and Schedule SE, line 1a; on Form 1040NR, line 19; or on Form 1041, line 6.						
	• If a loss, you must go to line 37.						
37	If you have a loss, you must check the box that describes your investment in this activity and whether you received any applicable subsidy (see instructions).			37a	<input type="checkbox"/> All investment is at risk and you did not receive a subsidy.		
	• If you checked 37a, enter the loss on both Form 1040, line 18, and Schedule SE, line 1a; on Form 1040NR, line 19; or on Form 1041, line 6.			37b	<input type="checkbox"/> Some investment is not at risk or you received a subsidy.		
	• If you checked 37b, your loss may be limited. See instructions.						

**Part III Farm Income—Accrual Method** (see instructions).

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797 and do not include this livestock on line 46 below.

<b>38</b>	Sales of livestock, produce, grains, and other products . . . . .			<b>38</b>		
<b>39a</b>	Cooperative distributions (Form(s) 1099-PATR) . . . . .	<b>39a</b>		<b>39b</b>	Taxable amount	<b>39b</b>
<b>40a</b>	Agricultural program payments . . . . .	<b>40a</b>		<b>40b</b>	Taxable amount	<b>40b</b>
<b>41</b>	Commodity Credit Corporation (CCC) loans:					
<b>a</b>	CCC loans reported under election . . . . .			<b>41a</b>		
<b>b</b>	CCC loans forfeited . . . . .	<b>41b</b>		<b>41c</b>	Taxable amount	<b>41c</b>
<b>42</b>	Crop insurance proceeds . . . . .			<b>42</b>		
<b>43</b>	Custom hire (machine work) income . . . . .			<b>43</b>		
<b>44</b>	Other income, including federal and state gasoline or fuel tax credit or refund . . . . .			<b>44</b>		
<b>45</b>	Add amounts in the right column for lines 38 through 44 . . . . .			<b>45</b>		
<b>46</b>	Inventory of livestock, produce, grains, and other products at beginning of the year . . . . .	<b>46</b>				
<b>47</b>	Cost of livestock, produce, grains, and other products purchased during the year . . . . .	<b>47</b>				
<b>48</b>	Add lines 46 and 47 . . . . .	<b>48</b>				
<b>49</b>	Inventory of livestock, produce, grains, and other products at end of year . . . . .	<b>49</b>				
<b>50</b>	Cost of livestock, produce, grains, and other products sold. Subtract line 49 from line 48* . . . . .			<b>50</b>		
<b>51</b>	<b>Gross income.</b> Subtract line 50 from line 45. Enter the result here and on Part I, line 11 . . . . . ▶			<b>51</b>		

\*If you use the unit-livestock-price method or the farm-price method of valuing inventory and the amount on line 49 is larger than the amount on line 48, subtract line 48 from line 49. Enter the result on line 50. Add lines 45 and 50. Enter the total on line 51 and on Part I, line 11.

**Part IV Principal Agricultural Activity Codes**

 **CAUTION** File Schedule C (Form 1040) or Schedule C-EZ (Form 1040) instead of Schedule F if (a) your principal source of income is from providing agricultural services such as soil preparation, veterinary, farm labor, horticultural, or management for a fee or on a contract basis, or (b) you are engaged in the business of breeding, raising, and caring for dogs, cats, or other pet animals.

These codes for the Principal Agricultural Activity classify farms by their primary activity to facilitate the administration of the Internal Revenue Code. These six-digit codes are based on the North American Industry Classification System (NAICS).

Select the code that best identifies your primary farming activity and enter the six digit number on page 1, line B.

**Crop Production**

- 111100 Oilseed and grain farming
- 111210 Vegetable and melon farming

- 111300 Fruit and tree nut farming
- 111400 Greenhouse, nursery, and floriculture production
- 111900 Other crop farming

**Animal Production**

- 112111 Beef cattle ranching and farming
- 112112 Cattle feedlots
- 112120 Dairy cattle and milk production
- 112210 Hog and pig farming
- 112300 Poultry and egg production
- 112400 Sheep and goat farming
- 112510 Aquaculture
- 112900 Other animal production

**Forestry and Logging**

- 113000 Forestry and logging (including forest nurseries and timber tracts)

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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.

## Hot Topic

The Tax Relief Act of 2010 changes depreciation and Section 179 expensing options for recent years and options available for 2011 and 2012.

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