

2025 National Income Tax Workbook

Chapter 8: Agricultural and Natural Resource Tax Issues

Learning Objectives

P. 269

Recognize and depreciate different types of agricultural buildings

Report income from 4-H/FFA activities

Value unharvested crops

Determine the character of income from inherited assets

Apply special use valuation to reduce estate tax

Understand post-death tax attributes for a deceased farmer

Issue 1 – Ag Buildings and Structures

P. 271

Examples of agricultural buildings vs. structures

Depreciation methods: MACRS, ADS

Recovery periods and structural classifications

Special considerations for improvements

What Is a “Farm Building”?

P. 271

IRS does not give a single definition

Generally: any structure used in farming operations

Examples: barns, silos, machine sheds, poultry houses, greenhouses

Use determines depreciation classification

Importance of Identification

Building use affects:

Depreciation method (MACRS vs. ADS)

Recovery period (typically 20–25 years)

Misclassification may trigger IRS scrutiny

P. 271

Categories of Farm Buildings

PP. 271-274

1. General Farm Buildings

- Multipurpose barns, sheds, equipment storage
- Not livestock- or horticulture-specific

2. Single-Purpose Agricultural Structures

- Designed for raising specific livestock

e.g., hog barns, poultry houses, milking parlors

3. Single-Purpose Horticultural Structures

- Greenhouses for plants or mushrooms
- Must serve a **commercial production purpose**

4. Grain Bins

- Used for **bulk storage** of commodities
- Typically qualify for farm-related depreciation

Flat Grain Storage Structures

PP. 271-272

Bundy v. United States

Facts: steel structure with walls, windows, doors, and a concrete floor

Held to be a “building” under tax law

Key legal reasoning:

- **Reasonable adaptability** to other uses
- Analyzed case-by-case:
 - Degree of specialization
 - Space for alternate uses
 - Cost and feasibility of conversion

Implications of Bundy

PP. 271-272

If a structure can be reasonably repurposed → classified as a **building**

Building classification affects:

- Recovery period
- Depreciation method
- Eligibility for special provisions (e.g., § 179, bonus depreciation)

Hoop Structures (High Tunnels)

P. 273

Growing popularity: cost-effective, versatile

Typically:

- Arched steel frame + tensioned fabric cover
- Used for housing livestock, storage, plant production

Generally, **not** single-purpose structures

- Design allows for multiple uses
- Classified as general-purpose farm buildings

Single-Purpose Agricultural Structures

P. 272

Under I.R.C. § 168(i)(13)(B)(i):

Must be **specifically designed, constructed, and used**

For housing, raising, and feeding a **particular type** of livestock

Must include:

- **Feeding and watering systems**
- **Environmental controls**
- **Manure management systems**

Single-Purpose Horticultural Structures

P. 273

Under I.R.C. § 168(i)(13)(B)(ii):

Greenhouse or mushroom structure

Specifically designed, constructed, and used for **commercial production**

Typically includes:

- Irrigation systems
- Environmental controls (e.g., heating, humidity)

Farm Building Cost Recovery

P. 274

Depreciation and Recovery Periods

MACRS is default:

- 20-year recovery for general farm buildings

ADS used in some cases (e.g., foreign use, tax elections):

- 25-year recovery period

Refer to **Asset Class 01.3** per Rev. Proc. 87-56

Issue 2: CCC Marketing Assistance Loans

P. 277

What Are CCC Loans?

- Government-backed **nonrecourse loans** for commodity producers
- Help producers delay sales until better market conditions
- **Renamed** under 2014 Farm Bill to:
 - **Marketing Assistance Loans (MALs)**
 - **Loan Deficiency Payments (LDPs)**
- Common term: still "CCC Loans"

CCC Marketing Assistance Loans

P. 277

Elect to **include CCC loan** as income under **I.R.C. § 77**

If elected:

- Income inclusion occurs in loan year

Election is binding unless IRS consents to revocation

Section 77 Election – What It Does

PP. 277-278

Allows producers to **include CCC loan proceeds in income** when received

Once made, election is **binding** unless revoked with IRS consent

Taxpayer must report loan proceeds on **Schedule F, line 5a**

Without election → loan is **not income**

Issue 3: 4-H Club and FFA Projects

P. 284

Youth Participation in 4-H and FFA

Programs encourage practical ag experience

Livestock, crops, or similar projects

Educational goals:

Husbandry, economics, time management

Events: County fairs, breeder shows, state/national competitions

Types of Compensation Received

P. 284

Prizes or ribbons

Cash payments

Sale of animals (often at end of the project)

- Buyers may purchase out of goodwill or charitable interest
- Animal may be resold, donated, consumed, or processed

Reporting Income – Educational Purpose

P. 284

For educational, nonprofit intent:

Report net income on **Schedule 1, Line 8z**: “Other income”

Attach **statement of gross income & expenses**

No SE tax if:

- Project is educational
- Conducted under 4-H or FFA restrictions
- Not a trade or business

Reporting Income – Business Intent

P. 285

If project is regular and for profit:

Report on **Schedule 1, Line 6**

- If not part of an established farming business

Report on **Schedule F** if:

- Member raises other livestock/crops beyond project
- Income is part of a farming operation

Subject to SE tax under I.R.C. § 1402(a)

Kiddie Tax Overview – I.R.C. § 1(g)

PP. 285-286

Applies parent's **marginal rate** to child's **unearned income** if the child:

- Is under age 18 at year-end
- Is 18 and doesn't earn $>1/2$ of own support
- Is 19–23, full-time student, and doesn't earn $>1/2$ of own support

2025 Kiddie Tax Thresholds

P. 286

First \$1,350 taxed at child's 10% rate

Remaining unearned income taxed at **parents' marginal rate**

Threshold indexed annually [I.R.C. § 1(g)(4)(A)(ii)(I)]

Form 1099-MISC Reporting Requirements

P. 291

Cash awards \geq \$600 from fair associations or sponsors

\$2,000 threshold for 1099-MISC and 1099-NEC beginning in 2026

- Must be reported on **Form 1099-MISC**
- Reference: [Treas. Reg. § 1.6041-1(d)(3)]

Exception:

- Spot or forward sales of ag commodities
- Spot sale = contemporaneous delivery
- Buyers and sponsors of ag auctions do **not** need to issue 1099s for spot/forward sales
- [Treas. Reg. § 1.6045-1(c)(7)(i), (iv)(B)]

Fair Auction Buyers – Deductible Losses

P. 292

Why overpay? Goodwill, PR, support local youth

Animal resold quickly at a loss → often before it leaves fair

If tied to business purpose → **deductible advertising expense**

Example 8.19 – Advertising Exp Deduction

P. 292

Local Feed Mill Scenario:

Purchased livestock: \$50,000

Immediately resold for \$40,000

Result: \$10,000 loss

Deductible as business advertising

- Treated as **ordinary and necessary expense**

Alternative Buyer Deduct. – Charitable Use

P. 292

If buyer **donates the meat** to a charitable org:

- Can deduct **lesser of:**
 - Cost basis **or**
 - FMV of the donated meat
- Must follow charitable substantiation rules

Example 8.20 – Charitable Deduction

P. 292

Local Feed Mill:

Paid \$50,000 to purchase livestock

Paid \$18,000 to Billy's Butcher Shop

Donated meat to a food pantry

Total basis = \$68,000

Charitable Deduction Rule:

Deduct **lesser of:**

- \$68,000 basis
- FMV of donated meat

Excess (if any) = deductible **advertising expense**

- See Example 8.19

Issue 4: Valuation of Unharvested Crops

P. 298

Willing buyer/willing seller

Based on:

- Input cost to date
- Estimated yield & market price
- Risk discounts (weather, pests, etc.)

Two Valuation Approaches

PP. 298-299

Qualified Appraisal

- Use Rural/Farm Appraiser

Harvest-Price Discounted Estimate FMV at Harvest

- Risk Factor Adjustments

Both methods require supportable assumptions and documentation

Example 8.26 – Appraisal of growing crop

PP. 298-299

Crop	Cost	Growth % Adj.	FMV per Acre
Wheat	\$400	+60%	\$640 (\$400 + \$240)
Soybeans	\$400	+15%	\$460 (\$400 + \$60)
Corn	\$600	+15%	\$690 (\$600 + \$90)

Appraised using **local experience and crop maturity**

Example 8.27 – Harvested Crops Valuation

P. 299

Cole's estate harvested wheat, soybeans, and corn

Wheat harvested within 16 days after death

FMV estimated using **local elevator price × yield**

Wheat:

- Severe weather: 12%
- Combine fire: 2%
- Total risk: **14%**
- Harvest value: \$100,000 → FMV: **\$86,000**

Soybeans:

- Discount rate: **56%** (longer exposure)

Corn:

- Discount rate: **48%**

Timber Valuation Process

P. 299

Sales Comparison Approach

- Looks at comparable sales to determine value

Cost Approach

- Values trees by replacement value

Income Capitalization Approach

- Appraiser looks at discounted net present value of future income

Example 8.28 – Calculation of Timber FMV

P. 300

Wanda's estate includes **hundreds of acres of pine**

Executor Cherry hires consulting forester

Timber cruise done for each tract

Products appraised:

- Nonmerchantable, pulp wood, chip-n-saw, saw timber, poles

Forester uses **sales comparison approach**:

- Volume × market price = FMV per product class

Issue 5: Sale of Inherited Farm Assets

P. 293

Inherited Assets – Tax Timing

No gain or loss recognized at inheritance

- Property receives **step-up** (or down) in basis

Tax consequence arises only on **subsequent sale**

Character of gain/loss depends on type of asset:

- Capital asset? → capital gain/loss
- Inventory or § 167 property? → ordinary income/loss

Capital Assets – Definition (I.R.C. § 1221)

P. 293

Capital assets = all property held **except**:

Inventory or property for sale to customers

Depreciable or real property used in trade/business

Receivables from sales or services

Supplies consumed in ordinary business

Many inherited farm assets fall outside this definition

Inherited Farm Assets – Key Questions

P. 293

Was asset capital or business in decedent's hands?

What is recipient's use and purpose?

Is asset subject to **depreciation** under § 167?

Is inherited property now **rented or sold**?

Answers determine:

- **Capital vs. ordinary** tax character
- Eligibility for **capital loss deduction**
- Holding period: **long-term by default** for inherited property

Holding Period – I.R.C. § 1223(9)

P. 293

Inherited property gets **automatic long-term holding period**

Applies even if sold within **1 year** of decedent's death

Condition: Basis determined under **I.R.C. § 1014**

Implication: All inherited property treated as long-term for gain/loss classification

Example 8.21 – Short-Term Sale

P. 293

Facts:

Bryant and Shonda: joint tenants of farmland

Bryant dies → Shonda inherits 50%

FMV of property at death: \$700,000

Basis: \$625,000

Sale: 6 months later for \$750,000

\$125,000 long-term capital gain, despite < 1 year holding

Cross Reference: Basis of Inherited Property

P. 294

Basis = **Fair market value at date of death**

If jointly held, surviving co-owner receives **step-up** on decedent's share

Basis drives gain/loss calculation and determines capital character

Deductible Capital Loss – I.R.C. § 165

P. 294

Allowed only for:

- Trade or business losses
- Transactions entered into for profit
- Federally declared disaster losses (with limitations)

No deduction for personal use property losses

Marx v. Commissioner (1945)

P. 294

Inherited yacht held in storage

Never used for personal enjoyment

Bona fide effort to sell → **deemed for profit**

Court allowed **capital loss deduction**

Example 8.22 – Inherited Trailer Personal Use

P. 294

Facts:

- Lana inherits trailer used in farm business
- Uses trailer for snowmobiles/ATVs post-inheritance
- Sells at a loss 2 years later
- Use = **personal** → loss is **nondeductible**

Example 8.23 – no personal use

P. 294

Lana's Inherited Trailer – No Personal Use

- Inherited trailer and equipment from her father
- Never used them personally
- Stored items and listed trailer on Craigslist
- Later sold trailer at a **loss**
- Result: **Deductible capital loss** due to profit motive and no personal use

Example 8.24 – Personal Use assets

P. 295

Inherited Greenhouses

- Willow (grandmother) used greenhouses for hobby gardening
- Granddaughter Nikki inherited them in 2025
- Nikki listed all greenhouses for sale
- Sold one at a **loss**
- Result: Nikki gets a **deductible capital loss**
 - Intent and effort converted personal-use legacy into a profit-based transaction

Practitioner Note – Hobby Farm or Ranch

P. 295

Worcester v. Commissioner (1962):

- Decedent operated a **hobby farm**
- Grandson transformed farm into **commercial sheep operation**
- Result: Losses on farm were **deductible**

Key takeaway: Post-inheritance **adaptation** can convert hobby assets into business assets

Inherited Rental Property – Profit Intent

P. 295

Courts differ in standards:

- **Any effort to rent = profit motive**
- **Facts and circumstances** test: length, activity, intent

Classification determines whether loss is **ordinary** or **capital**

Crawford v. Commissioner (1951)

P. 295

Taxpayer lived in inherited residence

Moved out, attempted to rent, later sold at a loss

Held: Sale was a **transaction for profit**

Loss was **ordinary and deductible**

Considerations for Rental Property Losses

P. 295

Factor	Supports Ordinary Loss	Leans Toward Capital Loss
Active rental efforts	Yes	No
Short ownership period	Neutral	Possibly capital
Property used personally	No	Possibly nondeductible
Ongoing lease/no action	No	Capital (per <i>Balsamo</i>)

Inherited Inventory – Tax Character

P. 295

Gain/loss may be:

- **Ordinary** → if held primarily for sale (like decedent)
- **Capital** → if held to liquidate as part of estate

Also consider **income in respect of a decedent (IRD)** status

Estate of Ferber v. Commissioner (1954)

PP. 295-296

Decedent ran fur retail business

Estate sold remaining goods during wind-down

No new inventory ordered

Held: Assets were **capital assets** for estate

- Gains = **capital**, not ordinary

Maley v. Commissioner (1951)

P. 296

Taxpayer inherited vineyard and wine vintage pool interests

Father was a farmer, member of wine coop

Coop processed and marketed wine products

Distinction between **inventory** held by decedent and use by heirs

- May alter tax classification upon inheritance

Practitioner Note – Wine Pools

P. 296

Similar facts in *Commissioner v. Linde (1954)*

Decedent would have reported **ordinary income**

Heirs inherited **contract right** to receive payment

IRS argued: payment \neq gain from sale \rightarrow **ordinary income**

Court agreed: Payment = **Income in Respect of a Decedent (IRD)**

Example 8.25 – Grain Is Capital Gain

P. 296

Delores: cash method farmer

Held grain as inventory (for feeding livestock)

She dies before sale

Estate sells grain not in active farming business

Result:

- Grain treated as **capital asset** in estate's hands
- Gain = **long-term capital gain**

When Inventory Becomes IRD

P. 296-297

If sale was agreed or closed **before death**

- But **payment received postmortem** Income = **IRD**

Taxed as **ordinary income** to heirs or estate

Basis not stepped up

Applies broadly: contracts, installment sales, ag commodity delivery contracts

Estate of Peterson v. Commissioner

PP. 296-297

Estate's actions (feeding and finishing calves) were **substantive**, not ministerial

Significant performance **still required** post-death

Result: Proceeds **not IRD**

Estate taxed on gain/loss under **capital or inventory** rules instead

The IRD Four-Factor Test

P. 297

Court used 4 criteria to determine whether sale proceeds were IRD:

- Was there a **legally significant arrangement** before death?
- Did decedent complete **non-ministerial acts** required for sale?
- Were there **economically material contingencies** at death?
- Would the decedent have received payment **if they had lived**?

Revenue Ruling 58-436

P. 297

Decedent: cash-method farmer with livestock & crops

At death:

- Some crops harvested
- Some crops/livestock still growing

Post-death: executor elected **alternate valuation date**

Property appreciated before estate sale

IRS Position in Rev. Rul. 58-436

P. 297

Citing the Estate of Tom L. Burnett v. Commissioner

Mere **ownership** ≠ IRD

No debt owed at death → no right to income

Livestock/crops = property, not a right to future payment

Gain from appreciation is **capital**, not IRD

Contrast: if sale completed pre-death → proceeds = **IRD**

Issue 6: Special Use Valuation

P. 301

Provision that allows election of a discounted value of the decedent's farm.

What Counts as “Farming Purposes”?

Crop or livestock production:

- Cultivation, harvesting, shearing, feeding, caring for animals

Post-harvest handling on farm:

- Drying, packing, storing (if >50% of product is produced by owner/operator)

Tree farming activities:

- Planting, cutting, caring for trees; preparing (not milling) for market

Eligibility Requirements

P. 301

Decedent must be a U.S. citizen or resident

Property must be qualified real property

Election made by executor on Form 706

Written agreement from all interested parties – Refer to Schedule T (previously Schedule A-1), Part 3

Making the Election

Check “Yes” on Line 2, Part 3 of Form 706

Complete and attach Schedule A-1 with required documentation

Election may be made on a late-filed initial return

Label property appropriately in Form 706 schedules

P. 301

FMV Reduction Limitation – Example 8.29

P. 302

2025 cap: **\$1,420,000**

Importance of tracking this limit for valuation planning

Example 8.29 Applying Special Use Valuation

Mary Johnson

- Farming history and estate value
- Special Use Valuation reduces tax burden
- Without election: \$2.21M estate tax
- With election: \$790K estate tax
- Visual comparison: taxable estate vs. valuation reduction

Additional Estate Tax Triggers

P. 303

Disposition of property outside qualified family

Ceasing qualified use before death of heir

Tax due 6 months after triggering event

IRS Lien on Special Use Property

- Lien established at time of election
- Lien remains until: – Tax is paid – Statute of limitations lapses – IRS certifies no future liability
- Bond/security may release lien

Recapture Events

Disposition or cessation within 10-year window

PP. 303-304

Material participation requirement: – ≥ 3 years of involvement in any 8-year span

Triggering activities: non-use, sale, lease

Practitioner Note – Timber

- Recapture tax triggered by timber harvest or sale
- Leasing exception: cash lease to a family member – Must begin qualified use within 2 years

Adjustments to Basis

- Election under IRC § 1016
- Basis increased by FMV – Special Use Value
- Interest due on underpayment from estate tax date

Practitioner Note

P. 304

Involuntary Conversion & Like-Kind Exchange

Recapture tax not triggered if:

- **Involuntary conversion** (e.g., condemnation, casualty) → replacement property used
- **Like-kind exchange** under I.R.C. § 1031 for qualified use property
- Replacement must be:
 - Real property
 - Used in **same qualified use**

Basis Adjustment

P. 304

I.R.C. § 1016 permits **step-up in basis** if:

- Recapture tax is triggered under § 2032A
- Heir elects to increase basis by an amount equal to the excess of the FMV of the property on the date of the decedent's death over the special use value.

If election is made:

- **Interest is due** on underpaid estate tax
- Calculated from **original estate tax due date**

Issue 7: Death of a Farmer – Unused Carryovers

P. 305

Net Operating Loss (NOL) Basics

- Definition under IRC § 172(a) and § 172(c)
- NOL = deductions > gross income (with modifications)
- NOLs can carry forward indefinitely post-2017
- NOL deduction limit and excess business loss limit for 2025: – \$313,000 (\$626,000 MFJ)

Farming NOLs

- Farming NOLs can be carried **back 2 years**
- Option to waive carryback and use carryforward
- Definition of farming business under IRC § 263A(e)(4)
- Excludes contract harvesting and resale businesses

Decedent's NOL

PP. 305-306

Decedent's Final Return – NOLs

- NOL may be deducted only on decedent's final return
- Cannot be used by estate or after final return
- Farming NOL may apply to **two prior years**
- Surviving spouse may use unused NOLs on final joint return – Example: selling appreciated assets to use NOLs

Post-Death NOL Rules

- Surviving spouse cannot use decedent's unused NOL after final return
- Rev. Rul. 65-140 limitations on carrybacks after marital status change
- NOL carryback applies only to surviving spouse's portion of prior income

Capital Loss Carryovers

P. 306

Capital loss limit: \$3,000 (\$1,500 if MFS)

Losses can be carried forward if they exceed capital gains

No carryover allowed after death

Only deductible on decedent's final return

Estate and surviving spouse cannot use excess carryovers

Charitable Contribution Carryovers

P. 306

Deduction limits:

- Charitable deductions limited to 50% of AGI
- Cash Contributions to qualified organizations: 60% of AGI
- Property: 30% or 20% of AGI depending on type

Carryover rules: – Standard: 5 years – Conservation contributions: 15 years

Decedent's carryovers deductible only on final return

Not transferable to estate or surviving spouse

Example 8.30 Excess Contribution

P. 306

\$20,000 excess charitable deduction in 2024

Danny died in 2025

Tanya used \$10,000 in joint return

Remaining \$6,000 (Danny's portion) **not deductible** in later years

Practitioner Note

P. 307

Other Deductions and Credits

IRC § 691(b)(1): – Expenses, interest, taxes, and foreign tax credits may be used by estate – Must relate to liabilities estate discharges or inherited property

Medical Expense Deduction

Medical expenses paid by estate may be claimed on final return

Must be paid within **1 year** of death

Election by survivor or personal representative required

Questions

