



Schedule F: Profit or Loss From Farming

A Line-by-Line Discussion

Rural Tax Education

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- Informational Material on Ag, Timber, and Rural Tax topics include but not limited to:
 - Disaster/Weather Losses
 - Treatment of Government Payments
 - Farm Losses and Hobby Rules
 - Self-Employment Taxes
 - Estate and Gift Taxes
 - Like Kind Exchanges
 - Depreciation
 - Etc...



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Topics Addressed

- Farmer, Farm, Farming
- Schedule F Farmer info
- Schedule F Income
- Schedule F Expenses

Tax definition of a farm

- A business with a profit motive
- I.R.C. § 2032A(e)(4) *“A farm includes livestock, dairy, poultry, fish, fur, fruit and truck farms. It also includes plantations, ranches, ranges, and orchards and groves.”*
 - Crop farms
 - Cattle ranches
 - Truck farms
 - Orchards/vineyards



Who is a Farmer or Rancher?

- IRS Publication 225, *The Farmer's Tax Guide*, defines a farmer or rancher as an individual "...in the business of farming if you cultivate, operate, or manage a farm for profit, either as an owner or tenant."
- This definition also applies to:
 - Partnerships (LLCs)
 - Corporations
 - Estates and Trusts



Not Farming ...

- Providing agricultural operations as a service
 - Custom harvesting
 - Custom farming
- Trucking of farm commodities to markets
- Processing of farm commodities into value-added wholesale or retail products:
 - Cheese
 - Cuts of meat
 - Wine



Examples of Farming Activity

- John operates a traditional row crop farm having gross receipts of \$950,000. John is a farmer.
- Maria has specially constructed greenhouses in which she raises mushrooms. Maria earns \$30,000 in gross farm receipts yielding \$10,000 in net profit. Maria is a farmer. Implicit is Maria's profit motive, thus, scale (as compared to John) is not a factor.
- Roberto raises Nile perch (tilapia) in ponds. The fish are harvested and go to market as live fish shipped in special tanker trucks. Roberto files Schedule F to report his income and expenses.
- Jin rents all the land upon which he raises his crops. Jin is engaged in the business of farming even though he does not own any land. Jin uses Schedule F to report his income and expenses.

Part I: Farm Income (Cash Method)

IRS Reporting of Farm Businesses

- Sole proprietor farming businesses use IRS Schedule F, Profit or Loss from Farming to report income and expenses of the farming business.
- Schedule F can be used by partnerships, Corporations, Trusts and Estates to report farming activities.

SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		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.		2022 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 2022? If "No," see instructions for limit on passive losses <input type="checkbox"/> Yes <input type="checkbox"/> No				
F Did you make any payments in 2022 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 Form(s) 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 purchased livestock and other resale items (see instructions)	1a		
b	Cost or other basis of purchased 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 2022	6a	6b Taxable amount	6b
c	If election to defer to 2023 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2021	6d
7	Custom hire (machine work) income			7
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			8
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, 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 (see instructions):		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 line 36.				
35 Reserved for future use.				
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.				

**SCHEDULE F
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Farming

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Go to www.irs.gov/ScheduleF for instructions and the latest information.

OMB No. 1545-0074

2022

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:		D Employer ID number (EIN) (see instr.)				
					<input type="checkbox"/> Cash <input type="checkbox"/> Accrual						
E Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on passive losses					<input type="checkbox"/> Yes <input type="checkbox"/> No						
F Did you make any payments in 2022 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 Form(s) 1099?					<input type="checkbox"/> Yes <input type="checkbox"/> No						

Schedule F Information Block

- Name of business owner/proprietor
- Social Security Number
- A: Principal Crop or activity
- B: Farm Activity Code
- C: Accounting Method
- D: Employer ID Number
- E: Material participation question
- F: Payments requiring an IRS Form 1099
- E: Will the Forms 1099 be issued question

Lines 1a, b, and c

- Lines 1a, b, and c are used to report the sale and cost of items which are purchased by a farmer and subsequently resold.
- Example: Rob purchases 100 feeder pigs for \$5,000 and then sells them when at market weight receiving \$22,550, thus, netting \$17,550 gross margin.

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	22,550
b	Cost or other basis of livestock or other items reported on line 1a	1b	5,000
c	Subtract line 1b from line 1a	1c	17,550

- Jill sells corn and soybean seed to reduce her personal seed inputs costs.

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	35,000
b	Cost or other basis of livestock or other items reported on line 1a	1b	28,000
c	Subtract line 1b from line 1a	1c	7,000

Line 2: Livestock, produce, grains raised

- Amal raises figs and dates on her farm in California. She sells her annual production under a contract to a cooperative. This year her total production generated \$500,000. Amal reports this income as part of her total value on Line 2.
- Jerome is diversified farmer in Kansas, he grows wheat and grain sorghum (milo) as well as having a 300 head commercial cow herd and sells light feeder cattle in the late autumn. This year Jerome sold \$150,000 of wheat, \$250,000 of grain sorghum, and \$200,000 of market calves. Jerome uses Line 2 to report his total raised farm production sales of \$600,000.
- Renaldo harvests and bales pine straw for landscaping companies. Renaldo rents several hundred acres of Long Leaf Pine forests from local landowners. Pine straw is an annual crop generated by the trees. This year Renaldo sold \$600,000 of pine straw bales. He reports his income on Line 2 of Schedule F.

2	Sales of livestock, produce, grains, and other products you raised	2	
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Consider two cautions regarding Line 2

- An all-too-common error on farm income tax returns is that **raised** breeding, dairy, or draft animals are reported on Schedule F using Line 2.
 - Jose operates a dairy as a single-member LLC reporting his income and expenses on Schedule F. His milking herd averages about 1,000 cows. He has on average 600 baby to springing heifers and replaces about 200 – 250 milk cows per year from his replacement herd. Thus, at a long-term average of \$750 per cull dairy cow, Jose generates \$150,000 to \$187,500 in cull cow sales. These animals, though raised on Jose's farm, **are not reported** on Schedule F, but rather on Part I of IRS Form 4797.

Caution number 2

- Although a farmer “raises” an agricultural product, reporting of the income may not be found on Line 2. In the case of raising pigs or poultry as part of an integrated production system, the income received may best be reported on Schedule F, Line 8, Other Income.
 - Al operates a farrow-to-wean operation for a national integrator. Al owns the farrowing barns, provides labor, utilities and repairs to his buildings and equipment. The integrator owns the sows and piglets which the sows bear and birth. The integrator also provides feed and veterinary supplies. Al is paid on a “piglet delivered” basis with possibilities for premiums based on feed conversion and number of live pigs per sow delivered above the contracted target. Al is paid every two weeks based on piglets. Al receives a 1099-NEC for \$425,000. Since he does not own the sows or the piglets, Line 8 made accounting easy for the DPAD when it was available prior to 2018.

ZIP or foreign postal code, and telephone no.		\$	Form 1099-PATR (Rev. January 2023) For calendar year 20	Taxable Distributions Received From Cooperatives
		2 Nonpatronage distributions		
		\$		
		3 Per-unit retain allocations		
		\$		
PAYER'S TIN	RECIPIENT'S TIN	4 Federal income tax withheld	5 Redeemed nonqualified notices	Copy B For Recipient This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that
		\$	\$	
RECIPIENT'S name		6 Section 199A(g) deduction	7 Qualified payments (Section 199A(b)(7))	
		\$	\$	
Street address (including apt. no.)		8 Section 199A(a) qual. items	9 Section 199A(a) SSTB items	
		\$	\$	
City or town, state or province, country, and ZIP or foreign postal code		10 Investment credit	11 Work opportunity credit	
		\$	\$	

Lines 3a and b: Patronage Dividends

- Farmers and ranchers may be members of a cooperative. If the coop is profitable, it may issue a dividend to the members. These dividends are part of farming income.
- Boxes 1, 2, 3, and 5 are of importance and used to correctly calculate the income of the farming or ranching business. These values represent the “pass-through” income from the cooperative to unique members based on the amount of business the member conducted with the cooperative.

Patronage Dividend Examples

- Ralph operates a dairy. He sells his milk to a cooperative. This year the cooperative reports Ralph's patronage dividend of \$1,000; \$300 of which is in cash and \$700 is in retained earnings in Box 1. Additionally, the cooperative reports per-unit retain allocations of \$5,000. The total taxable amount is \$6,000, however, Ralph received only \$300 in cash. He reports this \$6,000 on his Schedule F using lines 3a and 3b.

The image shows a portion of a tax form with two lines, 3a and 3b. Line 3a is labeled 'Cooperative distributions (Form(s) 1099-PATR)' and line 3b is labeled 'Taxable amount'. Both lines have a blue '6,000' written in the right-hand column. The form is partially obscured by a watermark.

3a Cooperative distributions (Form(s) 1099-PATR)	6,000	3b Taxable amount	6,000
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- Ralph, from the example above, also received \$5,500 from the cooperative which was a payment for previously held capital retained earnings which had been credited to Ralph's account. Because the \$5,500 was taxed in the past, this revenue is not taxable in the current year. Ralph's records should reflect the non-taxable nature of the payment; the cooperative generally issues a notation that the payment is not taxable. A payment for past retained earnings being distributed should not be reported on a 1099-PATR.

Lines 4a and b: Government Payments

- Farmers and ranchers often receive various payments from USDA or state agencies as part of their farming operations. These payments are reported on Lines **4a and b**.
- Boxes 6, 7 and 9 of IRS Form 1099-G, Certain Government Payments are often used.

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. _____ _____ _____		1 Unemployment compensation \$ _____	OMB No. 1545-0120 Form 1099-G (Rev. January 2022) For calendar year 20 ____	Certain Government Payments Copy 1 For State Tax Department
		2 State or local income tax refunds, credits, or offsets \$ _____		
PAYER'S TIN _____	RECIPIENT'S TIN _____	3 Box 2 amount is for tax year \$ _____	4 Federal income tax withheld \$ _____	
RECIPIENT'S name _____ Street address (including apt. no.) _____ City or town, state or province, country, and ZIP or foreign postal code _____		5 RTAA payments \$ _____	6 Taxable grants \$ _____	
		7 Agriculture payments \$ _____	8 Check if box 2 is trade or business income <input type="checkbox"/>	
Account number (see instructions) _____		9 Market gain \$ _____	11 State income tax withheld \$ _____	
		10a State _____	10b State identification no. _____	

Form **1099-G** (Rev. 1-2022) www.irs.gov/Form1099G Department of the Treasury - Internal Revenue Service

Government Payment Examples

- Louisa grows many types of vegetables which she markets to local and regional restaurants and grocery chains. In the current year, she received an ad hoc government payment of \$15,000 to assist with a pandemic recovery and to sustain her business. Louisa's 1099-G Box 7 showed the \$15,000 payment and she received an attachment explaining the nature of the program payment. Louisa reports this payment on **Schedule F, Lines 4a and 4b**.

4a	Agricultural program payments (see instructions)	4a	15,000	4b	Taxable amount	4b	15,000
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- Richard farms corn and soybeans on his 3,000-acre farm. Richard received \$20,000 in risk-coverage payments, \$10,000 in cost-share payments for a conservation project on his farm, \$25,000 in Market Facilitation Program payments, and lastly, \$15,000 in Conservation Reserve Program payments to divert highly erodible land into permanent cover crops. Thus, his **Box 7, Agriculture Payments**, reports \$70,000, all of which is subject to tax in the current year and reportable on Schedule F, Lines 4a and 4b.

Lines 5a, b, and c: CCC Loans

- General principles of accounting provide that loan proceeds received are not treated as income of the borrower. However, farmers and ranchers may make an election [I.R.C. § 77] to treat CCC loans as income.
- The election and subsequent revocation of the election could be made repeatedly, and farmers and ranchers have another tool to manage farm income. [Rev. Proc. 2011-14, 2011-4 I.R.B. 330]
- George and his tax preparer decide that for the current year, making the election to treat his \$100,000 CCC loan as income is a good option to accomplish George's long-run business goals.

5a	Commodity Credit Corporation (CCC) loans reported under election	5a	100,000
b	CCC loans forfeited	5b	
		5c	Taxable amount

Lines 5a, b, and c continued

- George in the earlier example, repays his loan in March of the following year. Since he took out his CCC loan, the commodity price increased so that when George sold, he received \$200,000. Because George made the election to treat his \$100,000 as income, he now has basis of \$100,000 in the commodity and reports the sale on Lines 1a, b, and c, thus treating this as a “purchased for resale item”.

1a	Sales of livestock and other resale items (see instructions)	1a	200,000		
b	Cost or other basis of livestock or other items reported on line 1a	1b	100,000		
c	Subtract line 1b from line 1a			1c	100,000

- Communicate clearly with the preparer to avoid double taxing the \$100,000

Lines 5a, b, and c (continued)

- Treating “CCC loans as loans”
- Lisa uses the cash method of accounting, and she treats CCC loans as a loan; at harvest she places corn she raised under CCC loan and received \$150,000. Lisa anticipated the price of corn to increase several months after harvesting her corn, however, that did not happen. Subsequently, Lisa’s local corn price was under the per bushel loan value, thus it made economic sense to forfeit on the loan and release the corn to the CCC as payment of the loan. Lisa now reports the \$150,000 as fully taxable as if it were a corn sale; she uses **Lines 5b and 5c** on her Schedule F. Frequently this type of transaction occurs over two tax years, the loan is created in the year of production and the repayment of the loan is in the subsequent year.

5a	Commodity Credit Corporation (CCC) loans reported under election		5a	
b	CCC loans forfeited	5b	150,000	5c Taxable amount
				5c
				150,000

Lines 5a, b, and c (continued)

- Repaying a CCC loan at the Posted County Price (PCP)
- Jerome goes under a CCC loan on corn for \$150,000 but does not make the election to treat the loan as income. When the PCP in Jerome's county was \$3.25, he repays the loan to CCC with \$135,000 and then sells the corn for \$145,000. Jerome will receive a CCC-1099-G from CCC for \$15,000 [\$150,000 - \$135,000] and he must report this difference on his Schedule F as shown below. Jerome's total income for his corn is \$160,000 [\$145,000 + \$15,000]

2	Sales of livestock, produce, grains, and other products you raised	2	145,000
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	15,000
5c	Taxable amount	5c	15,000

Lines 6a, b, c, and d: Crop Insurance and Federal Disaster Payments

- Crop insurance and federal disaster payments are treated as farm income. These payments can be reported several ways on Schedule F using Line 6.
- Generally, under “constructive receipt” rules, crop insurance and disaster payments are recognized in the year of receipt.
- However, such payments can be deferred if the farmer’s or rancher’s business practice was to sell 50 percent or more of their crop production in the year following that production.
- Thus, it is important to clearly understand the business model of the farm.

Lines 6a, b, c, and d: Crop Insurance and Federal Disaster Payments

- Roberto grows wheat, corn, and soybeans on his farm. In 2022 a hailstorm ruins his wheat crop and Roberto experiences a 75 percent reduction in yield. Roberto typically sells his wheat a few months after harvesting. Roberto receives a crop insurance check for the hail damage in the amount of \$50,000. Roberto receives an IRS Form 1099-MISC from the crop insurance company with Box 9 showing \$50,000. Roberto reports the crop insurance on his Schedule F as illustrated below using **Lines 6a and 6b**.

6 Crop insurance proceeds and federal crop disaster payments (see instructions):			
a Amount received in 2022	6a	50,000	6b Taxable amount
c If election to defer to 2023 is attached, check here	<input type="checkbox"/>		6d Amount deferred from 2021

Lines 6a, b, c, and d: Crop Insurance and Federal Disaster Payments

- If Roberto's business practice was to sell his wheat crop in the year after it was produced, he could make the election to defer the crop insurance until the following year. In this example, Roberto reports the crop insurance on **Line 6a** but also checks the box on **Line 6c** and does not recognize the income on Line 6b as illustrated below.

6 Crop insurance proceeds and federal crop disaster payments (see instructions):			
a Amount received in 2022	6a 50,000	6b Taxable amount	6b
c If election to defer to 2023 is attached, check here	<input checked="" type="checkbox"/>	6d Amount deferred from 2021	6d

Lines 6a, b, c, and d: Crop Insurance and Federal Disaster Payments

- Amanda raises milo, alfalfa, and soybeans. In 2021 her milo and soybean crops were flooded out and completely lost. She received \$200,000 in crop insurance and an additional \$150,000 in federal disaster relief because her farm was in a federally declared disaster area. Her longtime business practice was to sell her milo and soybean crops in the year following harvest. To prevent having to report two years of crop sales (her 2020 crop carried into 2021 and the insurance and disaster payments received in the fall of 2021) Amanda elected to defer these payments into 2022 to maintain her business income. Amanda makes an entry in her 2021 accounting records of the \$350,000 of deferred income and makes a copy of her 2021 IRS Form 1099-MISC to include with her 2022 papers. She reports this income as illustrated below on her **2022 Schedule F** using **Line 6d**.

6 Crop insurance proceeds and federal crop disaster payments (see instructions):			
a Amount received in 2022	6a		
c If election to defer to 2023 is attached, check here		6b Taxable amount	6b
	<input type="checkbox"/>	6d Amount deferred from 2021	6d 350,000

Line 7: Custom Hire Income

- Frequently, farmers will help neighbors and be paid for that help. This is custom work or machine hire income which is reported on **Line 7 of Schedule F**.
- As a favor, Ted bales hay for his elderly neighbor, Tom. Tom pays Ted for his work, machinery time, and fuel; this year the amount was \$1,200. Tom issued Ted a Form 1099-NEC for amount of \$1,200. Ted re

7 Custom hire (machine work) income

7	1,200
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Line 7: Custom Hire Income

- Georgia contracts with the township in which she lives to mow road ditches with her tractor and shredder (bush hog). The township pays Georgia a flat fee of \$2,000 per mowing and Georgia mowed 4 times this year. The township issues Georgia a Form 1099-NEC in the amount of \$8,000 [4 x \$2,000]. Georgia also farms vegetables which she sells at local farmer's markets. Like Ted above, Georgia uses **Line 7** on her Schedule F to report her custom hire income.
- Jose manages and operates a poultry farm. He has a pair of backhoes and trailers which he uses to custom dig foundations for local contractors. This year Jose generated \$200,000 of custom work digging foundations in three nearby counties. He generated \$50,000 of income from his poultry business.
 - The volume of Jose's income may indicate that he farms part-time and has a backhoe business.

Line 8: Other Income

- Line 8 of Schedule F is a “catch all” or miscellaneous income line for reporting this type of income. Some examples are:
 - Bartering income
 - State gasoline or fuel tax refunds received
 - Federal fuel tax credit claimed on a prior year’s income tax return
 - Breeding fees, occasional fees from renting draft teams or farm machinery

Line 8: Other Income

- Bill farms part-time and growing row crops and vegetables. Bill uses two gasoline powered tractors which he inherited from his grandfather. Bill keeps records on how many gallons of gasoline he uses over the course of his farming activity; he purchases gasoline from pumps in town and pays the federal excise tax of \$0.184 per gallon. During 2021 Bill bought 500 gallons of gasoline which he burned through his two tractors. Thus, the federal excise tax credit he claimed on his 2021 income tax return, filed in March of 2022, is \$92 [$\0.184×500]. Bill will report the \$92 as “other income” on his 2021 Schedule F, **Line 8** as illustrated below.

8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)

8	92
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Line 9: Gross Income from Farming

- Line 9 is the total of Lines 1-8
- If 2/3rds of total gross income is farm income, filing date is March 1, no estimated tax payments need to be made.
- Conservation expenses are limited to 25% of Line 9, in Jorge's case \$82,300 this year.

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Name of proprietor					Social security number (SSN)		
JORGE					Example		
A Principal crop or activity		B Enter code from Part IV		C Accounting method:		D Employer ID number (EIN) (see instr.)	
Corn, Soybeans and Hogs		1 1 1 1 0 0		<input checked="" type="checkbox"/> Cash <input type="checkbox"/> Accrual			
E Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on passive losses					<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
F Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions					<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
G If "Yes," did you or will you file required Form(s) 1099?					<input checked="" 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 purchased livestock and other resale items (see instructions)		1a					
b Cost or other basis of purchased 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						2 250,000	
3a Cooperative distributions (Form(s) 1099-PATR)		3a 1,500		3b Taxable amount		3b 1,200	
4a Agricultural program payments (see instructions)		4a 55,000		4b Taxable amount		4b 55,000	
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 2022		6a		6b Taxable amount		6b	
c If election to defer to 2023 is attached, check here <input checked="" type="checkbox"/>				6d Amount deferred from 2021		6d 12,000	
7 Custom hire (machine work) income						7 1,000	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)						8 10,000	
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions						9 329,200	

Part II: Farm Expenses (Cash)

- Items to include
- Planning pointers to consider

Line 10: Car and truck expenses

- **Line 10 of Schedule F** is used to report expenses of cars and light pickups that are used in farming businesses.
 - Actual business expenses can be deducted as allocated to the business; records are needed for substantiation.
 - Alternatively, the standard mileage rate (SMR) can be used; \$0.655 per mile for 2023, \$0.27 of which is the depreciation component.
 - Mileage logs are required.
 - A temporary Treasury Regulation allows farmers to deduct 75 percent of auto and truck expenses without records.

Line 10: Example: Actual Expenses

- Jeremy uses his ¾-ton pickup for both personal and business use. Jeremy kept a mileage log over the course of the year which documents 75 percent of the miles were business miles. Thus, 75 percent of all actual expenses related to the use of this pickup are deductible on **Schedule F, Line 10**. Jeremy reports the allowed business costs for fuel, repairs, and miscellaneous expenses of \$7,012.50 (rounded to \$7,013) **on Line 10**. After he makes an adjustment to depreciation to accurately reflect allowable business depreciation, he reports \$8,640 as part of his depreciation expense on **Line 14**.

		Annual Costs		Allowable Bus. Use at 75 %.
Total Miles	40,000	Fuel	\$7,600	\$5,700.00
Bus. Miles	<u>30,000</u>	Repairs	\$1,500	\$1,125.00
Bus. Percent	75	Misc	\$250	\$187.50
		Depreciation	<u>\$11,520</u>	<u>\$8,640.00</u>
		Total costs	\$20,870	\$15,652.50

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	7,013	
11	Chemicals	11		
12	Conservation expenses (see instructions)	12		
13	Custom hire (machine work) . . .	13		
14	Depreciation and section 179 expense (see instructions)	14	8,640	
23	Pension and profit-sharing plans . .	23		
24	Rent or lease (see instructions):			
	a Vehicles, machinery, equipment . .	24a		
	b Other (land, animals, etc.)	24b		
25	Repairs and maintenance	25		
26	Seeds and plants	26		
27	Storage and warehousing	27		

Line 10 Example: SMR

- Jeremy, from Example 1, purchased a new crew-cab pickup to use in his business as well as for personal use. To simplify record keeping, Jeremy chooses to use the SMR on this vehicle, which is the third vehicle he owns. Keeping a mileage log Jeremy can document that he drove this pickup 22,500 miles and he paid \$150 in tolls for business purposes during the year. Jeremy, therefore, reports \$14,880 as his auto expense on Line 10. $[(22,500 \times \$0.655) + \$150]$

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	14,880	
23	Pension and profit-sharing plans	23		
24	Rent or lease (see instructions):			

Self-explanatory Lines: 11, 18, 19, 26, 27, 28, and 31

- **Line 11: Chemicals.** Used for pesticides
- **Line 18: Freight and Trucking.** Used to deduct freight charges for received goods as well as delivered goods
- **Line 19: Gasoline, Fuel and Oil.** Used to deduct liquid or gas energy supplies
- **Line 26: Seeds and Plants.** Used to deduct the costs of seeds or seedlings (e.g., sweet potato slips)
- **Line 27: Storage and Warehousing.** Used to deduct commercial storage of crops
- **Line 28: Supplies.** Used to deduct items which are consumed: Twine, nails, bags, etc.
- **Line 31: Veterinary, Breeding, and Medicine.** Used to deduct livestock health costs

Illustrated “self-explanatory” lines

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	
11	Chemicals	11	40,000
12	Conservation expenses (see instructions)	12	
13	Custom hire (machine work)	13	
14	Depreciation and section 179 expense (see instructions)	14	
15	Employee benefit programs other than on line 23	15	
16	Feed	16	
17	Fertilizers and lime	17	
18	Freight and trucking	18	750
19	Gasoline, fuel, and oil	19	16,845
20	Insurance (other than health) . . .	20	
21	Interest (see instructions):		
	a Mortgage (paid to banks, etc.) . . .	21a	
	b Other	21b	
22	Labor hired (less employment credits)	22	
23	Pension and profit-sharing plans . . .	23	
24	Rent or lease (see instructions):		
	a Vehicles, machinery, equipment . . .	24a	
	b Other (land, animals, etc.)	24b	
25	Repairs and maintenance	25	
26	Seeds and plants	26	35,000
27	Storage and warehousing	27	6,450
28	Supplies	28	2,300
29	Taxes	29	
30	Utilities	30	
31	Veterinary, breeding, and medicine . .	31	12,400
32	Other expenses (specify):		
	a _____	32a	
	b _____	32b	
	c _____	32c	
	d _____	32d	
	e _____	32e	
	f _____	32f	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions ►	33	

Line 12: Conservation Expenses

- Conservations expenses which are part of a conservation plan approved by a NRCS or state department for environment are allowed to be deducted subject to a 25% of gross farm income limitation. Such expenses are:
 - Earthmoving for leveling, grading, terracing, contour furrowing, and restoration of soil productivity
 - Construction of diversion channels, drainage ditches, irrigation ditches, earthen dams, ponds, water way outlets, watercourses, and other similar land features
 - Eradication of brush (recovery of pasture or field borders)
 - Planting of windbreaks
 - Meeting the needs of a site-specific management action recommended in recovery plans approved pursuant to the Endangered Species Act of 1973 (ESA)

Line 12: Conservation Expenses

- Reggie lives in the low country and implements a soil and water conservation plan to help manage spring flooding and protect water resources for the future. Reggie’s conservation plan is approved by NRCS and his state’s Department of Environmental Quality. He receives \$65,000 in cost-share funds to implement his plan. Reggie spends \$92,000 and completes his plan this year. Due to the 25 percent limitation, Reggie is only able to deduct \$81,250 this year, ($\$325,000 * 0.25$), the balance of \$10,750 is carried forward.

9		Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions ▶	9	325,000
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		
11	Chemicals	11		
12	Conservation expenses (see instructions)	12	81,250	
23	Pension and profit-sharing plans . .	23		
24	Rent or lease (see instructions):			
	a Vehicles, machinery, equipment . .	24a		
	b Other (land, animals, etc.)	24b		

Line 13: Custom Hire (Machine Work)

- Custom hire is an expense incurred when a farmer/rancher hires a contractor to complete work needed on the farm or ranch. Line 13, Schedule F is used to report and deduct.
- Sydney hires a custom harvest crew to combine her wheat crop. Even though Sydney has a combine, she cannot cover all the planted acres in a timely manner. To keep landlords happy, hiring a custom harvest crew minimizes the potential to suffer weather damage or loss; and the custom cutter gets the crop into storage so that marketing decisions can be made by the landlords. Sydney pays the custom harvest crew \$25,000 for their services. This expense is reported on **Line 13, Schedule F**, and if the contractor is not incorporated, Sydney must issue a 1099-NEC.

13	Custom hire (machine work) . . .	13	25,000	25	Repairs and maintenance . . .	25	
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Line 14: Depreciation

- **Line 14** is used to report the recovery of depreciable asset costs. Several allowable methods can be chosen to manage “the number”.
 - Bonus depreciation [I.R.C. § 168(k)]
 - Expense election [I.R.C. § 179]
 - MACRS GDS over 3-, 5-, 7-, 10-, 15-, and 20-years
 - MACRS ADS can alternatively be used to lengthen recovery periods
 - IRS Form 4562 is used to report the annual depreciation deduction

Line 14: Depreciation Examples

- George operates a diversified crop farm, in 2022 he purchases a new tractor for \$175,000. George has \$85,000 of depreciation which is the allowable depreciation on assets purchased prior to 2021. Thus, assuming George does not elect out of bonus depreciation, his total depreciation is \$260,000 which is reported on **Line 14, Schedule F**.

14	Depreciation and section 179 expense (see instructions)	14	260,000	26	Seeds and plants	26	
				27	Storage and warehousing	27	
				00	00		

- George would have the same outcome if he elected to expense the tractor.

Line 14: Depreciation Examples

- Maria constructs a new greenhouse for her cut-flower business at a cost of \$85,000. The greenhouse is a “single-purpose horticultural structure” which has a 10-year recovery period under MACRS GDS or 15-year recovery period under MACRS ADS. Maria elects to use the longer recovery period under the ADS method which uses straight line; in doing so, the greenhouse no longer qualifies for bonus depreciation. Maria makes the election to use ADS on IRS **Form 4562, Line 19e**. Maria has \$24,000 of depreciation from assets purchased in prior years, this year’s depreciation is \$26,833.

Part III MACRS Depreciation (Don't include listed property. See instructions.)							
Section A							
17	MACRS deductions for assets placed in service in tax years beginning before 2020					17	24,000
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>						
Section B—Assets Placed in Service During 2020 Tax Year Using the General Depreciation System							
(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction	
19a	3-year property						
b	5-year property						
c	7-year property						
d	10-year property						
e	15-year property	85,000	15	HY	SL	2,833	
f	20-year property						
g	25-year property		25 yrs.		S/L		
h	Residential rental property		27.5 yrs.	MM	S/L		
i	Nonresidential real property		39 yrs.	MM	S/L		
				MM	S/L		
Section C—Assets Placed in Service During 2020 Tax Year Using the Alternative Depreciation System							
20a	Class life				S/L		
b	12-year		12 yrs.		S/L		
c	30-year		30 yrs.	MM	S/L		
d	40-year		40 yrs.	MM	S/L		
Part IV Summary (See instructions.)							
21	Listed property. Enter amount from line 28					21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions					22	26,833

Line 15: Employee Benefit Programs

- To attract and retain employees, farmers may offer benefits to employees. These are deductible business expenses and reported on **Line 15, Schedule F**.
- Amal operates a mushroom farm. She provides subsidized children's daycare to her employees who harvest, grade, and package the various types of mushrooms. The daycare operates from 6:30 am until 6:30 pm in an independent separate facility. Amal contributes \$200 per month per employee; Amal's employees who participate in this benefit pay an additional \$400 per month. This year Amal had 5 employees who participated for an average of 10 months of the year. Thus, Amal incurred \$10,000 in daycare benefits paid on behalf of her employees. (5 x \$200/mo. x 10 months) Amal uses Line 15, Schedule F to report and deduct this expense.

(see instructions)	14		27	Storage and warehousing	27	
15 Employee benefit programs other than on line 23	15	10,000	28	Supplies	28	
			29	Taxes	29	

Line 15: Employee Benefit Programs

- Suzy owns a fruit orchard with 10 full-time employees. Suzy provides a group accident and health care plan to her employees which Suzy can acquire through her membership in a national fruit packer's association. She pays for the employee's insurance; the employee pays for the spouse and any other dependents. This year Suzy's cost for this employee benefit is \$85,000. Suzy reports and deducts the expense on **Line 15, Schedule F.**

15	Employee benefit programs other than on line 23	15	85,000	28	Supplies	28	
				29	Taxes	29	

Line 16: Feed

- Farmers and ranchers purchase feed, vitamins and minerals for their livestock. This expense is deducted on **Line 16, Schedule F.**
- Robert operates a commercial cow-calf herd as a production enterprise on his farm. This year Robert bought supplemental feed and minerals to pre-condition his cows prior to breeding in the spring. Additionally, he bought mineral supplements for the grazing season and creep feed for the calves as they were weaned from their mothers and began the process of bunk feeding. All this feed was consumed within the tax year. Robert spent \$20,000 for these feed items this tax year. Robert reports this on **Line 16, Schedule F.**

16	Feed	16	20,000	30	Utilities	30	
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Line 16: Feed that is not deductible

- Everett raises heritage breeding hogs using a pasture-based plan. In the winter he has covered shelter which the hogs can access and in which they are fed. On November 1 Everett issues a check for \$10,000 to Tasty Livestock Feeds on his account from which he can make draws as he picks up feed on a weekly basis. The weekly feed price is determined by fluctuations in market conditions.
- This payment is a **deposit** and not allowed as a deduction in full on Everett's Schedule F. However, Everett will be allowed a current deduction for the weekly feed purchases for November and December based on the receipts and respective draws for these weeks.

Line 17: Fertilizers and Lime

- The costs of fertilizers, lime, and other soil amendments are allowable deductions; however, they are subject to IRC § 180 and are amortized over a useful period. However, commonly, annual elections are made to deduct the expense by reporting on **Schedule F, Line 17**.
- Bonnie raises eggplant and squash varieties on her farm. She regularly conducts soil fertility tests and follows the advice and guidance of the soils laboratory. This year, Bonnie applied \$35,000 of fertilizer and lime to her fields. She chooses to currently deduct this expense by making the IRC § 180 election and reports the \$35,000 on **Line 17, Schedule F**.

17	Fertilizers and lime	17	35,000	31	Veterinary, breeding, and medicine .	31	
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Line 17: Fertilizers and Lime

- Jakob has a diversified crop farm. He typically spends \$100,000 on fertilizer and lime annually and deducts this cost by making the election under IRC § 180. This year, because of adverse weather conditions Jakob is facing a farm loss due to no or low crop yields. One way to increase income on the farm is to not make the annual election to deduct all the fertilizer and lime expense in the current year. In consultation with his tax preparer, Jakob capitalizes and amortizes his \$100,000 expense over 5 years and thus, deducts \$20,000 this year and defers \$80,000 to be taken ratably over the next four years. Therefore, Jakob's farm income is increased by \$80,000 (the deferred expense) and he does not have a farm loss which may allow him to access other tax benefits, e.g., Earned Income Credit or not lose the standard deduction amount of his filing status.

17	Fertilizers and lime	17	20,000	31	Veterinary, breeding, and medicine .	31	
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Jakob's Amortization Table

Year	Deduction Amount	Remaining Amount
Year One	\$20,000	\$80,000
Year Two	\$20,000	\$60,000
Year Three	\$20,000	\$40,000
Year Four	\$20,000	\$20,000
Year Five	\$20,000	\$0

Lines 21a and b: Interest

- Modern agriculture is capital intensive and requires farmers and ranchers to borrow money for operations, machinery and equipment, livestock and land. Interest paid can be a significant business expense.
 - **Line 21a** is used to report interest on mortgages reported to the farmer on an IRS Form 1098, Mortgage Interest Statement.
 - **Line 21b** is used to report interest from other sources.

Interest Examples

- Freida has a loan with Farm Credit on farmland she purchased. This year Freida paid \$25,000 in interest which was reported to her on Form 1098 issued by Farm Credit. Freida reports and deducts this interest on **Line 21a, Schedule F**. IRS will match the deduction with the Form 1098.

21	Interest (see instructions):			c		32c	
a	Mortgage (paid to banks, etc.) . . .	21a	25,000	d		32d	
b	Other	21b		e		32e	

Interest Examples

- Ken operates a diversified farm. This year he paid \$15,000 interest on his operating loan, \$5,500 interest on his pickup loan and \$27,000 interest on machinery and cattle loans. None of these interest amounts were reported to Ken on a Form 1098. However, these are all business loans, thus, Ken uses **Line 21b, Schedule F**, to report the \$47,500 of interest paid.

21	Interest (see instructions):			c		32c	
a	Mortgage (paid to banks, etc.) . . .	21a		d		32d	
b	Other	21b	47,500	e		32e	

Interest Examples

- Rosita has a large vegetable and cut-flower business. This year has been exceptionally profitable and provides for a significant cash reserve. Rosita negotiates with her lender to prepay three years of projected interest expense at a locked-in rate for her operating loan. She pays \$45,000 of interest. \$8,000 of interest is allocable to her current year's operating loan and brings her current as of December 31, 20xx. The remaining \$37,000 is credited to her account as prepaid interest which the bank will draft quarterly over the next three years. This year, Rosita is allowed to report and deduct only \$8,000 of interest on her operating loan.

21	Interest (see instructions):			c		32c
a	Mortgage (paid to banks, etc.) . . .	21a		d		32d
b	Other	21b	8,000	e		32e

Interest Examples

- Carlos paid off the mortgage on his home three years ago. He wants to expand his farming operation to go full-time and resign at the foundry where he currently works. Carlos can borrow \$200,000 against his house which will provide him with funds to purchase needed equipment and give him operating funds. This year his interest expense was \$6,000 which was reported to him on a Form 1098. Carlos makes the election to treat this interest as business interest and deduct it on his Schedule F; thus, it is not only a deduction against income tax but also self-employment tax. The \$6,000 is reported and deducted on **Line 21a, Schedule F**.

21	Interest (see instructions):			c	32c
a	Mortgage (paid to banks, etc.) . . .	21a	6,000	d	32d
b	Other	21b		e	32e

Line 22: Labor

- Paid labor is used on farms to get the jobs done. Labor expenses are deducted on **Line 22, Schedule F**.
- Tomas hires two employees to work on his farm. This year he paid them \$30,000 each in cash wages. Tomas reports and deducts \$60,000 on **Line 22, Schedule F**.

22	Labor hired (less employment credits)	22	60,000	f		32f	
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Line 22: Labor

- Carla has 5 part-time employees who work in her farming business. This year, she pays them, on average, \$10,000 each, thus \$50,000 in total cash wages. Carla is eligible to claim the Work Opportunity Credit in the amount of \$2,000 on two of her employees. Additionally, Carla claims \$3,000 in Employer Credit For Paid Family and Medical Leave. Because Carla enjoys a tax benefit (the two credits) she must reduce her cash wages paid by these two credit amounts and thus, reports and deducts \$45,000 in labor expense. [\$50,000 - \$5,000]

22	Labor hired (less employment credits)	22	45,000	f		32f
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Line 23: Pensions and Profit Sharing

- An additional incentive to attract and retain employees is to offer retirement benefits. **Line 23, Schedule F** is used to report and deduct this expense.
- Jim operates a large dairy farm as a single member LLC which uses Schedule F to report farm income and expenses. Employees are eligible to participate in a retirement plan, Jim, through the LLC contributes up to \$3,000 per employee in a matching contribution to the retirement plan of each employee. This year, \$25,000 was contributed for all participating employees as the farm's matching contributions. The SMLLC uses **Line 23, Schedule F** to report and deduct this expense.

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.					
10	Car and truck expenses (see		23	Pension and profit-sharing plans.	23 25,000

Lines 24a and b: Rents

- Farmers and ranchers rent land, lease equipment and breeding animals to gain scale in their farming and ranching businesses. These expenses are deducted on **Lines 24a or b** depending on asset rented.
- Antonin farms 1,500 acres, 1,000 acres from three landlords, and 500 acres of owned property. Antonin pays an average of \$235 per acre cash rent to his landlords. Using **Schedule F, Line 24b**, Antonin reports \$235,000 in land rents. He issues three IRS Forms 1099-MISC to each of his landlords; one for \$100,000, a second for \$67,500 and a third also for \$67,500. IRS will match his rental 1099s with his return and those of his landlords.

	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	235,000

Line 24a: Rent of a machine

- Izabella rents a backhoe to dig out a waterline across one of her fields. She rents from ABC Equipment, Inc. and pays them \$75 per engine hour. Her employee, Roberto, operated the machine and when he was finished with the job, the hour meter showed 10 hours of engine time. Therefore, Izabella pays ABC Equipment, Inc. \$750. She uses **Line 24a, Schedule F** to report and deduct the rent of the backhoe. Isabella does not need to issue a Form 1099-MISC because the ABC Equipment is incorporated.

instructions). Also attach Form 4562	10		24	Rent or lease (see instructions):		
11 Chemicals	11		a	Vehicles, machinery, equipment . .	24a	750

Line 24a and b: Rent of land and machinery together

- Grandpa Joe rents his farm and equipment to his granddaughter Emily. The land and the equipment are rented together as Emily is a beginning farmer and needs the equipment to operate. Additionally, Grandpa Joe wants the land to be maintained and having the machinery and equipment available, as well as being a condition of renting the land, Emily can keep her Grandpa Joe's land as required. Emily pays Grandpa Joe \$65,000 for the land and the equipment as a lump-sum rental payment. The rental arrangement is \$40,000 for land rent and \$25,000 for machinery and equipment rented with the land. Emily can report these two amounts on **Lines 24a and 24b** as illustrated below. However, she will issue one Form 1099-MISC for \$65,000 to Grandpa Joe and tick questions **F and G** in the affirmative.

	instructions). Also attach Form 4562	10		24	Rent or lease (see instructions):		
11	Chemicals	11		a	Vehicles, machinery, equipment . .	24a	25,000
12	Conservation expenses (see instructions)	12		b	Other (land, animals, etc.)	24b	40,000

Machinery rental examples

- Geraldo enters a three-year operational lease for a new tractor with PDQ Leasing Partnership. The terms of the lease are such that at the end of the lease Geraldo must return the tractor to the leasing company. The lease allows 500 hours of engine time per year (1,500 hours in total) at a cost of \$50 per hour. If Geraldo uses the tractor more than the 1,500 hours, he pays \$85 per hour for the overage. Geraldo is required to cover the tractor with insurance, but the maintenance and repair costs are covered by the leasing company. This year, Geraldo pays \$25,000 to lease the tractor. He must issue a Form 1099-MISC to PDQ Leasing because it is a partnership and not a corporation. Geraldo uses **Line 24a, Schedule F** to report and deduct this true operational lease.
- Bernadette enters a three-year lease for a combine. The lease agreement requires Bernadette to pay \$175,000 each year and then provides the option purchase the combine for \$15,000 at the end of the lease. Bernadette is required to insure, maintain, and repair the combine over the lease term. Because of the construction of the lease terms and the very low purchase price at the end of the lease, this lease is a capital lease and IRS will likely treat it as a combine purchase which should be depreciated.

Line 25: Repairs and Maintenance

- Repairs can be a large total item. Repairs which are costly should be examined to see if they ought to be capitalized under the IRS repair regulations.
 - If the expense which is incurred leads to a “betterment” or improvement of the asset, then the cost is to be capitalized.
 - If the expense is a restoration of the asset to continue in service, then the cost is to be capitalized. Examples are replacement of major components or structural parts which are substantial to a building keeping it in working condition.
 - If the expense adapts or changes the use or purpose of the asset, then the cost is to be capitalized. For example, adding walls in an open barn’s interior to create a birthing area for cattle or a “sick pen”.

Repair examples

- Bob performs routine maintenance on all his tractors, combines, heavy-duty trucks and pickups based on the manufacturer's recommended service intervals. This maintenance includes fluid changes (oil, antifreeze, and hydraulic oil), filter changes, and greasing articulating parts. This year Bob's maintenance costs were \$10,000. Bob uses **Line 25, Schedule F** to report and deduct this expense.

13	Custom hire (machine work) . . .	13	
25	Repairs and maintenance . . .	25	10,000

Repair examples

- Armando purchases an old set of grain bins and scales which are adjacent to his farm. Before he can use the grain bins, he must put new flighting in the augers which move grain from one bin to another, additionally, most of the roofing panels have pin holes allowing moisture and insects to enter the bin; Armando decides to replace all the roof panels. The scales need to have new dampers installed so that trucks do not override the weighing arms. Armando spends \$45,000 to bring the grain bins and scales back into service. This is an example of restoration before the units **can be placed into service**. Therefore, the \$45,000 must be capitalized and added to basis of the grain bins and scales. Armando, with the help of his tax preparer, can make depreciation decisions relative to the unique assets he acquired with the purchase and the restoration costs.

Repair example: capitalize or not

- Theodore operates a large crop farm. During the tillage and planting season in the spring, a temperature gauge on one of Theodore's tractors malfunctioned causing the tractor to overheat and ultimately the engine seized. Theodore spends \$25,000 to replace the engine and return the 5-year-old tractor to service. Two arguments might be made regarding this expense.
 - First, this is a repair, which occurred just outside of the manufacturer's warranty (doesn't it often happen this way?) but before the tractor was fully depreciated over its 7-year recovery period. The value of the tractor (\$150,000) was not greatly enhanced with the replacement of the engine as the tractor's value returned to a 3 percent marginally higher value. The engine replacement was 16.67% of the tractor's value. Therefore, he can deduct this on **Line 25, Schedule F**.
 - A second, perhaps more conservative position is to recognize this as a "betterment" and capitalize the new engine's \$25,000 cost and use bonus depreciation to recover the cost in full if the expense occurred between September 27, 2017, and December 31, 2022.

Line 29: Taxes

- **Line 29, Schedule F**, is used to report and deduct various tax obligations of the farm business.
 - Social Security and Medicare taxes the farmer or rancher pays to match the withholdings from employees' wages.
 - Federal unemployment tax.
 - Federal highway use tax.
 - State unemployment fund contributions if under state law the contributions are treated as a tax.
 - Property tax on farmland used in the trade or business of farming.
 - Property tax on farm machinery, livestock, and vehicles subject to such tax

Line 29: Taxes examples

- Louisa has two employees; as an employer she matches the withholdings from her employees, which this year totaled \$7,500. Additionally, Louisa paid \$8,500 in real estate property tax on her farmland and buildings, and \$3,500 on her farm machinery and farm vehicles. Therefore, Louisa uses **Line 29, Schedule F** to report and deduct a total of \$19,500 tax paid in the current year. [$\$7,500 + \$8,500 + \$3,500$] Louisa, in this case, is exempt from federal or state unemployment tax due to not meeting the wage threshold or number of employees.

on line 23	15	29 Taxes	29	19,500
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Taxes which are not a business deduction

- Federal income taxes (which include self-employment tax). Self-employed farmers and ranchers may deduct one-half of their self-employment tax on **Schedule 1, Form 1040**.
- Property taxes on the principal residence and personal property not used in business (although these may be eligible as an itemized deduction on **Schedule A, Form 1040**).
- Taxes assessed for improvements such as road improvements or sewers in the locality of the farmer's residence. (Typically, these tax payments are added to the basis of the property)
- State and local sales taxes on items purchased for the farming business; these taxes are added to the cost of the property, and if depreciable, recovered over the allowed period.
- Any other taxes not related to the farming business.

Line 30: Utilities

- Farmers and ranchers have various utility expenses incurred in the operation of their agricultural businesses. These expenses are deducted on **Line 30, Schedule F**.
- Billy operates a farm and has a landline which goes to his farm home which he shares with his wife Milly. The base rate is \$15 per month, and he averages a phone bill of \$150 per month of which \$75 are business calls. Billy can deduct \$900 [$\75×12] of his phone bill against his farm income. He uses **Line 30, Schedule F** to report and deduct this expense.

16	Feed	16		30	Utilities	30	900
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Line 30: Utilities farm vs personal

- Jose and Rosa operate a diverse crop and livestock farm. They use propane to heat their house and the livestock barns, however, there are unique propane tanks for each building and the billing is separated between the home and the farm. They have a single meter each for water and electricity which run to the house and to the farm buildings and livestock water tanks. Based on the utility companies estimates, Jose and Rosa allocated \$100 a month for personal electricity and \$75 per month for water. The remaining balance over these allocations is for farm utilities. This year they paid \$6,000 for electricity and \$4,500 for water. Therefore, \$4,800 of the electricity bill is for the farm business [\$6,000 - \$1,200] and \$3,600 is for watering livestock. [\$4,500 - \$900] Jose reports and deducts \$8,400 as allowable farm utility expense on **Line 30, Schedule F**.

16 Feed	16	30 Utilities	30	8,400
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Line 32 a-f: Other expenses

- Farm expenses which do not fit into other categories are reported and deducted on **Line 32, Schedule F** as farmer-identified business costs.
- Ricardo farms and has the following expenses which are farm business related but do not have a “home” other than on **Lines 32a – f, Schedule F**, Professional fees of \$2,500 for accounting and payroll services, \$150 for office supplies and home office deduction of \$1,000 for his 200 square feet office space using the \$5 per square foot safe harbor. Ricardo uses **Lines 32 a – c, Schedule F** to report and deduct these expenses.

18	Freight and trucking	18	
19	Gasoline, fuel, and oil	19	
20	Insurance (other than health)	20	
21	Interest (see instructions):		

32	Other expenses (specify):		
a	<u>Professional fees</u>	32a	2,500
b	<u>Office supplies</u>	32b	150
c	<u>Home Office ded. (200sqft x \$5/sqft)</u>	32c	1,000

Line 32: Other Expenses, Start up

- On January 1 of this year, Amal began her pick-your-own berry farm on land she inherited from her parents which had mature berry plants. Since this is a new business, Amal needs to calculate her start-up costs and deduct them subject to rule limitations. Amal, spent \$20,000 in allocable start-up expenses, \$5,000 of which she may deduct currently, but she must amortize the remaining \$15,000 over 180 months (\$83.33/mo.). Thus, Amal's total start-up deduction allowed this year is \$6,000 [\$5,000 + (12 x \$83.33)], reported and deducted on **Line 32a, Schedule F**. Then, over the subsequent 14 years, Amal will annually deduct \$1,000 of the remaining start-up costs.

18	Freight and trucking	18		32	Other expenses (specify):		
19	Gasoline, fuel, and oil	19		a	<u>Start-up costs</u>	32a	6.000

Lines 33 – 36: Wrapping up

- Line 33 is the summation of all expenses: **Lines 10 – 32f**
- Georgia has \$652,435 of total allowable farm expenses which she incurred this year in the conduct of her peach orchard. She used **Line 33, Schedule F** to report this total.

Line	Description	VLI	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions	33	652,435

Net farm profit or loss, Line 34

- Alfredo reports \$895,345 of Gross Income from farming on his **Line 9, Schedule F** and reports \$767,562 of Total Expenses on **Line 33, Schedule F** resulting in a Net Farm Profit of \$127,783 reported on **Line 34, Schedule F**.

9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions ▶	9	895,345
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33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions ▶	33	767,562
34	Net farm profit or (loss). Subtract line 33 from line 9	34	127,783

If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.

Line 36: At Risk Question

- Susanna’s fruit orchard generated a farm loss this year due to a spring freeze which reduced her harvestable crops by 75 percent. All her loans are recourse loans with her farm assets being the collateral. Her loss is \$135,891 as reported on **Line 34, Schedule F**, she ticks **Line 36, Box a** indicating that all the investment in her orchard business is at risk. Thus, she answers the “at risk rule question” in the affirmative. If one or more of Susanna’s loans were a non-recourse loan, then not all of Susanna’s investment is at risk, thus she ticks **Box b of Line 36**.

34	Net farm profit or (loss). Subtract line 33 from line 9	34	-135,891
If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.			
35	Reserved for future use.		
36	Check the box that describes your investment in this activity and see instructions for where to report your loss:		
a	<input checked="" type="checkbox"/> All investment is at risk.	b	<input type="checkbox"/> Some investment is not at risk.

Summary: to ensure accurate and complete Schedule F

- A cash-basis Schedule F is complete when the following are appropriately enumerated and prepared to be filed.
 - Responses and details are reported in the information block at the top of the schedule and answering **Questions A – G**,
 - The farm income is correctly and accurately reported on **Lines 1a through 8** in Part 1 of Schedule F,
 - Gross farm income calculated on **Line 9**,
 - The allowable farm expenses are accurately and correctly reported on **Lines 10 through 32f**, and finally
 - Total expenses tabulated, **Line 33**, net farm profit (or loss) derived, **Line 34**, and if a loss answering the applicable question on **Line 36**.



**Thank you for your
attention!**
