

SCHEDULE F FARM INCOME AND LOSS

Presented by: Peggy Hall, Legacy Accounting and Software Training

Sponsored by:

KCAA (Kitsap Community and Agricultural Alliance)

WSU Regional Small Farms Program



AGENDA

- Useful Resources
- Start Up Decisions/Farm or Hobby?
- General Guidelines
- Farm Records and Tax Reports
- Reasons/Tips for Tracking Income and Expenses
- The Schedule F and Relevant Tax Forms
- Q&A



USEFUL RESOURCES

- IRS Publication 225 – Farmer’s Tax Guide (FTG) – 89 pages
- www.RuralTax.org – Examples of tax forms and Tax topic explanations
 - Tax Guide – For Owners and Operators of Small and Medium Size Farms – 143 pages
- Penn State Ag Alternatives – Understanding Your Federal Farm Income Taxes
- Ten Things to Know about Farm Income and Deductions -
<https://www.irs.gov/uac/newsroom/10-things-to-know-about-farm-income-and-deductions>
- IRS Pub 51 – Agricultural Employer’s Tax Guide



FARM OR HOBBY?

- Farm/Farmer
 - IRS Definition – “Business of farming....cultivate, operate or manage a farm for profit.....not timber...”
 - A farm includes livestock, dairy, poultry, fish fruit, and truck farms, fish farms, plant nursery, orchards, plantations, ranches, greenhouses and bees.
- Hobby?
 - Hobby 1040 line 21 and expenses on Schedule A - Itemized Deductions, limited to Hobby profit
 - 9 Factors, FTG p26-27
 - Businesslike manner, time and effort, livelihood, change to improve profits, advisors, make profit in some year...



GENERAL GUIDELINES

Do not use Schedule F (Use Schedule C instead)

- Agricultural services such as soil preparation
- Veterinary services
- Farm labor services
- Horticulture or management for a fee or contract basis
- Agritourism
- Processing (Cheese-making, wine making and other value added processing)
- Rental of farm house

Sale of livestock held for draft, breeding, sport, or dairy is reported on Form 4797 – Sale of Business Property



FARM RECORDS AND TAX REPORTS

Publication 583 – Starting a Business and Keeping Records

- Categorize list of income and expenses (Chart of Accounts)
- List of Assets bought, sold or traded
- 1099 informational returns (received and issued)
- Payroll records
- Amount products sold
- Inventory
- Account receivable

Keep records for at least 3 years from the time taxes were filed, but good idea to keep them for 5 years. Employment records should be keep longer.



REASONS FOR TRACKING INCOME AND EXPENSES

- Monitor the progress of your farming business
- Prepare your financial statements
 - Obtaining and attracting capital (applying for a loan)
- Identify source of receipts
- Keep track of deductible expenses.
- Prepare your tax returns
- Support items reported on tax returns



TIPS FOR TRACKING INCOME AND EXPENSES

- Keep business and household separate – have a dedicated checking account for the farm. Tip: Take a picture of receipts.
- Keep all farm related receipts – develop a system for collecting receipts
- Use an accounting system – paper ledgers, spreadsheets, or accounting program
 - Two methodologies
 - Keep accounts same as Schedule F
 - Do whatever is comfortable for you as long as you can relate back to Schedule F



ACCOUNTING SYSTEMS - SPREADSHEETS

- <http://agebb.missouri.edu/mgt/mofar/farmrecordbook.xlsx>
- <https://extension.umaine.edu/livestock/wp-content/uploads/sites/72/2014/02/Farm-Account-Book.xls>
- [http://nebeginningfarmers.org/files/2012/04/HT Cornell Account Book monthly-1nyhir8.xls](http://nebeginningfarmers.org/files/2012/04/HT_Cornell_Account_Book_monthly-1nyhir8.xls)
- <http://www.juliashanks.com/excel-register-for-farm-businesses/>
(\$10 Download) - Other free resources



ACCOUNTING SYSTEMS - SOFTWARE PROGRAMS

- QuickBooks Online - \$25-\$40 per month depending on features - <https://quickbooks.intuit.com/online/>
 - Test Drive QuickBooks Online Plus - <https://qbo.intuit.com/redirect/testdrive>
- Xero - \$30-\$70 per month depending on features - <https://www.xero.com/us/small-business-guides/cloud.../farm-accounting/>
- QuickBooks Desktop - \$250 one time investment (one computer)-updates for 3 years

Farm dedicated programs

- EasyFarm - starting at \$409 - <http://www.easyfarm.com/>
- FarmWorks Software - \$750 - <http://www.farmworks.com/products/accounting>
- CenterPoint Accounting for Agriculture by Red Wing - \$1195 and up - <https://www.redwingsoftware.com/rwssn/home.aspx>



SCHEDULE F PROFIT AND LOSS FROM FARMING

**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.

▶ Information about Schedule F and its separate instructions is at www.irs.gov/schedulef.

OMB No. 1545-0074

2016

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: Cash Accrual D Employer ID number (EIN), (see instr) _____

E Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on passive losses Yes No

F Did you make any payments in 2016 that would require you to file Form(s) 1099 (see instructions)? Yes No

G If "Yes," did you or will you file required Forms 1099? Yes No

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a		
b	Cost or other basis of livestock or other items reported on line 1a	1b		
c	Subtract line 1b from line 1a		1c	
2	Sales of livestock, produce, grains, and other products you raised		2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	3b Taxable amount	3b
4a	Agricultural program payments (see instructions)	4a	4b Taxable amount	4b
5a	Commodity Credit Corporation (CCC) loans reported under election		5a	
b	CCC loans forfeited	5b	5c Taxable amount	5c
6	Crop insurance proceeds and federal crop disaster payments (see instructions)			
a	Amount received in 2016	6a	6b Taxable amount	6b
c	If election to defer to 2017 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2015	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:		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

34 **Net farm profit or (loss).** Subtract line 33 from line 9

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

35 Did you receive an applicable subsidy in 2016? (see instructions) Yes No

36 Check the box that describes your investment in this activity and see instructions for where to report your loss.

a All investment is at risk. b Some investment is not at risk.

OTHER RELEVANT TAX FORMS

- Form 3800 – General Business Credits
- Form 4136 – Credit for Federal Tax Paid on Fuel
- Form 4562 – Depreciation and Amortization
- Form 4684 – Casualty & Theft Loss
- Form 4797 – Sale of Business Property
- Form 4835 – Farm Rental Income and Expenses
- Form 8903 - Domestic Productions Activities Deduction
- Form 8824 – Like Kind Exchanges
- Schedule C – Profit or Loss from Business (value added processing and agritourism)
- Schedule D – Capital Gains and Losses
- Schedule SE – Self-Employment Taxes
- Schedule J – Income Averaging for Farmers & Fisherman



INFORMATION ABOUT YOUR FARM

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.
▶ Information about Schedule F and its separate instructions is at www.irs.gov/schedulef.

OMB No. 1545-0074

2016
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:

Cash Accrual

D Employer ID number (EIN), (see instr)

E Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on passive losses Yes No

F Did you make any payments in 2016 that would require you to file Form(s) 1099 (see instructions)? Yes No

G If "Yes," did you or will you file required Forms 1099? Yes No

Box B: Use appropriate
code from Part IV

Part IV Principal Agricultural Activity Codes



Do not file Schedule F (Form 1040) to report the following.

- Income from providing agricultural services such as soil preparation, veterinary, farm labor, horticultural, or management for a fee or on a contract basis. Instead file Schedule C (Form 1040) or Schedule C-EZ (Form 1040).
- Income from breeding, raising, or caring for dogs, cats, or other pet animals. Instead file Schedule C (Form 1040) or Schedule C-EZ (Form 1040).
- Sales of livestock held for draft, breeding, sport, or dairy purposes. Instead file Form 4797.

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 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)



MATERIAL PARTICIPATION AND RENTAL INCOME

- **Rent for use of real estate** – generally not on Schedule F but on **Schedule E** (Supplemental Income and Loss)
- **Rent received for land in agricultural production** is subject to SE tax of the owner materially participates in farm operation, This is reported on **Schedule F line 8**.
- Net rental income subject to SE tax is for land use NOT the rent of buildings and equipment. **Rental of the buildings and equipment** are reported on **Schedule C**.

If the land owner does not materially participate in the farming activity, the tax reporting will depend on the form in which the rental payments are received. Share crop arrangements are reported on Form 4863 Farm Rental Income and Expenses.



4 MATERIAL PARTICIPATION TESTS

- Test #1 – at least three of four of the following
 - Advances, pays or stands goods for at least half of the direct costs of producing commodities
 - Furnishes at least half of the tools, equipment and livestock used
 - Advises and consults with tenant periodically
 - Inspects the production periodically
- Test #2 - Regularly or frequently makes or takes an important role in management decisions substantially contributing to or affecting the success of the enterprise
- Test #3 -The land owner works hours 100 or more over a period of 5 weeks or more in activities connected with producing the farm commodities
- Test #4 - The land owner takes actions that considered in their total effects, show that he or she is materially and significantly involved in the production of the farm, commodities

NOTE: Tax planning situation may exist and be beneficial if one spouse owns farming business and the other owns the real estate.



PART I - FARM INCOME - CASH BASIS

Part I		Farm Income—Cash Method.		Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)	
1a	Sales of livestock and other resale items (see instructions)	1a			
b	Cost or other basis of livestock or other items reported on line 1a	1b			
c	Subtract line 1b from line 1a			1c	
2	Sales of livestock, produce, grains, and other products you raised			2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a		3b	Taxable amount
4a	Agricultural program payments (see instructions)	4a		4b	Taxable amount
5a	Commodity Credit Corporation (CCC) loans reported under election			5a	
b	CCC loans forfeited	5b		5c	Taxable amount
6	Crop insurance proceeds and federal crop disaster payments (see instructions)				
a	Amount received in 2016	6a		6b	Taxable amount
c	If election to defer to 2017 is attached, check here <input type="checkbox"/>		6d	6d	Amount deferred from 2015
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	



FARM INCOME — CASH BASIS

- Line 1a – Report of livestock or other products purchased for resale.
 - 1a – Sales of items
 - 1b – Basis in items
 - 1c – Proceeds from sale after removing basis
- Line 2 – Sales of livestock, produce, grains or other product you raised including barter
- Line 4 – 1099 PATR payments received
- Line 5 – CCC Loans generally not counted as income
- Line 6 - Crop insurance proceeds. Insurance payments from crop damage count as income. They should generally be reported the year they are received.
- Line 7 – Custom Hire (machine work) that you or an employees preform for others or for the use of your property or machines
- Line 8 – Other income can include Credit for Federal excise tax paid on fuels – Use Form 4136 to calculate amount. This credit is for fuel for off road use of gasoline, Total * .183 tax credit. Track farm use gallons, mark receipts.



PART III - FARM INCOME - ACCRUAL METHOD

Part III Farm Income – Accrual Method (see instructions).

37	Sales of livestock, produce, grains, and other products (see instructions)			37		
38a	Cooperative distributions (Form(s) 1099-PATR)	38a		38b	Taxable amount	38b
39a	Agricultural program payments	39a		39b	Taxable amount	39b
40	Commodity Credit Corporation (CCC) loans:					
a	CCC loans reported under election			40a		
b	CCC loans forfeited	40b		40c	Taxable amount	40c
41	Crop insurance proceeds			41		
42	Custom hire (machine work) income			42		
43	Other income (see instructions)			43		
44	Add amounts in the right column for lines 37 through 43 (lines 37, 38b, 39b, 40a, 40c, 41, 42, and 43)			44		



PART III - FARM INCOME - ACCRUAL METHOD

45	Inventory of livestock, produce, grains, and other products at beginning of the year. Do not include sales reported on Form 4797	45				
46	Cost of livestock, produce, grains, and other products purchased during the year	46				
47	Add lines 45 and 46	47				
48	Inventory of livestock, produce, grains, and other products at end of year	48				
49	Cost of livestock, produce, grains, and other products sold. Subtract line 48 from line 47*				49	
50	Gross income. Subtract line 49 from line 44. Enter the result here and on Part I, line 9 ▶				50	

*If you use the unit-livestock-price method or the farm-price method of valuing inventory and the amount on line 48 is larger than the amount on line 47, subtract line 47 from line 48. Enter the result on line 49. Add lines 44 and 49. Enter the total on line 50 and on Part I, line 9.



WHERE DOES INCOME COME FROM?

- Profit – from operating - Selling produce, providing custom hire, etc.
 - $\text{Income} - \text{Expenses} = \text{Profit}$
 - Taxed at Federal and state levels
- Gain - From the sale of assets, such as tractors, livestock, etc. – taxed at a lower rate. Must know the basis in the property.
- Borrowed capital or return of capital – not taxable



FORM 4797 SALES OF BUSINESS PROPERTY

Part I – Record assets held MORE than 1 year The gain/loss is taxed at capital gain rates.

Part II – Record assets held for LESS than 1 year. Gain/Loss taxed as ordinary income.

Part III – Record sale of assets used in farming operation. Gain or loss depends on holding period.



BASIS

- **Assets that you buy** – price, sales tax, freight, legal fees, and recording fees
- **Assets that you trade** - basis left in the traded item, (if applicable) plus the price you paid (boot)
- **Assets given to you** - You need to know what the basis was from the person that gave it to you. When, and if, you sell the asset, your basis may be the donor's basis, or the fair market value on the date of the gift.
- **Assets inherited** - Your basis is usually the fair market value of the asset on the date of death. This is called a 'step up in basis.'

Increases – improvements made, usually for land which is not depreciate

Decreases – depreciation or Section 179 deductions



PART II — FARM EXPENSES

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).							
10	Car and truck expenses (see instructions). Also attach Form 4562	10			23	Pension and profit-sharing plans	23
11	Chemicals	11			24	Rent or lease (see instructions):	
12	Conservation expenses (see instructions)	12			a	Vehicles, machinery, equipment	24a
13	Custom hire (machine work) .	13			b	Other (land, animals, etc.) . . .	24b
14	Depreciation and section 179 expense (see instructions) .	14			25	Repairs and maintenance . . .	25
15	Employee benefit programs other than on line 23 . . .	15			26	Seeds and plants	26
16	Feed	16			27	Storage and warehousing . . .	27
17	Fertilizers and lime	17			28	Supplies	28
18	Freight and trucking	18			29	Taxes	29
19	Gasoline, fuel, and oil	19			30	Utilities	30
20	Insurance (other than health)	20			31	Veterinary, breeding, and medicine	31
21	Interest:				32	Other expenses (specify):	
a	Mortgage (paid to banks, etc.)	21a			a	-----	32a
b	Other	21b			b	-----	32b
22	Labor hired (less employment credits)	22			c	-----	32c
					d	-----	32d
					e	-----	32e
					f	-----	32f



FARM EXPENSE — LINE BY LINE

- Cash method Pre-paid in the year which paid but limited to 50% of all farm related expenses for year. Some exceptions apply.
- Line 10 – Also attach Form 4562 Depreciation regardless of method, See Pub 463 Travel, Entertainment, Gift, and Car Expenses for more information
 - Track mileage (personal and farm) mileage log or GPS system (MileIQ)
 - Standard mileage rate (\$.54 per mile in 2016 \$.535 in 2017) plus parking and tolls
 - Actual Expenses – gas, oil, repairs, insurance, registration, and interest
 - Special Rule for Farms - Pub 225 page 22 - **Business use percentage**. You can claim 75% of the use of a car or light truck as business use without any records if you used the vehicle during most of the normal business day directly in connection with the business of farming.
- Lines 11, 13, 15-20, 23-28 and 31 self explanatory,
- Line 12 Conservation expenses, NRCS, costs include treatment or movement of earth, diversion channels, ditches. Earthen dams, eradication of brush, planting of windbreaks. Fully deductible
- Line 14 Depreciation and Section 179 expense use to capitalize assets used in farming
- Line 21 Mortgage interest – Allocate if you are living on the farm, use any reasonable method Chap 4
- Line 22 Labor hired = You can deduct reasonable wages you paid to your farm's full and part-time workers. You must withhold Social Security, Medicare and income taxes from your employees' wages.
- Line 29 Taxes – Allocate farm property taxes using a reasonable method. Also deduct the Social Security and Medicare taxes you pay to match the amount withheld from wages of farm employees and any federal unemployment tax you pay.
- Line 30 – Utilities – Use a reasonable method to allocate farm portion of utilities paid.



DEPRECIATION AND SECTION 179

Pub 946 – How To Depreciate Property

Form 4562 - Depreciation and Amortization

Depreciation - The using up or wearing out of equipment, breeding animals, livestock facilities, greenhouses, and storage structures. Depreciation is an expense that lowers the basis of your property over time.

Useful life charts, by type of asset (3 years-tractors, 5 years-cattle, 7 years-Equipment, 10 years-ag/horticulture structures/fruit and nut trees or vines, 20 years–Other Farm Buildings).

Section 179 – Election to expense assets in the year placed in production and not capitalize. Limit for 2016 \$500,000 and can't produce a loss.



SELF-EMPLOYMENT TAXES

Schedule SE – Self-Employment Taxes
– Short form, easy to use

Tax is posted to Form 1040

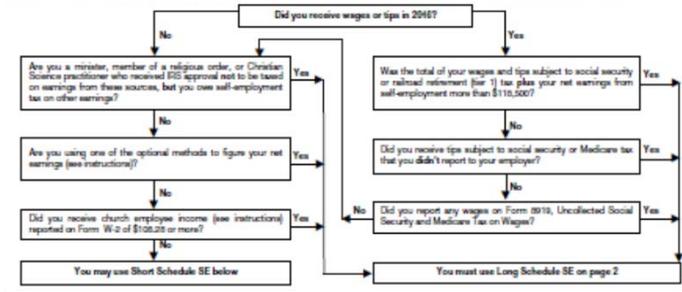
Credit for 50% of the tax is posted on
page 1, 1040 as adjustment to income

SCHEDULE SE (Form 1040)		Self-Employment Tax	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (501)		▶ Information about Schedule SE and its separate instructions is at www.irs.gov/schedulese .	2016 Attachment Sequence No. 17
Name of person with self-employment income (as shown on Form 1040 or Form 1040NR)		▶ Attach to Form 1040 or Form 1040NR.	
		Social security number of person with self-employment income ▶	

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart only if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-E), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	
3 Combine lines 1a, 1b, and 2	3	
4 Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; don't file this schedule unless you have an amount on line 1b. ▶	4	
Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5 Self-employment tax. If the amount on line 4 is: • \$118,500 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$118,500, multiply line 4 by 2.9% (0.029). Then, add \$14,094 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5	
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (0.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	



EMPLOYEES

IRS Pub 51 (Circular A) - Agricultural Employer's Tax Guide

Each employee must Complete Form I-9, Employment Eligibility Verification and W-4 Employee's Withholding Allowance Certificate

The \$150 Test or the \$2,500 Test - All cash wages paid by a farmer-employer must withhold/pay social security, Medicare, state tax and Workers Comp insurance if the farmer paid

- (1) wages of \$2,500 or more during the year to all employees or
- (2) an individual employee more than \$150 in cash wages during the year.

If the \$2,500 group test isn't met, the \$150 test for an employee still applies.

Wages paid to children are not subject to FICA if both parents are sole proprietors or partnership in the business.



OTHER FARM CREDITS/DEDUCTIONS

Form 4684 – Casualty & Theft Loss – Report damage, destruction, or loss of property due to identifiable event that is sudden, unexpected or unusual. Example: car, truck, tractor accident, earthquake, fires, freezing, or storms. Limitation apply.

Form 8903 Domestic Production Activities Deduction - W-2 wages paid to non – family employees are eligible to deduct 9% of income not to exceed 50% of W-2 wages.

Schedule J – Income Averaging for Farmers and Fisherman – averaged for 3 years. Helpful if wide disparity of income or tax brackets over a 3 year period.



PART II - FARM EXPENSES (CONTINUED)

33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions ▶	33	
34	Net farm profit or (loss). Subtract line 33 from line 9	34	

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

35 Did you receive an applicable subsidy in 2016? (see instructions) Yes No

36 Check the box that describes your investment in this activity and see instructions for where to report your loss.

a All investment is at risk. **b** Some investment is not at risk.



REAL TIME EXAMPLE

WHERE SHOULD THE INCOME AND EXPENSES BE REPORTED ON ZOE AND MERLOT'S JOINT TAX RETURN?

Figure 3.1. Zinfandels' Income and Expenses

	Gross	Basis or Expenses	Net
Merlot's Wages	\$26,000	\$0	\$26,000
Calf Sales	6,000	4,800	1,200
Grape Sales to Winery	23,000	15,000	8,000
Juice and Wine	13,000	6,000*	7,000
Cull Beef Cows	<u>5,000</u>	<u>1,000</u>	<u>4,000</u>
Total	<u>\$73,000</u>	<u>\$26,800</u>	<u>\$46,200</u>

*\$2,000 of this amount is the wholesale value of the grapes used in juice and wine production.



EXAMPLE - ANSWERS

- Merlot's wage income is reported on the front of Form 1040.
- The calf sales and the grape sales are both reported on Schedule F (Form 1040).
- Zoe's sales of grapes to the local winery are also reported on Schedule F (Form 1040), because she has not processed those grapes.
- Zoe's juice sales are reported on Schedule C (Form 1040), Profit or Loss From Business, because she has processed them beyond the normal stage for preparing grapes for sale from the farm.





Q & A



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