


U.S. Income Taxes

Selected Issues For Your Farm

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Extension Professional Training
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Definition of a Farm

You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant.

A farm includes livestock, dairy, ornamental plants, poultry, fish, fruit, and truck farms.

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Sale of Items with Added Value

Schedule F

- Farm business income and expenses.
- Processing incidental to growing and harvesting is considered as a farming activity.

Schedule C

- Non-farm business income and expenses.
- Processing beyond the minimum needed to prepare it for initial sale is NOT a farming activity.

Harvesting and boxing cut flowers – Sch F

Creating flower arrangements in vases – Sch C

Selling wool (not more than basic cleaning) – Sch F

Selling processed wool – Sch C



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Gov't Payments

- Agricultural Program Payments
 - All agricultural program payments.
- “Distressed” Farmer Payments (Colorado)
 - Payment = P & I overdue by 60 or more days
+ Next payment

*Recipients to
receive 1099-G.*

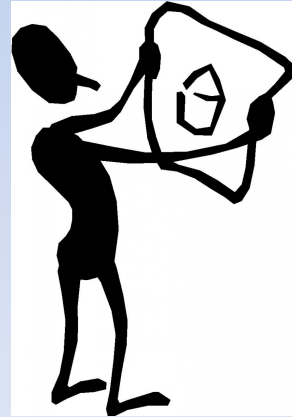


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Farm Expenses – Schedule F

- ❖ Ordinary and necessary costs of operating a farm or ag enterprise.
- ❖ Expenditures for purchases of items for resale are not deductible in year occurred (under cash method).
- ❖ Capital improvements increase the basis of applicable assets.
- ❖ Depreciation reduces basis.



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Custom Hire (Machine Work)

*Custom Work =
1099-MISC
(if \$600+)*

*Employee =
W-2*

- **Behavioral** – Does farmer control or have the right to control what the worker does and how the worker does his/her job.
- **Financial** – Are the business aspects of the worker's job controlled by the farmer (how is the worker paid, who provides tools, etc.)
- **Relationship** – Are there written contracts or employee type benefits? Will the relationship continue?



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Hired Labor

- ❖ Deduct reasonable wages, benefits, workman's comp, and all other direct costs.
- ❖ Use fair market value of items given to hired labor.
- ✓ Deduct costs of boarding farm employees.
- ✓ Pay officers of a legal entity.
- ✓ Employees to receive Form W-2.



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Hired Labor- Family Members

- ❖ Deduct reasonable wages and other compensation paid your child.
 - Payments to children under 18 are not subject to social security and Medicare taxes.
 - May be subject to federal income tax withholding.
- ❖ Deduct reasonable wages and other compensation paid your spouse.



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Lease versus Purchase

Factors indicating a conditional sales contract.

- *Part of each payment applied to an equity interest.*
- *Receive title after stated amount of required payments.*
- *Amount to be paid for a short time is a large part of the amount to be paid to get title.*
- *Option to buy the property at a nominal price.*
- *Agreement designates part of the payment as interest, or part of the payment can easily be recognized as interest.*



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Depreciation

Annual deduction recognizing that assets wear out or become obsolete.

- ❖ Must be tangible property
 - Buildings, equipment, vehicles, livestock, fences
 - **NOT** land
- ❖ To be depreciable, property must meet conditions
 - Be owned
 - Used in the business or income producing activity
 - Have a determinable useful life
 - Be expected to last more than one year



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Depreciation

Begins – when property is ready and available for use.

Ends – when cost is fully recovered or property is retired from service, whichever happens first.

Example: You purchased an asset delivered to the farm in December 2022.

1. If assembled and ready for use, begin depreciating in 2022.
2. If not assembled until the April, begin depreciating in 2023.



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Depreciation Recovery Periods (GDS)

	YEARS		YEARS
Single purpose ag & horticulture structures	10	Cattle (dairy and breeding)	5
Farm buildings	20	Goats/Sheep (breeding)	5
Farm machinery/equipment		Horses (age when placed in service)	
- NEW	5		
- USED	7		
Ag fences	7	Breeding & Working (12 years or less)	7
Water wells	15	Breeding & Working (more than 12 years)	3
Truck (13,000 lbs or more)	5	Hogs (breeding)	3



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Section 179

- ❖ Allows deducting all or part of qualifying property in the year “placed in service”
- ❖ Increased to \$1 million with investment limit of \$2.5 million (made permanent)
- ❖ *SUVs limited to \$26,200*
 - *Full size crew cab
½ ton pickups
with a short box are
SUVs by definition.*



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Like-Kind Exchanges

Trades of equipment and machinery will be a two-step transaction:

1. Sale of traded in item at trade allowance (FMV)
2. Purchase of new item (higher basis)
 - a. Section 179 expense or
 - b. Bonus depreciation.



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Like-Kind Exchanges

John traded a tractor with a FMV of \$75,000 and an adjusted basis of \$0 for a tractor with a fair market value of \$125,000, plus \$50,000 in cash.

Old Law	New Law
Depreciation recapture was deferred.	Must recognize \$75,000 in depreciation recapture.
Basis in new tractor was \$50,000.	Basis in new tractor will be \$125,000.
Could generally use IRC §179 to immediately expense \$50,000.	May use Section 179. May use bonus depreciation. Capitalize and depreciate.

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What to do during drought?

1. What are your "cow costs"?
2. Consequences:
 - ✓ Taxes?
 - ✓ Loans – Current? Future?
 - ✓ Equity (net worth)?
 - ✓ Personal?
3. What is the future?
 - ✓ Prices – Cows? Calves?
 - ✓ Prices = Profitability?



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Weather-Related, 1033(e)

- Sale of livestock (other than poultry) held for draft, breeding, or dairy purposes. **Involuntary Conversion**
- Due to drought, flood, or other weather-related conditions.
- Numbers greater than normal.
- Replacement property
 - Must be similar or related in service or use.
 - Same dollar amount.



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Weather-Related, 451(e)

- Livestock of all types.
- Numbers greater than normal.
- Animals do not have to be raised nor sold in the declared disaster area
 - BUT, the weather-related condition that caused an area to be declared eligible for federal assistance much have caused the premature sale of the animals.*
- Defer reporting income until following tax year.




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2022 Tax Rates on Capital Gains

- ❑ Long Term = Gains on assets held more than 1 year.
 - Taxed at capital gains rates
- ❑ Short Term = Gains on assets held one year or less.
 - Taxed as ordinary income.

LT Capital Gains Rate	Taxable Income (MFJ)
0%	Up to \$83,350
15%	\$83,351 - \$517,200
20%	Over \$517,201


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More Information

- ✓ See your tax preparer
- ✓ Publication 225 ("Farmer's Tax Guide")
- ✓ Visit the IRS web site: www.irs.gov
- ✓ Seek other professional counsel
 - jtranel@colostate.edu
 - www.ruraltax.org
 - www.RightRisk.org

Thank You!


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