Sample Tax Return for a Beginning Small Farm with a Value-Added Business

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2011 Form 1040, Individual Income Tax Return

I.M. and Sheeza filled out the "label block" with their names, social security numbers (SSN), and current mailing address. The Hopefulls are married, for federal tax purposes; I.M. is referred to as the taxpayer because he is listed first on the Form 1040. Sheeza is listed second and is "the spouse" for this income tax return.

The Hopefulls did not check the Presidential Election Campaign boxes because neither wanted $3 to go to that fund.

Line 2: The Hopefulls were married as of December 31, 2011, and chose the "Married filing jointly" status. They could have filed two returns as "Married filing separately" but filing jointly reduced their tax liability, as it does for most married taxpayers.

Line 6a: The Hopefulls checked the "Yourself" box for I.M.

Line 6b: The Hopefulls checked the "Spouse" box for Sheeza.

Line 6c: The Hopefulls listed their daughter Mia Hopefull and entered her social security, relationship, and an "X" to indicate she is under age 17.

Line 6d: The Hopefulls entered their 2 personal exemptions and one dependent exemption on the right side of this section. They entered their 3 total exemptions in the emboldened box.

Line 7: I.M. earned $7,000 from his trucking job before he quit and began farming and Sheeza earned $45,000 as a nurse. These amounts were reported on Forms W-2, Wage and Tax Statement, filed by their respective employers. They entered the $52,000 total here.

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Line 8a: The Hopefulls reported their $250 interest income from their savings and interest-bearing checking accounts at the local bank.

Line 12: The Hopefulls entered their $48 net business loss from the first year of "Nature's Way Meat," a business I.M. started late in 2011 to market his grass-fed steers. They calculated this loss on Schedule C (Form 1040), which is discussed in detail later.

Line 18: The Hopefulls entered their $6,463 net farm loss from the first year of operating "Nature's Way Farm." They calculated this loss on Schedule F (Form 1040), which is discussed in detail later.

Line 22: The Hopefulls entered their $45,739 total income from all sources in 2011, which were reported on Lines 7, 8a, 12, and 18.

Line 25: Because they no longer had health insurance from I.M.'s former employer, the Hopefulls contributed $512.50 per month to a Health Savings Account (HSA) beginning in March. They entered the $5,125 total here.

Line 27: The Hopefulls entered the $340 deductible part of I.M.'s self-employment tax, which is discussed later.

Line 36: The Hopefulls added the amounts lines 25 and 27 and entered the $5,465 total.

Line 37: The Hopefulls calculated their $36,076 adjusted gross income (AGI) by subtracting the $5,465 adjustments to gross income from their $40,274 total income. They also reported this amount on line 38 at the top of page 2.

Line 39a: I.M. and Sheeza were both born in 1989 and are not blind; therefore they do not qualify for any additional standard deduction.

Line 40: The Hopefulls entered their $12,514 personal itemized deductions calculated on Schedule A (Form 1040), which is discussed later.

Line 41: The Hopefulls subtracted their $12,514 itemized deductions from their $40,274 AGI and entered the $27,760 result.

Line 42: The Hopefulls multiplied their 3 exemptions on line 6d by $3,700 to calculate their $11,100 exemption deduction.

Line 43: The Hopefulls calculated their taxable income by subtracting their $11,100 exemptions deduction from the $27,760 on line 42.

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Note: The Hopefull's total income was $45,739 (line 22), however, their taxable income is only $16,660. The $29,079 difference is not subject to tax due to adjustments, itemized deductions, and exemption deductions. This means the Hopefulls have $29,079 of tax free income.

Line 44: The Hopefulls are in the 10% percent federal income tax bracket but they must use the tables in the Form 1040 instructions to compute their income tax. The tax on $16,660 of taxable income for married taxpayers filing jointly in 2011 was $1,668. Because they did not owe any alternative minimum tax (AMT) on line 45, they entered only their $1,668 regular income tax on line 46.

Line 48: The Hopefulls qualified for the child care credit because they put Mia in a weekend day care program so that I.M. can work the farm and Sheeza can work in the emergency department at the local hospital. They calculated their $396 credit on Form 2441, Child and Dependent Care Expenses, which is discussed later. This credit "paid" part of the Hopefull's income tax liability.

Line 51: The child tax credit can be subtracted from income taxes by entering it on line 51 of Form 1040 only to the extent of the remaining tax liability after the credit reported on lines 47 through 50 have been subtracted. On this sample return, the $396 child care credit reduced their $1,668 tax liability to $1,272 ($1,668 – $396), so only that $1,000 child tax credit calculated on Form 8812, Additional Child Credit, (discussed later) can be deducted on line 51.

Line 54: Because the two credits are used in full, the remaining tax liability the Hopefulls owe is $272 and was entered on line 55.

Line 56: I.M. elected the optional farm method of computing his self-employment tax and therefore owed $590 as calculated on Schedule SE (Form 1040), which is discussed later. Because the Hopfulls also owed income tax of $272 they entered $862 ($590 + $272) on line 61.

Line 62: I.M.'s and Sheeza's employers withheld $2,700 from their wages and reported the withholdings in box 2 of their Forms W-2, Wage and Income Statement.

Line 64a: The Hopefulls did not qualify for an Earned Income Credit because their $52,000 combined Form W-2 income for 2011 was above $41,132—the threshold for a married couple with one child.

Line 72: The Hopefulls entered the 2,700 withheld from their paychecks.

Line 73: The Hopefulls subtracted their $862 of tax liability on line 61 from their $2,700 total payments on line 72 to calculate their $1,838 overpayment.

Line 74: The Hopefulls direct the IRS to refund all of the $1,838 overpayment electronically to their checking account by providing their bank's routing number

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(line 74b) checking the appropriate box (line 74c) and providing the specific account number (line 74d).

The Hopefulls leave lines 76 and 77 blank because they received a refund.

I.M. and Sheeza signed and dated the return and provided further personal information such as occupation and daytime phone number in the boxes below line 77. If the Hopefulls had hired an income tax preparer, that individual would have entered identifying information and signed and dated the return.

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