

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

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2011 Form 4562, Depreciation and Amortization for Schedule C (Form 1040)

The Hopefulls entered I.M.'s name and SSN because he is the sole proprietor of the meat business. They entered Schedule C (Form 1040) to identify this form with the meat business rather than the farming business.

Part 1 Election to Expense Certain Property Under Section 179

I.M. did not elect to deduct the cost of his freezer under I.R.C. § 179. A 2011 deduction for the cost of equipment would only add to his business loss and reduce his taxable income that is subject to the 10% marginal tax rate. I.M. hopes to be in a higher income tax bracket in future years. By not electing the I.R.C. § 179 deduction in 2011, he will have more depreciation that he can deduct in those years to offset income in a higher tax bracket.

Part II Special Depreciation Allowance and Other Depreciation

I.M.'s used walk-in freezer did not qualify for the special depreciation allowance.

Part III MACRS Depreciation

Line 19b: I.M. entered the \$15,000 cost of the freezer, its 5 year recovery period, the half-year convention, 200% declining balance depreciation rate, and \$3,000 of depreciation for 2011.

Line 22: I.M. entered his \$3,000 total allowable depreciation for his meat business and also reported it on line 13 of his Schedule C (Form 1040), discussed earlier.