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 F (Form 1040)

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

Part 1 Election to Expense Certain Property Under Section 179

I.M. did not elect to deduct the cost of his farm equipment 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

Only the purchase of a new roto-tiller qualifies for the special depreciation allowance. The rest of the equipment and buildings I.M. purchased in 2011 were used and therefore do not qualify. I.M. elected out of the special depreciation allowance for the roto-tiller to save the depreciation on the roto-tiller for later years when he expects to have income in a higher tax bracket as discussed in Part I.

Part III MACRS Depreciation

I.M. entered the buildings and equipment he purchased in 2011 on his depreciation schedule. The tractor, disc, chisel, bushhog, roto tiller, stock trailer, and trellises are 7-property. The irrigation system is 15-year property and the two buildings are 20-year. I.M. added the $3,030 cost of the vines to their income tax basis. He will begin depreciating the basis of the vines when they become productive in 2014.

Line 19c: I.M. entered the $11,000 cost of all the equipment he purchased in 2011 except the irrigation system, the 7-year recovery period of that equipment, the half-year convention, the 150% declining balance method of depreciation, and the $1,178 first-year depreciation on that equipment.

Line 19e: I.M. entered the $3,000 cost of all the irrigation equipment he purchased in 2011, its 15-year recovery period, the half-year convention, the 150% declining balance method of depreciation, and the $150 first-year depreciation on the irrigation equipment.

Line 19f: I.M. entered the $20,000 cost of the two farm buildings he purchased in 2011, their 20-year recovery period, the half-year convention, the 150% declining balance method of depreciation, and the $750 first-year depreciation on them.

Line 22:   I.M. entered his $2,078 total depreciation for 2011 and also reported it on line 14 of his Schedule F (Form 1040), discussed earlier.

Part V Listed Property

Line 24:   I.M. kept a log book of the business and personal miles he drove his pick-up so he answered "Yes" to questions 24a and 24b.

Line 26:   I.M. entered the ½-ton pickup truck he placed in service on February 15, 2011, (the closing date of the farm purchase) and the 92% (16,500 miles ÷ 18,000) business use based on his written log.

Line 30:   I.M. entered the 16,500 business miles he drove his pickup in 2011 according to his log book.

Line 31:   I.M. entered the 1,500 commuting miles he drove his pickup in 2011 per his vehicle log.

Line 33:   I.M. entered the 18,000 total miles he drove his pickup in 2011 according to his log book.

Line 34:   I.M. did not use the pickup for personal use but it was available so he checked the "Yes" box.

Line 35:   I.M. checked the "Yes" box because he owns 100% of the farming business.

Line 36:   The Hopefulls have another car for personal use so I.M. checked the "Yes" box.