

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

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2011 Schedule C (Form 1040), Profit or Loss From Business

The Hopefulls entered I.M.'s name and SSN on the first line of Schedule C (Form 1040) because he is the sole-proprietor of this business.

Line A: I.M. entered "retail sale of meat" as his principal business.

Line B: I.M. entered 445210, the activity code for meat markets from the Schedule C (Form 1040) instructions. The Departments of Commerce and Treasury and other federal agencies use this code in aggregate data studies without any personal or individual identifiers.

Line C: I.M. entered the name of his meat business.

Line D: Because I.M. does not have an Employer ID Number (EIN), he properly left line D blank. If he hires employees in the future, he will have to get an EIN and report it on line D.

Line E: I.M. entered his business address.

Line F: I.M. elected to use the cash method of accounting, which is common for small businesses. If the business grows he may have to convert to the accrual method of accounting.

Line G: I.M. checked the "Yes" box to indicate that he materially participated in this business.

Line H: Because I.M. started this business in 2011, he checked the box.

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Line I: I.M. did not make any payments that required him to file Forms 1099.

Line J: Because I.M. checked “No” on line I, he did not have to check a box on line J.

Part I Income

Line 1: I.M. entered the \$8,913 he received from the sale of all meat products from two processed steers his meat business acquired from his farming business.

Line 3: Because I.M. had no returns in 2011 to report on line 2, he reported the \$8,913 gross receipts from line 1d on line.

Line 4: I.M. entered the \$3,275 cost-of-goods sold as calculated in Part III, Cost of Goods Sold, of this Schedule C (Form 1040), discussed later..

Line 5: I.M. calculated his \$5,638 gross profit by subtracting his \$3,275 cost of goods sold from his \$8,913 gross receipts.

Line 6: I.M. entered the \$178 of sales taxes and remitted to the state department of revenue. He deducted the payment of these taxes on line 27a of this Schedule C (Form 1040).

Line 7: I.M. calculated his \$5,816 gross income by adding lines 5 and 6.

Part II Expenses

Line 8: I.M. entered the \$350 he paid for advertising in the local paper to announce the opening of Nature’s Way Meat.

Line 13: I.M. entered \$3,000 of depreciation on a used walk-in freezer he purchased to store his meat cuts.

Line 15: I.M. entered the \$250 he paid for an insurance policy on the freezer and its contents.

Line 17: I.M. entered the \$350 of attorney’s fees he paid to insure he was in compliance with all federal, state, and local food regulations.

Line 23: I.M. entered the \$250 he paid for county business licenses.

Line 25: I.M. entered the \$60 he paid for electricity to run the walk-in freezer and for meat business phone charges.

Line 27a: I.M. entered his \$1,604 total of other expenses from Part V, Other Expenses of this Schedule C (Form 1040) including \$1,426 for processing 1,426 pounds of

meat and \$178 of sales tax collected and remitted to the state department of revenue.

Line 28: I.M. entered his \$5,864 total expenses.

Line 29: I.M. calculated his \$48 tentative loss for 2011 by subtracting line 28 from line 7.

Line 30: I.M. did not have a home office used exclusively for either his businesses and therefore does not qualify for the office-in-the-home deduction.

Line 31: I.M. entered his \$48 net loss here and on line 2 of Section B of Schedule SE (Form 1040).

Line 32a: I.M. checked this box to indicate that all the investment in the business is at risk of financial loss.