

## Schedule F (Form 1040), Profit or Loss From Farming

Note. Schedule F has numerous changes for 2011. In addition, there are a number of lines that the IRS has decided not to use in 2011, but appear on the form.

New lines were added to implement reporting of farm income received via merchant card (credit and debit cards) and third party network payments even though they will be rare for farm transactions. These amounts are reported as “specified” income on Schedule F (Form 1040). However, for 2011, the IRS has deferred the requirement to report these amounts. Therefore, enter zero on lines 1a, 2a, 7a, 8a, 37b, 42a, and 43a, and report farm income on lines 1b, 2b, 7b, 8b, 37b, 42b, and 43b.

The first step in preparing Mr. Rosso’s income tax return is to determine his net farm profit or loss on **Schedule F (Form 1040). The income and expenses shown on this Schedule F (Form 1040) are taken** from his farm receipt and expense records. Data for the depreciation and section 179 deductions are taken from Form 4562, Depreciation and Amortization, and the illustrated depreciation worksheet that follows the tax return. Because the principal source of farm income is from dairy farming, Mr. Rosso will write “Dairy” in box A of Schedule F and write the number “112120” from the list of Principal Agricultural Activity Codes on page 2 of Schedule F (Form 1040) in box B. Mr. Rosso files his return on the cash basis and checks “Cash” in box C. Therefore, he will only complete page 1 of Schedule F. He will write his employer identification number in box D.

Mr. Rosso is the operator of the farm and has filed all required Form 1099 information returns. Therefore, he will check the yes boxes on lines E, F, and G.

### Schedule F (Form 1040) - Part I (Income)

Mr. Rosso keeps records of the various types of farm income he receives during the year. He uses this information to complete Part I of Schedule F (Form 1040).

**Line items.** He fills in all applicable items of farm income.

**Line 1b.** In 2011, he sold steers he had bought for resale. He enters sales of \$13,596. This amount is also written on the total line 1c.

**Line 1d.** He enters the original cost of the steers, \$6,523. He has kept a record of the cost of the livestock he bought and is careful to deduct the cost of each animal in the year of its sale. This is subtracted from line 1c giving Mr. Rosso a gross profit on the steers of \$7,073 which is entered on line 1e.

**Line 1e.** He subtracts his cost on line 1d from the sales on line 1c and reports the difference, \$7,073, as his profit on line 1e. Had he sold any other items he bought for resale, he would combine the sales and costs of these items with the sales and costs of the steers and report only the totals on lines 1b, 1d, and 1e. He does not report sales of livestock held for draft, breeding, sport, or dairy purposes here. These and other assets used in the business are reported when sold on Form 4797, Sales of Business Property.



**Line 2b.** He enters the income he received during 2011 from sales of items he raised or produced on his farm. His principal source of farm income is dairy farming. The amount reported on this line, \$263,018, includes sales of all of the following.

Milk (including any premiums received)	\$233,874
Steers and calves he raised*	2,914
Miscellaneous vegetables he grew	1,457
Corn (\$7,286), hay (\$8,944), and wheat (\$8,543) he raised	24,773
<b>Total reported on line2b</b>	<b>\$263,018</b>

\* Raised other than for draft, breeding, sport, or dairy purposes.

**Lines 3a and 35b.** He reports the \$1,145 he received from cooperatives on line 3a. Since this is the dollar amount of a qualified written notice of allocation paid as part of a patronage dividend, he enters \$1,145 as the taxable amount on line 3b.

**Lines 4a and 4b.** He received Farm Service Agency (FSA) cost-sharing payments of \$6,781 on a soil conservation project (diversion channels) completed in 2011. He received the income as materials and services paid for by the government and reports it on both line 4a and line 4b. The Department of Agriculture (USDA) generally reports such payments to the recipient on Form 1099-G. The entire \$6,781 has been included on Schedule F (Form 1040), line 12, as a conservation expense. He did not receive any cost-sharing payments this year that he could exclude from his farm income.

**Line 5a.** He reports the \$665 loan he received from the Commodity Credit Corporation (CCC) because he elected in a previous year to treat these loans as income in the year received. If he had elected not to report his CCC loan as income in the year received and forfeited the loan in a later year, he would report the loan as income on lines 5b and 5c in the year of forfeiture.

**Line 7b.** He reports the \$1,258 of income he received from custom harvesting.

**Line 8b.** On his 2010 income tax return, he claimed a credit of \$142 for excise taxes on gasoline used on his farm. He includes the entire \$142 in his 2011 income on line 8b because he deducted the total cost of gasoline (including the \$142 of excise taxes) as a farm business expense in 2010.

**Line 9.** Here Mr. Rosso totals all of the previously reported income from lines 1 through 8.

## **Schedule F (Form 1040) - Part II (Expenses)**

Mr. Rosso records his farm expenses during the year for tax purposes and summarizes these expenses at the end of the year. This gives him his deductible expenses, which he enters in Part II of Schedule F (Form 1040).

**Line items.** He fills in all applicable items of farm expense deductions.

**Line 10.** He uses his trucks 100% for his farming business and the actual cost (not including depreciation) of operating the trucks in 2011 was \$1,090, which he enters on line 10. (Depreciation is reported on line 14.)

**Line 11.** The \$8,055 on this line is the amount he paid for all chemicals purchased during the year.

**Line 12.** He deducts the \$6,781 spent on diversion channels in 2011. The amount listed here includes the full cost of the government cost-sharing project, which he has reported as income on line 4b. He continues the policy elected in previous years of deducting annual soil and water conservation expenses. The expenses are consistent with a conservation plan approved by the Natural Resources Conservation Service of the USDA. The amount was not more than 25% of Mr. Rosso's gross income from farming, so the entire amount is deductible.

**Line 13.** The \$3,879 on this line is the amount he paid a company for spraying his crops. He made the payment to a corporation, so he did not need to file a Form 1099-MISC to report the payment.

**Line 14.** He enters the \$33,705 depreciation from Form 4562. (See discussion below.)

**Line 16.** He enters the \$50,814 cost of feed bought for consumption by his livestock in 2011. He did not include the cost of feed bought for livestock he and his family intend to consume. He also did not include the value of feed grown on his farm.

**Line 17.** He enters \$6,544. This is the amount paid for fertilizer and lime.

**Line 18.** He deducts the \$2,906 he paid for trucking and milk marketing expenses. He chose to itemize the \$807 government milk assessment and lists it separately on line 32a.

**Line 19.** He deducts the \$6,216 cost of gasoline, fuel, and oil bought for farm use, other than amounts he included on line 10 for car and truck expenses. He did not deduct the cost of fuel used for heating, lighting, or cooking in his home.

**Line 20.** He deducts the \$3,362 cost of insurance on his farm buildings (but not on his home), equipment, livestock, and crops. He did not deduct the entire premiums on 3-year and 5-year insurance policies in the year of payment, but deducts each year only the part that applies to that year.

**Lines 21a and 21b.** He deducts on line 21a the \$3,175 interest paid on the farm mortgage for the land and buildings used in farming. He deducts on line 21b the \$7,738 interest paid on obligations incurred to buy livestock and other personal property used in farming or held for sale. He deducts his home mortgage interest on Schedule A (Form 1040), Itemized Deductions.

**Line 22.** He enters the \$26,368 in wages he paid during the year for labor hired to operate his farm, including wages paid to his wife and children. He did not include amounts paid to himself. He has no employee credits that would reduce the amount of wages entered. For those wages paid that were subject to social security and Medicare taxes, he included the full amount of the wages before the reduction for the employee's share of those taxes, or other amounts withheld. His share of the social security and Medicare taxes is included in the total taxes deducted on line 29.

**Line 24b.** He enters only the \$9,660 cash rent paid for the use of land he rented from a neighbor, Mr. Green. He did not deduct rent paid in crop shares. He completed a Form 1099-MISC for the rent paid to Mr. Green and sent Copy A to the IRS with Form 1096. He gave Mr. Green Copy B of the Form 1099-MISC.

**Line 25.** The \$13,504 he enters includes \$12,982 for repairs to farm machinery and \$522 for repairs to farm buildings. He did not include the value of his own labor or the cost of repairs on his home. He prepared Form 1099-MISC for the labor cost of farm machinery repairs because the repair shop is not a corporation. He sent Copy A to the IRS with Form 1096 and gave Copy B to the owner of the repair shop. If the repair shop had been a corporation, Mr. Rosso would not have had to file a Form 1099-MISC. He does not have to file a Form 1099-MISC for the building repair because he paid less than \$600.

**Line 26.** He enters the \$5,872 cost of seeds and plants used in farming. He deducts these costs each year. He did not include the cost of plants and seeds purchased for the family garden.

**Line 28.** He enters the \$7,433 paid for livestock supplies and other supplies, including bedding.

**Line 29.** He enters \$3,201 for taxes paid during 2011, including state and local taxes on the real estate and personal property (\$1,184) used in farming. He did not include the sales tax paid on farm supplies because this tax was included in the cost for supplies he deducted on line 28. He also did not include the gasoline tax on the gasoline bought for farm use, including the gasoline used in his trucks for farm business, because these taxes were included in the costs for gasoline he deducted on lines 19 and 10. He included his share of social security and Medicare taxes (\$2,017) paid for agricultural employees. He filed Form 943, Employer's Annual Federal Tax Return for Agricultural Employees (not shown), in January 2012, reporting these taxes for calendar year 2011.

He does not deduct, on Schedule F (Form 1040), his state income tax or the taxes on his home and any portion of his land not used for farming. He deducts these taxes on Schedule A (Form 1040). He cannot deduct any federal income tax paid during the year.

**Line 30.** He enters \$5,504 for the cost of water, electricity, gas, and telephone service used only in farming. He cannot deduct personal utilities. He also cannot deduct the cost of basic local telephone service (including any taxes) for the first telephone line to his home.

**Line 31.** He enters \$8,508, the total paid during 2011 for veterinary fees (\$3,607), livestock medicines (\$2,402), and breeding fees (\$2,499). He does not prepare Form 1099-MISC for the veterinarian and the supplier of breeding services because both are incorporated.

**Line 32.** He enters other farm business expenses. These include: \$347 for commissions; \$807 government milk assessment, dues, and fees; \$287 for financial records and office supplies; and \$534 for farm business travel and meals. Farm business travel includes expenses for the State Forage Tour and for attending the farm management conference at State University. He included only 50% of the cost of meals in the deduction.

**Line 33.** Here Mr. Rosso totals the expenses he entered on lines 10 through 21.

**Line 34 - Net farm profit.** To arrive at his net farm profit, he subtracts the amount on line 33 (\$216,290) from the amount on line 9 (\$280,082). His net farm profit, entered on line 34, is \$63,792. He also enters that amount on Form 1040, line 18, and on Schedule SE (Form 1040), Section A, line 1a. Because he shows a net profit on line 34, he skips lines 35 and 36.

**Note.** Because Mr. Rosso received a commodity credit loan, he would be required to check the “yes” box on line 35. If he has an excess loss on Schedule F for 2011, his excess farm loss may be reduced or eliminated. An excess farm loss is the amount by which the total deductions from the farming business(es) exceed the gross income or gain from the farming business(es), plus a threshold amount. The threshold amount is the greater of \$300,000 (\$150,000 if the filing status is married filing separately) or the total net profit or loss from farming business(es) for the last five years (2006 – 2010), including for each of those years any net gain from the sale of property used in the farming business(es). To determine if there is an excess farm loss, the IRS has furnished worksheet in the Schedule F instructions.

