



# Farm Income Taxes

## *Women in Ag Summit* *Wilson County*

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# Income Tax Disclaimer



*All information provided is considered educational and not legal or tax advice. I am not a CPA or income tax accountant. Specific tax issues related to your situation or farming operation should be discussed with a well-trained tax preparer or CPA.*

# Taxes and Records



- Better records make it easier for your tax preparer to do a more accurate job in preparing your tax return
- Good records **may reduce** the cost of tax return preparation
- Seek a CPA/tax preparer who understands farming
- Best record keeping system = **one you will use!**

# How do you keep your records?



## Bookkeeping in Excel

Date	Particulars	Income (\$)	Expenses (\$)	Bank/Cash Balance (\$)
01.04.2018	Balance B/F			1000
05.04.2018	Sales	500		1500
05.04.2018	Rent Paid		80	1420
10.04.2018	Sales	1000		2420
15.04.2018	Printing & Stationery		60	2360
30.04.2018	Interest Income	10		2370
05.05.2018	Chair Purchases		150	2220
05.05.2018	Rent Paid		80	2140
10.05.2018	Sales	200		2340
31.05.2018	Interest Income	12		2352
05.06.2018	Rent Paid		80	2272
10.06.2018	Sales	300		2572



**QUICKEN**  
FOR FARM & RANCH FINANCIAL RECORD-KEEPING

# What are we going to cover?



- Current tax issues
- Depreciation (+ Bonus Depreciation)
- Reporting Livestock Sales – Correctly!
- Sole proprietorship, partnership, qualified joint venture
- What are auditors looking for? (hobby farms)
- Like-kind exchanges
- QBID
- Tax Reducing Tips
- Net operating loss
- Greenbelt and Ag Sales Tax Exemption
- Conservation Easement
- Estate Tax Exemption Update
- IRA and 401K beneficiary rules update



# Current Tax Issues - 2024



- **Standard Deduction:** Single-\$14,600, MFJ- \$29,200, HOH- \$21,900
- **Tax Rates:** 10% (up to \$11,600 single, \$23,200 MFJ), 12% (up to \$47,150 single, \$94,300 MFJ), 22% ( up to \$100,525 single, \$201,050 MFJ) 24%, 32%, 35%, 37% (other tax rates)
- **Child Tax credit for 2024** = \$2000 for under age 17
- **Other dependent credit** = \$500

# Tax Guides/Information



- **IRS Publication 225 Farmers Tax Guide**  
Updated annually (usually by December)  
<https://www.irs.gov/pub/irs-pdf/p225.pdf>
- **Schedule F and instructions**  
<https://www.irs.gov/pub/irs-pdf/i1040sf.pdf>

**CHECK FOR LATEST VERSIONS**

# Let's Talk Depreciation

- Multiple ways to depreciate assets
- Small equipment under \$2500 can be expensed
- Purchase of asset should **NOT** be based on a need for depreciation
  - *Can a new asset increase income or reduce labor and expenses?*



# Depreciation



- **New Equipment** – 5 years
- **Used Equipment** – 7 years
- **Bonus Depreciation** – was 100%, 80%-2023, 60%-2024, 40%-2025. 20%-2026, gone-2027
  - New equipment (maybe used), for **ALL assets** in a recovery class
- **Section 179 Deduction**—on per item basis, max \$1,220,000, cannot create loss
- **Depreciation table**

## Farm Asset Recovery Periods – by GDS Class (General Depreciation System)

October 2020

Asset	GDS Life	ADS Life	Method	Sec 179
Hogs (breeding)	3	3	200% DB	Yes
Tractor units (over-the-road)	3	4	200% DB	Yes
Autos	5	5	200% DB	Yes
Calculators and Copiers	5	6	200% DB	Yes
Cattle (dairy or breeding)	5	7	200% DB	Yes
Computer and peripheral equipment	5	5	200% DB	Yes
New farm machinery and equipment <sup>1</sup>	5	10	200% DB	Yes
Goats and sheep (breeding)	5	5	200% DB	Yes
Logging machinery and equipment <sup>2</sup>	5	6	200% DB	Yes
Truck (heavy duty, unloaded weight 13,000 lbs. or more)	5	6	200% DB	Yes
Truck (actual weight less than 13,000lbs.)	5	5	200% DB	Yes
Communication equipment <sup>3</sup>	7	10	200% DB	Yes
Used farm machinery and equipment	7	10	200% DB	Yes
Fences (agricultural)	7	10	200% DB	Yes
Grain bin	7	10	200% DB	Yes
Horses (age when placed in service)				
Breeding and working (12 years or less)	7	10	200% DB	Yes
Breeding and working (more than 12 years)	3	10		
Racing horses (more than 2 years)	3	12		
Office furniture, fixtures and equipment	7	10	200% DB	Yes
Agricultural and Horticultural Single Purpose Structure	10	15	200% DB	Yes
Horticultural structures (single purpose)	10	15	200% DB	Yes
Trees or vines bearing fruit or nuts	10	20	SL	Yes
Drainage facilities	15	20	150% DB	Yes
Paved Lots	15	20	150% DB	Yes
Water wells	15	20	150% DB	No
Farm Buildings <sup>4</sup>	20	25	150% DB	No
Residential rental property	27.5	40	SL	No
Nonresidential real property	39 <sup>5</sup>	40	SL	No

### Footnotes:

1 Not including grain bin, cotton ginning, asset fence, or other land improvements and the original use starts with you and placed in service after December 31, 2017.

2 Used by logging and sawmill operators for cutting of timber

3 Not including communication equipment listed in other classes

4 Not including single purpose agricultural and horticultural structures

5 For property placed in service after May 12, 1993.

# Reporting of Livestock Sales

- **Two major types:** Livestock raised for sale or Breeding Livestock
- Calves, lambs, kids, etc. Raised or Purchased (and resold) – **Schedule F**
- Breeding Livestock = cull cows, bulls, ewes, etc. raised or purchased for the purpose of breeding – **Form 4797 (NOT Schedule F)**

**SCHEDULE F  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Profit or Loss from Farming**

Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065.  
Go to [www.irs.gov/ScheduleF](http://www.irs.gov/ScheduleF) for instructions and the latest information.

OMB No. 1545-0074

**2022**  
Attachment  
Sequence No. **14**

Name of proprietor \_\_\_\_\_ Social security number (SSN) \_\_\_\_\_

**A** Principal crop or activity \_\_\_\_\_ **B** Enter code from Part IV \_\_\_\_\_ **C** Accounting method:  Cash  Accrual \_\_\_\_\_ **D** Employer ID number (EIN) (see instr.) \_\_\_\_\_

**E** Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on passive losses  Yes  No

**F** Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions  Yes  No

**G** If "Yes," did you file required Form(s) 1099?  Yes  No

**Part I Farm Income—Cash Method.** Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

<b>1a</b> Sales of purchased livestock and other resale items (see instructions)		<b>1a</b>	
<b>b</b> Cost or other basis of purchased livestock or other items reported on line 1a		<b>1b</b>	
<b>c</b> Subtract line 1b from line 1a			<b>1c</b>
<b>2</b> Sales of livestock, produce, grains, and other products you raised			<b>2</b>
<b>3a</b> Cooperative distributions (Form(s) 1099-PATR)	<b>3a</b>	<b>3b</b> Taxable amount	<b>3b</b>
<b>4a</b> Agricultural program payments (see instructions)	<b>4a</b>	<b>4b</b> Taxable amount	<b>4b</b>
<b>5a</b> Commodity Credit Corporation (CCC) loans reported under election			<b>5a</b>
<b>b</b> CCC loans forfeited	<b>5b</b>	<b>5c</b> Taxable amount	<b>5c</b>
<b>6</b> Crop insurance proceeds and federal crop disaster payments (see instructions):			
<b>a</b> Amount received in 2022	<b>6a</b>	<b>6b</b> Taxable amount	<b>6b</b>
<b>c</b> If election to defer to 2023 is attached, check here <input type="checkbox"/>		<b>6d</b> Amount deferred from 2021	<b>6d</b>
<b>7</b> Custom hire (machine work) income			<b>7</b>
<b>8</b> Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			<b>8</b>
<b>9</b> <b>Gross income.</b> Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions			<b>9</b>

**Part II Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses. See instructions.

<b>10</b> Car and truck expenses (see instructions). Also attach <b>Form 4562</b>	<b>10</b>	<b>23</b> Pension and profit-sharing plans	<b>23</b>
<b>11</b> Chemicals	<b>11</b>	<b>24</b> Rent or lease (see instructions):	
<b>12</b> Conservation expenses (see instructions)	<b>12</b>	<b>a</b> Vehicles, machinery, equipment	<b>24a</b>
<b>13</b> Custom hire (machine work)	<b>13</b>	<b>b</b> Other (land, animals, etc.)	<b>24b</b>
<b>14</b> Depreciation and section 179 expense (see instructions)	<b>14</b>	<b>25</b> Repairs and maintenance	<b>25</b>
<b>15</b> Employee benefit programs other than on line 23	<b>15</b>	<b>26</b> Seeds and plants	<b>26</b>
<b>16</b> Feed	<b>16</b>	<b>27</b> Storage and warehousing	<b>27</b>
<b>17</b> Fertilizers and lime	<b>17</b>	<b>28</b> Supplies	<b>28</b>
<b>18</b> Freight and trucking	<b>18</b>	<b>29</b> Taxes	<b>29</b>
<b>19</b> Gasoline, fuel, and oil	<b>19</b>	<b>30</b> Utilities	<b>30</b>
<b>20</b> Insurance (other than health)	<b>20</b>	<b>31</b> Veterinary, breeding, and medicine	<b>31</b>
<b>21</b> Interest (see instructions):		<b>32</b> Other expenses (specify):	
<b>a</b> Mortgage (paid to banks, etc.)	<b>21a</b>	<b>a</b> _____	<b>32a</b>
<b>b</b> Other	<b>21b</b>	<b>b</b> _____	<b>32b</b>
<b>22</b> Labor hired (less employment credits)	<b>22</b>	<b>c</b> _____	<b>32c</b>
		<b>d</b> _____	<b>32d</b>
		<b>e</b> _____	<b>32e</b>
		<b>f</b> _____	<b>32f</b>
<b>33</b> <b>Total expenses.</b> Add lines 10 through 32f. If line 32f is negative, see instructions			<b>33</b>
<b>34</b> <b>Net farm profit or (loss).</b> Subtract line 33 from line 9			<b>34</b>

If a profit, stop here and see instructions for where to report. If a loss, complete line 36.

**35** Reserved for future use.

**36** Check the box that describes your investment in this activity and see instructions for where to report your loss:

**a**  All investment is at risk **b**  Some investment is not at risk

**Part I Farm Income – Cash Method.** Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

<b>1a</b>	Sales of purchased livestock and other resale items (see instructions)		<b>1a</b>			
<b>b</b>	Cost or other basis of purchased livestock or other items reported on line 1a		<b>1b</b>			
<b>c</b>	Subtract line 1b from line 1a				<b>1c</b>	
<b>2</b>	Sales of livestock, produce, grains, and other products you raised				<b>2</b>	
<b>3a</b>	Cooperative distributions (Form(s) 1099-PATR)	<b>3a</b>		<b>3b</b>	Taxable amount	<b>3b</b>
<b>4a</b>	Agricultural program payments (see instructions)	<b>4a</b>		<b>4b</b>	Taxable amount	<b>4b</b>
<b>5a</b>	Commodity Credit Corporation (CCC) loans reported under election					<b>5a</b>
<b>b</b>	CCC loans forfeited	<b>5b</b>		<b>5c</b>	Taxable amount	<b>5c</b>
<b>6</b>	Crop insurance proceeds and federal crop disaster payments (see instructions):					
<b>a</b>	Amount received in 2022	<b>6a</b>		<b>6b</b>	Taxable amount	<b>6b</b>
<b>c</b>	If election to defer to 2023 is attached, check here <input type="checkbox"/>			<b>6d</b>	Amount deferred from 2021	<b>6d</b>
<b>7</b>	Custom hire (machine work) income					<b>7</b>
<b>8</b>	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)					<b>8</b>
<b>9</b>	<b>Gross income.</b> Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions					<b>9</b>

**Part II Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses. See instructions.

10	Car and truck expenses (see instructions). Also attach <b>Form 4562</b>	10		23	Pension and profit-sharing plans . . . . .	23	
11	Chemicals . . . . .	11		24	Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment . . . . .	24a	
13	Custom hire (machine work) . . . . .	13		b	Other (land, animals, etc.) . . . . .	24b	
14	Depreciation and section 179 expense (see instructions) . . . . .	14		25	Repairs and maintenance . . . . .	25	
15	Employee benefit programs other than on line 23 . . . . .	15		26	Seeds and plants . . . . .	26	
16	Feed . . . . .	16		27	Storage and warehousing . . . . .	27	
17	Fertilizers and lime . . . . .	17		28	Supplies . . . . .	28	
18	Freight and trucking . . . . .	18		29	Taxes . . . . .	29	
19	Gasoline, fuel, and oil . . . . .	19		30	Utilities . . . . .	30	
20	Insurance (other than health) . . . . .	20		31	Veterinary, breeding, and medicine . . . . .	31	
21	Interest (see instructions):			32	Other expenses (specify):		
a	Mortgage (paid to banks, etc.) . . . . .	21a		a	.....	32a	
b	Other . . . . .	21b		b	.....	32b	
22	Labor hired (less employment credits)	22		c	.....	32c	
				d	.....	32d	
				e	.....	32e	
				f	.....	32f	
33	<b>Total expenses.</b> Add lines 10 through 32f. If line 32f is negative, see instructions . . . . .					33	
34	<b>Net farm profit or (loss).</b> Subtract line 33 from line 9 . . . . .					34	
	If a profit, stop here and see instructions for where to report. If a loss, complete line 36.						
35	Reserved for future use.						
36	Check the box that describes your investment in this activity and see instructions for where to report your loss:						
a	<input type="checkbox"/> All investment is at risk.	b	<input type="checkbox"/> Some investment is not at risk.				

# Breeding Livestock



- **Tax treatment depends on:**
  - Whether animal raised or purchased
  - How long animal was held (owned): cattle or horses **24 months (other livestock 12 months) or longer** = long term
  - Sale results in a capital gain or loss
- **Sales reported on Form 4797 not Schedule F**

Form **4797**

Department of the Treasury  
Internal Revenue Service

## Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts  
Under Sections 179 and 280F(b)(2))

Attach to your tax return.

Go to [www.irs.gov/Form4797](http://www.irs.gov/Form4797) for instructions and the latest information.

OMB No. 1545-0184

**2022**

Attachment  
Sequence No. **27**

**Farmers tax Guide (Pub 225) and/or Instructions for Form 4797 explain where on form sales are entered.**

**Gains reported on Form 4797 are not subject to self-employment tax!**



# Raised Breeding Livestock



## *Reported on Form 4797, not Schedule F*

**Example 3.** Farmer C sold a 4-year-old raised cow for \$1,100. The expenses of the sale are \$125, and these are deducted from the gross sales price to arrive at a gain of \$975. This gain is a long-term gain since the cow was held at least two years and is not subject to self-employment tax. This gain would be combined with other gains and losses to determine net gains and losses for the year.

# Purchased Breeding Livestock

***Reported on Form 4797, not Schedule F***

**Example 4.** Farmer D sold a cow purchased four years ago. The cow was purchased for \$1,300 and sold for \$1,250. The amount of depreciation taken was \$867, and the expense of the sale was \$125. The gain from the sale of the purchased cow is calculated as follows:

A.) Gross selling price	\$1,250
B.) Original cost	\$1,300
C.) Add expense of sale	+ 125
D.) Less allowable depreciation	- <u>867</u>
E.) Adjusted basis	<u>\$ 558 (B+C-D)</u>
Gain realized	\$ 692 (A-E)

*Gain will be ordinary gain as a 1245 depreciable asset (but, no SE tax)*

# Cost of Incorrect Tax Reporting

- If Farmer D had mistakenly reported the sale of the cow for \$1,250 on Schedule F as raised livestock with no basis, **the entire amount would be considered ordinary income and would be subject to self-employment tax.** Depending on the farmer's adjusted taxable income from all sources, if the farmer is in the 10 percent tax bracket, **the payment of income tax (10%) and self-employment tax (15.3%) could be about \$300.**
- In years when a farm has an overall loss, **improper reporting reduces the loss and could increase taxes owed**, as less income from other sources (off-farm, investments, etc.) would be offset by the reduced loss.

# Holding Period Rules

- Long-term Capital gain holding period generally is **24 months of cattle and horses** and **12 months for other livestock**.

## Other important rules:

- There are some exceptions to the holding period rules for situations like **weather-related sales of livestock**.
- If an animal is raised with the intent to become breeding livestock, but it is determined the **animal is sterile** and the animal is sold within a reasonable time, it could be considered breeding livestock.
- A farmer who is **selling an entire herd of animals**, generally, could consider the younger animals that would have become breeding livestock as such for tax purposes.

# Livestock Sale Reporting Summary



## Separate reporting of livestock sales **FOUR** ways:

- Calves raised
- Calves purchased
- Breeding Livestock raised
- Breeding Livestock purchased

**Make sure your tax preparer understands!**

# Farm Ownership



- **Sole Proprietor**
- **Partnership – Form 1065**
  - Spouses may be considered partners by IRS
- **Qualified Joint Venture**
  - Filing option for spouses when both involved in farm operation (prevents filing Form 1065)

# What are Auditors looking for?

- Proof of Profit Motive
- Business / Farm Plan
- Separate records / accounts
- Continued education/training
- Changes / improvements to become profitable
- High off-farm income

# Like Kind Exchange

- **Only Real Estate (land & buildings) qualify – must follow rules carefully**
- **Trade in of equipment – NOT a like kind exchange**
  - Trade in tractor – value of trade-in shown like a sale (may require recapture of depreciation).
  - Generally allows depreciation of full cost of new tractor.
  - Often reduces self-employment taxes.



# QBID

## Qualified Business Income Deduction

- Began in 2018, replaced domestic production activities deduction
- **Most farms qualify for QBID**
- 20% deduction
- **No profit = no deduction**

# General Farm Tax Reducing Tips

- **Prepaying Expenses** – Feed, Fertilizer, Seed, etc.
  - *Must be a purchase not a deposit*
- **Paying Children under age 18** - no SE tax
- **Income Averaging**
- **Deferring disaster or crop insurance payments**
  - *Sale in following year must be normal practice*
- **Timber sales** – establish basis (value) in timber
- **IRA or 401K contribution**

# Net Operating Loss

- **Maximum \$250,000 single (\$500,000 MFJ)**
- Farmers allowed **2 year carryback.**
- Can carry forward **indefinitely**
- NOL Carry forward can offset up to 80% of income
- Easier to carry forward
- **Non farms not allowed carryback**

# Tax Changes in 2025??????



- Many current tax breaks expire in 2025
- Unknown what will be extended
- Tax rates might increase



# Property Tax – Greenbelt



- Agricultural, Forest, Open Space Land Act
- 15 acres minimum (can be contiguous tracts)
- Avg \$1,500 ag income per year (over 3 year period)
- Maximum acreage per county increasing to 3,000
- Contact County Tax Assessors office
- Greenbelt Manual:

<https://comptroller.tn.gov/content/dam/cot/sboe/documents/rules-&-manuals/2019.09.30.SBOEGreenbeltManual.pdf>

# Agricultural Sales Tax Exemption



- Law Changes went into effect **January 1, 2023**
- **TN Dept of Revenue:**  
<https://www.tn.gov/content/dam/tn/revenue/documents/forms/sales/f1308401.pdf>
- Form to apply and list of exempted items on website or available at Extension offices
- **Proof of farming:** copy of Schedule F or letter describing farm operation for new farms
- **Minimum \$1,500 of products produced per year**
- Website includes rules on when to charge sales tax.  
[https://www.tn.gov/content/dam/tn/revenue/documents/tax\\_manuals/Ag-Tax-Manual-Nov2022.pdf](https://www.tn.gov/content/dam/tn/revenue/documents/tax_manuals/Ag-Tax-Manual-Nov2022.pdf)

# Conservation Easement



- Protects land from development – **PERMANENT**
- **Future uses**
  - Farming, Recreation, Wildlife
- **Advantages**
  - Protects land and Possible tax savings
- **Disadvantages**
  - Significant cost to set up, devalues property, limits future sales, might cause audit
- **Needs to be considered and planned carefully!**

# Estate Tax Exemption & IRAs

- **2024 Federal Estate Tax exemption**
  - \$13,610,000
  - Revert back to \$6,500,000 (in 2026)
- **Retirement accounts – IRA, 401K**
  - Required minimum distribution (RMD) required now at age 73
  - Change to beneficiary withdrawal rules



# Reminders



- Good Records = **tax savings and improved management**
- Be sure any source of tax information is **current version**
- **IRS looks for tax dodgers** – don't give them any reason to look at you!

# Tori M. Griffin

## Farm Management- Extension Specialist



UNIVERSITY OF TENNESSEE EXTENSION

<https://arec.tennessee.edu/extension/manage/>



<https://arec.tennessee.edu/extension/manage/tennessee-master-farm-manager/>

## Contact Information:

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<https://arec.tennessee.edu/extension/farming-fundamentals/>