

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

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2011 Schedule A (Form 1040), Itemized Deductions

The Hopefulls entered both of their names on the first line of Schedule A (Form 1040) but only I.M.'s social security number because he is listed as the taxpayer on Form 1040 and the IRS uses his SSN to identify the tax return.

Medical and Dental Expenses

- Line 1: The Hopefulls entered the \$6,250 health insurance premiums they paid in March through December of 2011. They also paid \$1,200 of health care expenses that were reimbursed by their HSA. However, because they received a tax benefit from deducting the HSA contribution on line 25 of Form 1040, they cannot deduct those expenses.
- Line 2: The Hopefull's entered their \$40,274 AGI to calculate the 7½% of AGI floor (\$3,021) they entered on line 3 and subtracted from their \$6,250 total medical expenses to calculate their \$3,229, which they entered on line 4.

Taxes You Paid

- Line 5: The Hopefulls checked box (a) to indicate they chose to deduct their \$2,800 state and local income taxes that were withheld in 2011 rather than general sales taxes.
- Line 6: The Hopefulls enter the \$1,450 of real estate property tax they paid in December 2011 on the house and one acre they used as their personal residence.
- Line 7: The Hopefulls entered the \$260 of personal property tax property tax on the family van, paid in August of 2011.

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Line 9: The Hopefulls added the taxes reported on lines 5, 6, and 7 and entered the \$4,510 total.

Interest You Paid

Line 10: The Hopefulls entered \$3,025, which is 44% of the \$6,875 interest they paid on the \$150,000 loan to purchase the home and farm because 44% of the initial loan was allocated to the house and one acre of land they used as their personal residence. They deducted the remaining 56% as a farm expense on Schedule F (Form 1040).

Line 13: The Hopefulls entered the \$600 they paid for mortgage insurance.

Line 15: The Hopefulls add the \$3,025 of home mortgage interest and \$600 of home mortgage insurance premiums and enter the \$3,625 result.

Gifts to Charity

Line 16: The Hopefull's church sent them a statement showing they donated \$1,150 in 2011 and that they did not receive any goods or services for those donations. That documentation allowed the Hopefulls to deduct their donations, which they entered on lines 16 and 19.

Total Itemized Deductions

Line 29: The Hopefulls entered the \$12,514 total of lines 4, 9, 15, and 19. Because these itemized deductions are greater than their \$11,600 standard deduction the Hopefulls chose to claim the itemized deductions rather than the standard deduction. They carry the \$12,514 deduction to line 40 of Form 1040.