

## Beginning, Small, Young Farmer Case Study: Going Home to Begin a Farm Business

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### 2011 IRS Form 1040, U.S. Individual Income Tax Return

Mary Gold entered her current mailing address and social security number (SSN) in the upper part of Form 1040. Taxpayers can elect to contribute \$3 to the presidential election campaign by checking a box, but Mary did not make that election.

Line 1: Mary marked her filing status as “Single” because she is not married and has no children.

Line 6a: Mary checked the box, “Yourself” for her personal exemption because her parents cannot claim her as a dependent on their tax return. She is over age 18 and is no longer a student. Mary entered the number 1 on the correct line on the right hand of the page.

Line 6d: Mary reported her one exemption as an individual, single taxpayer.

### Income

Line 7: Mary reported the \$6,000 of wages True paid for her labor. True reported the \$6,000 to Mary on IRS Form W-2, Wage and Tax Statement by January 31, 2012 (for the 2011 tax year).

Line 8a: Mary reported \$100 of interest income she earned on her savings and interest bearing checking accounts. Her financial institution sent Mary IRS Form 1099-INT, Interest Income, because the amount was above \$10.



Line 18: Mary reported her \$21,904 net farm income and attached IRS Schedule F, (Form 1040), Profit or Loss From Farming, which shows how she calculated the net amount. Schedule F (Form 1040) is discussed below.

Line 22: Mary's reported her \$28,004 total of lines 7, 8a, and 18.

### **Adjusted Gross Income**

Line 27: Mary can deduct \$1,547 of the self-employment tax (social security and Medicare taxes) that she paid on her net farm income. She calculated the self-employment tax and the \$1,547 deduction on IRS Schedule SE (Form 1040), Self-Employment Tax, which is discussed later.

Line 28: Mary chose to set aside funds for her future retirement using a simplified employee pension (SEP) plan. The SEP contribution is calculated as a percentage of her net farm income. Based on this year's net income, the maximum Mary can contribute is \$4,071. She chose to contribute \$4,000.

Line 32: Mary wants to aggressively save for future retirement. She is eligible for a \$5,000 IRA contribution in addition to her SEP contribution and she made that contribution.

Line 36: Mary reported the \$10,547 sum of lines 27, 28, and 32.

Line 37: Mary calculated her \$17,457 adjusted gross income (AGI) by subtracting the \$10,547 on line 36 from the \$28,004 on line 22.

### **Tax and Credits**

Line 38: To begin the calculations on page 2 of IRS Form 1040, Mary carried the \$17,457 AGI from line 37 to line 38.

Line 40: Mary claimed the standard deduction for a single taxpayer because she did not have itemized deductions sufficiently larger than \$5,800.

Line 41: Mary subtracted her \$5,800 standard deduction from her \$17,457 AGI and entered the \$11,657 result.

Line 42: Mary, as a single taxpayer, is allowed one \$3,700 exemption deduction (line 6d times \$3,700)

Line 43: Mary subtracted her \$3,700 personal exemption deduction from the \$11,657 reported on line 41 and entered the \$7,957 result.

- Line 44: Mary's taxable income is all in the 10% income tax bracket, but she must use the tax tables to calculate her taxes. The tax table amount for \$7,957 of taxable income for a single taxpayer is \$798.
- Line 45: Mary is not subject to the alternative minimum tax (AMT).
- Line 46: Mary entered the \$798 total of lines 44 and 45.
- Line 49: Mary entered her \$798 American Opportunities Credit for her last semester at the local community college as calculated on IRS Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits) discussed later.
- Line 54: Mary's only credit is her \$798 American Opportunity Credit.
- Line 55: Mary's federal income tax is \$0 after subtracting her \$798 of credits.
- Line 56: Mary entered her \$2,690 of self-employment tax as calculated on IRS Schedule SE (Form 1040) discussed later.
- Line 61: Mary's \$2,690 total tax is the sum of lines 55 and 56.
- Line 62: Mary entered the \$180 federal income tax withholding from her wages as reported on her Form W-2, Income and Tax Statement.
- Line 66: Mary entered the \$800 refundable portion of the American Opportunity Credit as calculated on IRS Form 8863.
- Line 72: Mary entered the \$980 total of lines 62 through 71.
- Line 76: Mary subtracted her \$980 of withholding and tax credits from her \$2,690 tax liability and entered the \$1,710 result.
- Line 77: Although Mary owed \$1,710 in taxes, she was not subject to a penalty for underpayment of estimated taxes because she filed her return and paid the \$1,710 of taxes due by March 1, 2012.

Below Line 77 is the signature block where Mary signed and dated the return. If Mary hired a paid preparer to prepare her income tax returns; that person would sign and provide information in the appropriate boxes.