

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

*Guido van der Hoeven, Extension Specialist / Senior Lecturer
Department of Agricultural and Resource Economics, North Carolina State University*

2011 IRS Schedule F, (Form 1040), Profit or Loss From Farming

As the proprietor of a farming operation, Mary entered her name and her social security number (SSN) at the top of Schedule F (Form 1040).

- Line A: Mary's principal crops are corn and soybeans.
- Line B: The principal activity code for crop farming is 111100. It is used for statistical analysis by the United States Departments of Agriculture, Commerce and Treasury and other federal agencies in aggregate data studies without any personal or individual identifiers.
- Line C: Mary chose to use the cash method of accounting, which is by far the most common accounting method used by farmers. This choice remains in effect until she elects to change to the accrual method of accounting. However, very few farmers elect to change to accrual accounting.
- Line E: Mary answered yes to the question of material participation because she makes all decisions regarding production and marketing and she is physically involved in the tillage and harvesting of her corn and soybeans.
- Line F: As discussed earlier, Mary made payments to the owner of the land she rented and to True that require her to file Forms 1099-MISC. Therefore she checked the yes box. Generally, farmers must file IRS Forms 1099 for any cumulative payments of \$600 or more to an individual or unincorporated business for rents, machine hire, or contract work paid in the ordinary course of the farming business.



Line G: Mary filed IRS Forms 1099-MISC for rent paid to her lessor and for rent and fees for services paid to True as discussed earlier. Therefore, she checked the “Yes” box.

Part I Farm Income – Cash Method

Line 2b: Mary reported her \$109,782 of her raised crop sales.

Line 4a: Mary reported her \$2,250 of Direct Payments as part of the USDA Farm Program. The Farm Service Agency (FSA) issued Mary an IRS Form 1099-G, Government Payments, for this amount.

Line 4b: Because all of her \$2,250 government program payments are taxable, she reports the full \$2,250.

Line 9: Mary entered the \$112,032 sum of lines 2b and 4b.

Part II Expenses

Line 10: Because Mary elected to deduct the \$20,000 cost of her pickup truck under I.R.C. § 179 (discussed later), she cannot claim the standard mileage rate deduction for her pickup. Therefore, she deducted the \$4,585 itemized expenses for her pickup truck (listed earlier in the facts for this case study).

Line 11: Mary entered the \$5,550 she paid True for pesticides.

Line 13: Mary entered the \$11,775 she paid True for the pesticide application and harvesting of her crops.

Line 14: Mary reported the \$20,000 I.R.C. § 179 expense deduction from IRS Form 4562, Depreciation and Amortization, which is discussed later.

Line 17: Mary entered the \$15,150 she paid True for fertilizer.

Line 24a: Mary entered the \$4,500 she paid True for equipment rental.

Line 24b: Mary entered the \$18,750 she paid for land rent.

Line 26: Mary entered the \$6,818 she paid True for corn and soybean seed.

Line 32a: Mary reported the \$3,000 she paid True to dry her corn and soybeans.

Line 33: Mary entered the \$90,128 sum of lines 10 through 32a.

Line 34: Mary entered her \$21,904 net farm profit.

Line 35: Mary answered “Yes” to the question regarding receipt of subsidy payments in 2011, which are reported on lines 4a and 4b as discussed earlier.

Because Mary chose to use the cash method of accounting, she did not need to complete or file page 2 of IRS Schedule F (Form 1040). Farmers who use the accrual method of accounting must complete and file page 2 of IRS Schedule F.

Note: Beginning farmers may have a net loss on their Schedule F (Form 1040) in their first year or two of farming because of the cost of getting started. If they have a net operating loss (NOL) as a result of their farm loss, they can carry the NOL to another tax year to offset taxable income. By default, a farm NOL is carried back 5 years, but farmers can elect to carry the NOL back 2 years or to forego the carryback and carry it forward only. There is a more detailed discussion of NOLs in a fact sheet and in the *Tax Guide for Owners and Operators of Small and Medium Sized Farms* at www.RuralTax.org.