

# Table of Contents

<b>General Information .....</b>	<b>1</b>
<b>Entities filing Schedule F.....</b>	<b>2</b>
Qualified joint venture .....	3
Community income .....	4
<b>Schedule F .....</b>	<b>4</b>
<b>Accounting methods.....</b>	<b>7</b>
Cash method .....	7
Accrual method.....	9
Crop method.....	10
Combination method .....	10
<b>Schedule F heading .....</b>	<b>11</b>
Material participation .....	12
<b>Farm inventory reporting.....</b>	<b>15</b>
Uniform capitalization rules.....	15
Inventory valuation methods.....	17
<b>Change in accounting method .....</b>	<b>19</b>
<b>Farm Income .....</b>	<b>22</b>
Cash method .....	22
Accrual method.....	23
<b>Sources of farm income.....</b>	<b>24</b>
Sales of farm products .....	24
Sales due to weather conditions .....	25
Income from cooperatives.....	29
Agricultural program payments.....	33
Commodity Credit Corporation (CCC) loans.....	41
Crop insurance proceeds and disaster payments.....	43
Custom hire (machine work).....	47
Bartering .....	47

Easement and right-of-way .....	47
Cancellation of debt .....	48
Farm rental income .....	56
<b>Sale of farm assets .....</b>	<b>58</b>
Depreciation recapture .....	62
Livestock.....	64
<b>Income averaging for farmers.....</b>	<b>66</b>
Filing status change .....	67
Effect on other tax determinations.....	67
Alternative minimum tax .....	68
Schedule J.....	69
<b>Deductible Expenses.....</b>	<b>96</b>
<b>Prepaid farm supplies.....</b>	<b>97</b>
Deduction limit .....	98
Exceptions .....	98
<b>Prepaid livestock feed .....</b>	<b>99</b>
Purchase vs. deposit.....	99
Business purpose .....	100
No material distortion of income.....	100
<b>Items purchased for resale .....</b>	<b>101</b>
Chickens, seeds and young plants.....	101
<b>Capitalizing costs of property.....</b>	<b>102</b>
<b>Breeding fees.....</b>	<b>102</b>
<b>Conservation expenses .....</b>	<b>102</b>
<b>Fertilizer and lime.....</b>	<b>103</b>
<b>Insurance .....</b>	<b>104</b>
Advanced premiums .....	104
Business interruption insurance.....	105
Life insurance to secure a loan .....	105
Self-employed health insurance.....	105

<b>Interest</b> .....	<b>105</b>
Allocation of interest .....	106
Deduction limit .....	107
<b>Business use of home</b> .....	<b>107</b>
Eligibility .....	107
Regular use test .....	110
Principal place of business test .....	110
Determining business use of home deduction .....	112
<b>Labor hired</b> .....	<b>134</b>
Property for services rendered.....	134
Child as an employee.....	135
Custom hire .....	135
Nondeductible pay .....	135
<b>Repairs and maintenance</b> .....	<b>136</b>
Betterment.....	136
Adaptation .....	137
Restoration .....	137
<b>Rent or lease</b> .....	<b>138</b>
Lease or purchase .....	139
Conditional sales contract .....	139
Motor vehicle leases.....	140
<b>Taxes</b> .....	<b>140</b>
Allocation of taxes .....	140
Employment taxes .....	141
Highway use tax.....	142
Income taxes .....	142
Sales taxes .....	142
Self-employment tax deduction.....	142
<b>Tenant housing expenses</b> .....	<b>142</b>
<b>Marketing quota penalties</b> .....	<b>142</b>

Other expenses.....	143
Part personal/part business expenses .....	144
Reasonable allocation .....	144
Nondeductible expenses .....	144
Depreciation.....	145
Form 4562 .....	145
Capital expenses.....	148
Placed in service .....	149
Idle property.....	149
MACRS.....	150
Recovery periods .....	151
Conventions.....	153
MACRS depreciation methods .....	156
Bonus depreciation .....	158
Amortization.....	159
Section 179 expensing.....	160
Farm vehicles.....	167
Standard mileage rate .....	167
Actual expense method .....	168
Substantiation requirements.....	169
Limitations on farm losses .....	170
At-risk limits .....	170
Passive activity loss limits.....	171
Excess business loss rules .....	171
<b>Tax Adjustments and Credits .....</b>	<b>182</b>
Qualified business income deduction (QBID) .....	182
Domestic production activities deduction .....	182
QBID/DPAD on Form 1099-PATR .....	183
Fuel tax credit .....	186
Farming purposes .....	187

Ultimate purchaser .....	187
Credit or refund .....	189
Form 4136 .....	189
Inclusion in income .....	191
<b>Self-employment tax .....</b>	<b>195</b>
Self-employment tax rate .....	195
Self-employed.....	195
Share farmer .....	196
Contract farming .....	196
4-H club or FFA project .....	197
Married partners.....	197
Self-employment earnings.....	197
More than one business .....	197
Community property .....	198
Lost income payments .....	198
Gain or loss.....	198
Wages and salaries .....	199
Conservation Reserve Program (CRP) payments.....	199
Landlord participation in farming .....	199
Net operating loss .....	200
Methods for figuring net earnings .....	201
Regular method .....	201
Optional methods.....	202
Reporting SE tax.....	204
Self-employment tax deduction.....	204
Joint return.....	205
Community property income .....	205
Completing Schedule SE.....	205
Part I – Self-Employment Tax.....	206
Part II: Optional Methods to Figure Net Earnings .....	212

<b>Hobby Farms .....</b>	<b>219</b>
Hobby vs. for-profit business.....	219
Factors determining profit motive .....	219
Presumption of profit.....	224
Impact of hobby determination .....	226
Reporting hobby income.....	227
Hobby deductions and losses .....	227
Tax Court analysis.....	228
Facts.....	229
Breeding activity.....	229
Operational history .....	230
Breeding facilities .....	232
Recordkeeping.....	233
Marketing activities.....	235
Sales activities.....	235
Time and effort.....	235
Federal income tax returns .....	236
Results of IRS audit.....	237
Tax Court opinion .....	237
<b>Index.....</b>	<b>250</b>