



Lesson 6.3: Special Tax Rules for Agriculture - Mixed-Use Property



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

1

1



UNIVERSITY OF ARKANSAS
School of Law


LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

- 40+ years of leadership in agricultural and food law
- Nationally recognized faculty
- Specially designed courses
- On-campus and distance options
- For recent law graduates and experienced attorneys
- Outreach and education for farms and food businesses through the Food and Ag Impact Project
- Visit us at <https://law.uark.edu/academics/llm-food-ag/>

2

Legal Disclaimer

This presentation is intended to provide general information on agricultural income tax issues and should not be construed as providing legal advice. It should not be cited or relied upon as legal authority. State laws vary and no attempt is made to discuss state specific laws. For advice about how these issues might apply to your individual situation, consult an attorney.



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

3

3

Funding

- This is a part of the Agricultural Financial, Tax and Asset Protection program led by the University of Arkansas Division of Agriculture's Southern Risk Management Education Center. www.aefatp.org
- This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA22CPT0012189.
- Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture.
- In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.

4

Program Overview

1. Filing: Federal Income Tax Filing Requirements
2. Records: Recordkeeping Requirements
3. Taxes: Individual Federal Income Tax Return
4. Entities: Business Entities and Federal Tax
5. Agricultural Income: Special Rules
- 6. Special Tax Rules for Agriculture** <- We are here.



5

Lesson 6

Overview - Special Tax Rules for Agriculture

- 6.1 USDA Payments
- 6.2 Debt Relief
- 6.3 Mixed Use Real Property** <- We are here.
- 6.4 Value-Added Inventory
- 6.5 Conservation
- 6.6 Catastrophe and Disasters
- 6.6.a Livestock Losses and Weather Related Events



6

What is Mixed-Use Real Property?

- In this lesson mixed-use real property is property that is used for the business of farming or ranching and also as the residence of the farm or ranch owner.

7

How is Mixed-Use Property Reported on a Tax Return?

1. Direct expenses go with each use or business.
2. Shared expenses are **allocated** between uses or businesses.
3. Allocated means divided according to a method that accurately represents actual use.

8

Allocating Costs for Rented Mixed-Use Property

- If the mixed-use property is rented under one lease with just one combined rent payment, the rent should be allocated between the business and personal portion.
- No deduction is allowed for the portion of rent allocated to the residence.
- The portion of rent allocated to the business is deducted on Schedule F as rental expense.
- If the business and the residence share one utility bill the utility cost should be allocated between personal (no deduction allowed) and business (deduct on Schedule F.)

9

Allocating Costs for Mixed-Use Property Owned by the Taxpayer

For a property owned by the farmer/rancher, ownership and operating costs include:

1. Mortgage interest
2. Property taxes
3. Insurance
4. Repairs and maintenance, utilities
5. Depreciation

To allocate these costs, you need to know:

1. The fair market value of the business assets.
2. The ratio or percent of total business assets to total purchase price.

10

Determining business and personal use

House 100,000
 Barn 50,000
Land 10 Acres 40,000
 Purchase Price 190,000

Residential Use
 House 100,000
2 Acres 8,000
 Residential Use 108,000

Farm/Ranch Use:
 Barn 50,000
8 Acres 32,000
 Business Use: 82,000

Business Percentage $82,000/190,000 = 43\%$
 Residential Percentage
 $108,000/190,000 = 57\%$
 Total = 100%

11

Determining business and personal use

- Depreciate the barn.
- Report 57% of mortgage interest and property taxes on Schedule A (PERSONAL USE)
- Report 43% of mortgage interest and property taxes on Schedule F. (FARM BUSINESS)
- Report 43% of shared insurance and repairs and maintenance expense on Schedule F. (FARM BUSINESS)

12

Don't forget these assets if purchased with the land!

- Growing crops
- Productive vineyards and orchards
- Fences
- Wells
- Irrigation
- Timber*

*For information on timber taxes see TimberTax.Org.

13

What if I did not do that?

- See the discussion of amended returns in Lesson 1.
- Generally, you can amend returns going back three years to claim deductions to which you were entitled.


14

For more information

- If you purchase a property you intend to use as a residence and a business, you should consult a qualified tax preparer to help you determine the value of business assets and the allocation ratio for shared expenses.
- IRS Publication 587 covers business use of a home and mentions Schedule F. You have to interpret "home" to include the whole property to apply the instructions of Pub 587 to a farm or ranch property.

15

Questions?
Thank you!




ARKANSAS STATE UNIVERSITY
LL.M. PROGRAM IN AGRICULTURE AND FOOD LAW

16

16

How do I learn more about federal income taxes and my farm or ranch?

- There are previous lessons in this series.
- For each lesson there is a short set of questions you can answer to help you decide if the training will be useful to you.
- You can access the questions and the trainings here:
- <https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php>
- Additional project resources are available here: <https://agftap.org>




ARKANSAS STATE UNIVERSITY
LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

17

17

How do I learn more about federal income taxes and my farm or ranch?

IRS Publication 225, The Farmers Tax Guide
RuralTax.org
IRS website and publications



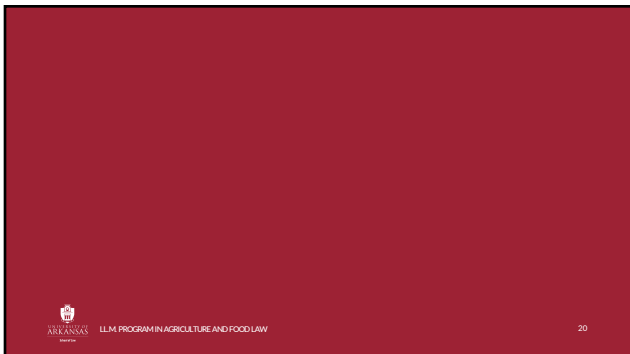
ARKANSAS STATE UNIVERSITY
LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

18

18



19



20