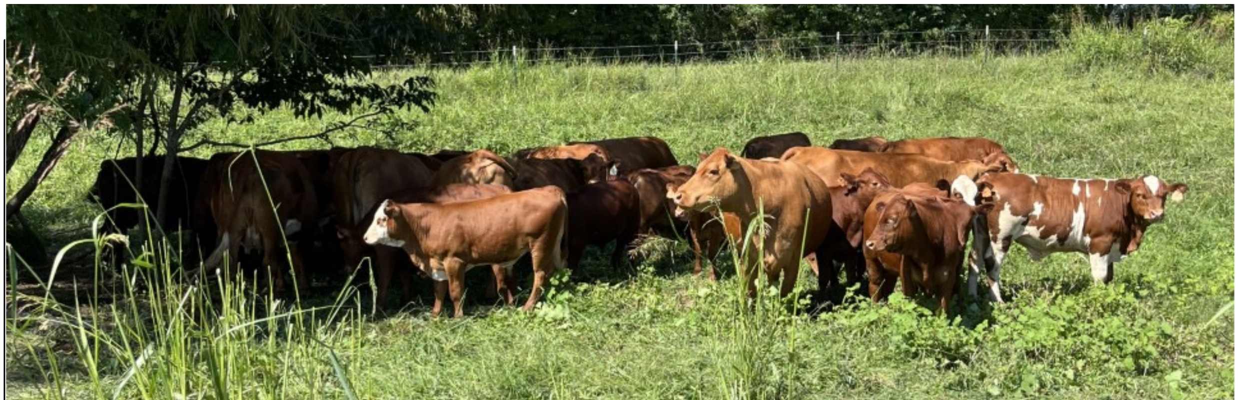

Lesson 6.3: Special Tax Rules for Agriculture - Mixed-Use Property

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This training provides greater detail on the tax treatment of a property where you live and operate your farm or ranch business.

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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.

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This project and materials created by Poppy Davis as part of the LL.M. Program in Agricultural and Food Law at the University of Arkansas School of Law is part of the Agricultural Financial, Tax and Asset Protection program.

AgFTAP.org has resources to enhance farmers, ranchers, educators, and others' ability to understand and navigate business tax and asset protection decisions.

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.

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There were five lessons previously in this series.

The s[illegible]ing covers special tax rules for agriculture.

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

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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.

Mixed-use property may also be property that is partially used for farming or ranching, and partially used for some other income-generating activity such as rental real-[illegible]unting, forestry, or events.

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.

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Simple example:
A house, a field, and a barn.

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The house is all the residence of the farmer/rancher, the field and the barn are all used in the farm/ranch business.

Everything related to the house is personal, everything related to the field and the barn is farm/ranch.

The maintenance of the driveway that goes to the house and the barn is a shared expense.

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.)

The personal portion of rent is the fair market value of the residence on its own, or a reasonable division of the rent based on the value of the residence and the value of the b UNIVERSITY OF ARKANSAS property.

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.)

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.

The personal portion of mortgage interest and property taxes may be deducted on Schedule A as itemized deductions, subject to IRS limits.

The business portion of all other ordinary and necessary expenses may be deducted on Schedule F (or C for other businesses or E for rental properties) subject to other IRS rules and limitations.

Determining business and personal use

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

Farm/Ranch Use:

Barn	50,000
8 Acres	32,000
Business Use:	82,000

Residential Use

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

Business Percentage 82,000/190,000 = 43%

Residential Percentage

108,000/190,000 = 57%

Total = 100%

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1. Determine the fair market value of any depreciable assets purchased as part of the property.
2. Determine the fair market value of the land.
3. Total the depreciable assets and land used in the business.
4. Total the depreciable assets and land used for the residence.
5. Determine the percentage that is business and personal.
6. Depreciate the depreciable assets that are business assets.
7. Use the calculated percentages to allocate business and personal mixed expenses.

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)

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1. The barn is a depreciable asset with a fair market value of $50,000. Take a portion of the value each year as depreciation expense.
2. M[illegible] interest and property taxes are reported 57% on Schedule A and 43% on Schedule F.
3. 43% of shared insurance and repairs and maintenance expense are reported on Schedule F.
4. Any additional insurance or repairs and maintenance expense that are only for the farm/ranch are reported at 100% on Schedule F.

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.

When you purchase a property, you pay one price, but it represents all the different assets on the property. A careful analysis of the values of each of the assets will help you [illegible] with a true and accurate list of all the depreciable assets used in your farm/ranch business and a good ratio to use to allocate shared expenses.

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.

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.

Questions?

Thank you!

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

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

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