



LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW

- 40+ years of leadership in agricultural and food law
- Nationally recognized facultySpecially 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/

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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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



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<- We are here.



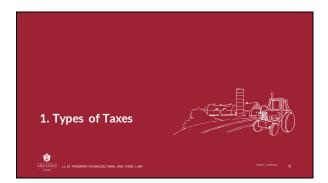
Lesson 1: Filing

Requirements and Recommendations for Filing Federal Income Taxes for Farm/Ranch Activity

Overview of Lesson 1: Filing

- 1. Types of Taxes
- 2. Requirements and Recommendations for Filing Federal Income Taxes for Farm and Ranch Activity
- 3. Special Rules
 - a. Assets and Depreciation
 - b. Requirements for a Functioning Trade or Business with a Legitimate Profit Motive



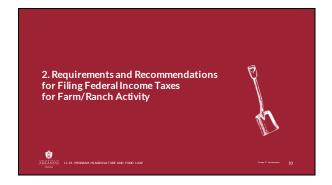


☐ Property Tax - county	
☐ Sales Tax - county	
 Estate and Gift Tax - federal and some states 	
□ Payroll Tax - federal and some states	

- $\hfill \square$ State Income Tax mostly based on federal income tax
- Federal Income Tax focus of the rest of the presentation
- ☐ Some licenses and fees (may be technically taxes depending on state and local law)



Types of Taxes



Basic Filing Requirement

The requirement to file is not the same as the requirement to pay.

See IRS website for specific dollar amounts of filing thresholds - (they may change from year to year).

Just because you don't have to does not mean you shouldn't. You may choose to file in order to:

- claim a refund
- claim the Earned Income Credit
- report business losses (which may reduce other taxable income)



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Limited exemption for enrolled tribal members with income derived from the land

If you are an enrolled tribal member farming or ranching on trust lands you may qualify for special exemptions to some filing requirements related to "income derived from the land."

Please see IRS Publication 5424 Income Tax Guide for Native American Individuals and Sole Proprietors.



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Special Requirement for Self Employment Income	
Even if your total income is less than the filing thresholds in Chart A, you must file a tax return if you had net earnings from self-employment of \$400	
or more.	
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ALLACIONAL Months	
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Understanding Gross Income	
Gross income is income before any deductions are taken. The tax definition of gross income is "all income, from whatever source derived."	
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Minimal Receipts and Net Loss	
I sold \$300 worth of produce and I have expenses of \$500 - Should I still file	
a schedule F?	
 Example 1: Single person age 70 with \$14,500 of wage income would have to file because adding \$300 gross farm income to the wage income results in total gross income greater than \$14,700. 	
 Example 2: Single person age 30 with wage income of \$25,000 is not required to file Schedule F to report the \$200 loss - HOWEVER IT MAY BENEFIT THEM TO DO SO. 	
*	
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Filing Due Date	
Individuals must file federal income tax returns by April 15th unless this day falls on a weekend or holiday - in that case returns are due on the next business day.	
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March 1 Due Date	
The March 1 due date is a special For the regular rules on paying rule that allows some farmers, quarterly estimated taxes see the	
The March 1 due date is a special rule that allows some farmers, ranchers and fishers to avoid following the regular rules for paying estimated taxes on a For the regular rules on paying quarterly estimated taxes see the IRS website and IRS Publication 505.	
The March 1 due date is a special rule that allows some farmers, ranchers and fishers to avoid IRS website and IRS Publication following the regular rules for 505.	
The March 1 due date is a special rule that allows some farmers, ranchers and fishers to avoid following the regular rules for paying estimated taxes on a quarterly basis and instead pay all For the regular rules on paying estimated taxes see the IRS website and IRS Publication 505.	
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Extended Due Date

File IRS Form 4868 to request an extension - you must file the 4868 no later than the regular due date of your return.



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Penalties for Late Filing	
If you do not file on time:	
The failure-to-file penalty is 5% of the unpaid taxes for each month or part of each month that a tax return is late (filed after the due date or extended due date) up to a maximum of 25% of your unpaid taxes.	
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Penalties for Late Payment	
If you do not pay on time (including if you file on time, but do not pay your taxes):	
The failure-to-pay penalty is 0.5% (half a percent) of the tax owed after the due date, for each month or part of each month the tax remains unpaid, up	
to 25% of the total amount owed.	
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Consequences of Failure to File or Failure to Pay	
• Failure to file: If you never file a • In some cases, failure to file and	
return they can audit as far back as failure to pay can result in penalties they want to find unreported for negligence (you should have	
income. known better) or tax fraud (you did • Fallure to pay: The IRS has	
extraordinary ways to enforce payment. They may seize money directly from your accounts or	
garnish your wages.	
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Ooops! I should have filed but didn't - now what? • I have been farming since 2015 and I have never filed taxes. Do I need to file for those past years? Should I file for those past years?



Ooops! I should have filed but didn't - now what?

I have been farming since 2015 but I have never filed taxes for my farm. I did file taxes to report my other income, I just did not file a Schedule F to report my farm income or expense because I knew it was going to be a loss. Do I need to file for those past years?



The IRS Cares About Tax LOSSES and You Should Too! • IRS Form 1040 • Schedule 1 (IRS Form 1040)

Farm or Rand	ch Income or l	Loss and	Earned	Income ⁻	Гах
Credit					

Your farm or ranch income or loss may affect your ability to access the Earned Income Tax Credit (EITC).

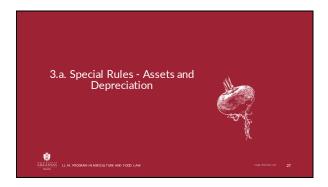
The EITC is fairly limited for people with no dependents but with one dependent is often between \$1,000 and \$3,000 and for 2-3 dependents is often between \$2,000 and 6,000.



Amended returns

- Generally, to claim a refund you must file an amended return within three years of the due date of the original return or within two years from the date you paid the tax, whichever is later.
- If you are filing an amended return to report and pay additional taxes you may file at any time.
- If you are filing an amended return to establish basis in assets additional rules apply.





Depreciable Assets and Filing Recommendations

- Always file to report the purchase of depreciable assets and claim the $depreciation \ deduction.$
- **Depreciable assets** are things that have lasting value to the business and have an "ascertainable useful life in excess of one year."
- Assets are not expensed (deducted) when purchased. Instead, you take a "depredation deduction" calculated using special forms that are part of your tax return.



File to Report Purchase or Sale of Assets

- Always file to report purchase or sale of assets.
- When you sell an asset you pay tax on the gain, which is the sales price less your basis in the asset.
- Your basis in the asset is "acquisition basis" less depreciation allowed or allowable.



3b. Special Rules -Requirements for a functioning trade or business with a legitimate profit motive

But I don't think I am in business yet - I am still figuring it out	-
In order for expenses to be deductible the expenses must relate to a trade or	
business that is functioning when the expenses were incurred. How is that determined?	
Facts and circumstances must indicate activities beyond exploration and research, activities which are directly related to generating profit.	
research, activates which are unouty leaded to generating profit.	
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When does a farm or ranch business begin?	
When does faming/ranching activity begin? When does the "start up" period end for a farmer or rancher?	
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But is it a business?	
But is it a business.	
In order for expenses to be deductible the expenses must relate to a trade or business - not a legitimate intent to profit. The taxpayer must be able to demonstrate that they have a legitimate intent to profit.	
hobby or recreational activity. How	
is that determined?	
Exercise 1	
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	RS will look at all facts and circumstances. At a minimum you should be to show:
1. A p	lausible plan for generating income
	at you keep ordinary and necessary business records and use them to business management decisions
3. Tha	at you respond to losses by making changes to the operation
	at you have and continue to acquire the knowledge appropriate to the of the business

But I was told if I lost money in 3 out of 5 years I was a hobby and not a business. The Hobby Loss Rule says that if you lose money in 3 out of 5 years then you must be able to demonstrate, with evidence, that you have a legitimate intent to profit.





Farm or ranch? There are a total of five 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 at https://awww.kedu/arademics/lim-food-ag/lim-projects-ag/fap-object. Additional Project Resources are available here: https://ag/fap-org/ How do I learn more about federal income taxes and my farm or ranch? IRS Publication 225, The Farmers Tax Guide Brazilations. IRS website and publications.	How do I learn more about federal income taxes and my	
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How do I learn more about federal income taxes and my farm or ranch? • IRS Publication 25, • The Farmers Tax GuideRuralTax.org • IRS website and publications		
How do I learn more about federal income taxes and my farm or ranch? • IRS Publication 225, • The Farmers Tax GuideRuralTax.org • IRS website and publications	https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php	
How do I learn more about federal income taxes and my farm or ranch? • IRS Publication 225, • The Farmers Tax GuideRuralTax.org • IRS website and publications	Additional Project Resources are available here: https://agftap.org/	
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