



Introduction to Farm and Ranch Taxes
Lesson 1: Filing

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

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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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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

<- 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



1. Types of Taxes





Types of Taxes


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



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




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Basic Filing Requirement


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

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)


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


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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.

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."

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.

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.



March 1 Due Date

- 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 of their taxes on March 1.
- For the regular rules on paying quarterly estimated taxes see the IRS website and IRS Publication 505.



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.



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.

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.

Consequences of Failure to File or Failure to Pay

- **Failure to file:** If you never file a return they can audit as far back as they want to find unreported income.
- **Failure to pay:** The IRS has extraordinary ways to enforce payment. They may seize money directly from your accounts or garnish your wages.
- In some cases, failure to file and failure to pay can result in penalties for negligence (you should have known better) or tax fraud (you did know better).

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 Ranch Income or Loss and Earned Income Tax Credit

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

The EITC goes up as earned income goes up and then past a certain amount of income it goes down as income continues to go up.

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.

3.a. Special Rules - Assets and Depreciation



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 "**depreciation 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.



When does a farm or ranch business begin?

When does farming/ranching activity begin? When does the "start up" period end for a farmer or rancher?



But is it a business?

• In order for expenses to be deductible the expenses must relate to a trade or business - not a hobby or recreational activity. How is that determined?

• **The taxpayer must be able to demonstrate that they have a legitimate intent to profit.**



How do I show a profit motive?

The IRS will look at all facts and circumstances. At a minimum you should be able to show:

1. A plausible plan for generating income
2. That you keep ordinary and necessary business records and use them to make business management decisions
3. That you respond to losses by making changes to the operation
4. That you have and continue to acquire the knowledge appropriate to the needs 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.

Questions?

Thank you!

How do I learn more about federal income taxes and my 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://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php>

Additional Project Resources are available here: <https://agftap.org/>



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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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