	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
1	Title Slide	Introduction to Farm and Ranch Taxes Lesson 1: Filing			

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2	**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/**			

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3	**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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4	**Funding**	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.	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.		

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5	**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	There are a total of five lessons in this series.		

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
6	**Lesson 1: Filing**	**Requirements and Recommendations for Filing Federal Income Taxes for Farm/Ranch Activity**	This presentation covers individual federal income taxes only. We are not discussing other federal income taxes such as corporate, payroll or estate tax. We will not cover state income taxes, but since state income tax is often calculated with the federal income tax return as a starting place, this presentation may help you with state income tax filing requirements. This presentation also does not cover property taxes, or sales taxes which are generally assessed at the state or local level.	Add additional information about the tax project here.	

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
7	**Overview of Lesson 1: Filing**	1. Types of Taxes 2. Requirements and Recommendations 3. Special Rules 3a. Assets and Depreciation 3b. Requirements for a functioning trade or business with a legitimate profit motive	The basic filing requirements are easy to understand but if you are just beginning your operation or are not yet profitable it may be challenging to figure out how to apply the rules to your situation.		

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
8	**1. Types of Taxes**	**Section break slide - title and a picture only.**			

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
9	**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)	This presentation covers individual federal income taxes only. We are not discussing other federal income taxes such as corporate, payroll or estate tax. We will not cover state income taxes, but since state income tax is often calculated with the federal income tax return as a starting place, this presentation may help you with state income tax filing requirements. This presentation also does not cover property taxes, or sales taxes which are generally assessed at the state or local level.		

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10	**2. Requirements and Recommendations for Filing Federal Income Taxes for Farm/Ranch Activity**	**Section break slide - title and a picture only.**			

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
11	**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)	The requirement to file an income tax return is different from the requirement to pay income tax. You may have to file even though you do not owe tax. IRS Chart A (in the form 1040 instructions) shows filing thresholds. You may choose to file even if you are not required to if: 1. You had federal income tax withheld and are due a refund 2. You are eligible to claim the Earned Income Credit 3. You are eligible for other credits. 4. To report business losses.	You can go to the IRS website for more information on how to determine your filing status. The important thing to understand is this: even if your business does not generate a profit you still may be required to file a tax return in order to report your **gross** business income. Gross income is your income before any deductions for expenses. There are also several situations where even though you are not required to file it is to your benefit to file.	Show the most current version of 1040 Instructions Chart A from the IRS website and ask if anyone wants to look up a filing threshold for themselves or someone they are thinking about.

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
12	**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.	In general Native Americans have the same income tax filing requirements as anyone else, but there is a special exemption related to "income derived from the land." This exemption is only applicable to enrolled members of federally recognized tribes and only with respect to income derived from: 1) lands that were put into trust under an act of Congress that specifically exempted income from the land from taxation, or 2) lands subject to a treaty which has been interpreted to include language exempting income derived from the land from taxation.	Note that if the operation takes place on land with multiple owners (allottees) those people may have rights to a proportional share of net income from activities on the land. (Net income is income after all necessary expenses have been deducted). Operators in this position should consider a written rent agreement or creating a partnership, LLC, or other business entity with a written agreement to clarify how the primary operators will be compensated for their time and management and how other owners will be compensated for their participation in the business land for land use (rent).	See also: When is Tribal Farm and Ranch Income Exempt from Federal Taxes? Publication from Utah State Rural Tax Education

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
13	**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.	**Special Rule:** In addition to the general requirements explained in Chart A – you must also file a tax return if you had net earnings from self-employment of $400 or more. **NOTE:** Self-employment income may be earned directly by you or your spouse, or it may "pass through" to you from a partnership or an S-corporation. Partnerships, (including LLCs taxed as partnerships) and S-corporations are required to file their own tax returns, but they do not pay income tax. The tax returns these entities file report total income and expenses to the IRS. These returns include a K-1 which is like a W-2 - it reports each owner's share of income and expense to the IRS and to the owners. The owners use the K-1 from the entity return to report their share of income on their individual tax return. The owners calculate and tax owed when they file their individual income tax returns, and any taxes that are owed are due with the individual income tax return.	This means that you might have to file a tax return on your small farm or ranch business even if you have gross income well below the amounts listed in IRS Form 1040 Instructions Chart A. Partnerships, (including LLCs taxed as partnerships) and S-corporations must file a tax return every year they are in business regardless of income. A single member LLC owned by two legally married spouses in a community property state does not have to file a separate tax return. For more information see IRS Form 8832 and instructions.	

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14	**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."	The IRS requires taxpayers to report on "all income from whatever source derived." Individuals may be able to take various deductions to reduce the income on which they are taxed, but they must report all the income they receive. Gross income for a farmer or rancher typically includes wages, interest, dividends, sales price of assets sold, and gross income from any business. Business gross receipts (not reduced by any deductions) - are reported on Schedule C, line 7, or Schedule F, line 9.	Other sources of gross income include (but are not limited to): pension and retirement distributions, spousal support, gambling winnings, debt forgiveness, prizes, and scholarships.	This is often a good time to tell the story about Al Capone being brought down for failure to report his illegal earnings on his tax returns. All income from whatever source derived includes illegal earnings.

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15	**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.	If your gross income is close to the thresholds in Chart A then you would have to determine if adding the $300 gross farm sales means you would have to file. If you have a loss and you have other income it generally benefits you to file - ***more on this in a minute.*** If federal income tax was withheld, the person will want to file anyway to receive a refund.	This is why it is important to understand the difference between gross and net. Your net farm/ranch income may be zero or less and combined with other income and you may fall below the filing threshold - but the rule is you must look at GROSS farm/ranch income - that is farm/ranch income BEFORE any deductions, and if that amount exceeds the filing thresholds you must file. Yes, because your gross receipts are more than the threshold **you must file even though you will have a farm loss and will not owe tax.**	Question: R has $15,000 of farm/ranch income and at least that much in expenses - probably more. R is 25 years old and single and has no other income. R wonders if they need to file since they have no income and will not have any tax. What would you tell R?

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
16	**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.	"Filed" means received by the United States Post Office prior to midnight on the due date. You may choose to ask the post office for a "Proof of Mailing" receipt. If you drop your return off in a USPS mailbox, be sure to check the time of the pick-up.	An extension is an extension of time in which to file - it is not an extension of time in which to pay. When you file an extension, you are supposed to pay any amounts due (or estimated amounts due) with the extension request. If you file a request for an extension of time to file and fail to pay what is due by the original (un-extended) due date you will avoid late filing penalties, but you will owe late payment penalties. We will discuss this more in a minute.	

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
17	**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.	If two-thirds (66 ⅔ %) or more of your gross revenue from all sources is agricultural (or fishing) income (related to producing unprocessed agricultural products or unprocessed fishing catch) then you may elect not to pay quarterly estimated taxes and instead either pay all of your estimated taxes by the 15th day after the end of your tax year (generally January 15th) or file your taxes and pay all taxes due by the 1st day of the 3rd month after the end of your tax year (generally March 1).	If you do not meet the two thirds gross income requirement, you are required to pay estimated taxes if you expect to owe $1,000 or more when you file your returns. We will take a deeper dive on the definition of agricultural income (spoiler alert, it does not include income from selling value added products or agritourism) in lesson 6. You can also get more information from RuralTax.org.	Does anyone use the January 15 option to pay all of their estimated taxes? Does anyone file on March 1? Did anyone decide to pay quarterly even though they don't have to? If so, why did you make that choice? Did anyone look into paying on 1/15 or 3/1 and then realize they did not meet the 2/3rds threshold?

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18	**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.	An extension of time to file your return does not grant you an extension of time to pay your taxes.	Note that in some disaster situations the IRS may make an automatic extension for everyone in the county.	Has anyone had an automatic extension due to disaster?

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
19	**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.	Interest compounds daily so amounts grow fast!		

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
20	**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.	Interest compounds daily so amounts grow fast!		

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
21	**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).	**Failure to file:** Generally, the IRS can audit for three years after the date you file your returns. For substantial understatements of income, they can audit for six years after you file your return. If you never file a return they can audit as far back as they want to find unreported income. **Failure to pay:** Penalties and interest on amounts owed compound daily. The IRS may place a lien on your property (this means if you sell it the IRS automatically takes what you owe from the proceeds.) The IRS may levy your assets - that means take money out of your bank accounts or order your employer to send most of your paycheck to the IRS instead of you (a wage garnishment).	**NEGLIGENCE**: If your tax return is incorrect in a manner that results in understatement of tax by the greater of $5,000 or ten percent of the correct tax you may be liable for negligence and accuracy penalties of up to 20% of the tax owed. **WILFUL failure to file or pay** involves knowingly filing a false return or actively hiding money or assets in order to evade IRS collection actions. Willful failure to file or pay is ***tax fraud*** which is subject to penalty up to $100,000 and up to five years in prison.	From the IRS website: "Avoidance of taxes is not a criminal offense. Any attempt to reduce, avoid, minimize, or alleviate taxes by legitimate means is permissible. …One who avoids tax does not conceal or misrepresent…. Evasion…involves deceit, subterfuge, camouflage, concealment, some attempt to …make things seem other than they are."

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
22	**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?	**1**. Were you required to file? If so, then you should file. **2.** Would you have owed tax? If so, then you should file. **3.** Would you have received a refund or an Earned Income Tax Credit payment if you had filed? If so, you must file within three years of the original due date to claim your refund or credit.	The statute of limitations on audits and assessing additional tax remains open indefinitely if the taxpayer fails to file a return or files a false or fraudulent tax return. As long as the taxpayer has filed a return which is not false or fraudulent the statute of limitations begins running when the return is filed (not when it was due). For general matters the IRS must audit within 3 years. If there has been a substantial (25% or more) understatement of income the IRS has 6 years to audit. The statute of limitations for collections is 10 years from when the tax was assessed.	

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
23	**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?	**1.** Did you build or purchase business assets (orchard, barn, tractor, fences) during that time? Special rules apply. **2.** Did you pay income tax in those years? If you can show that you were engaged in a legitimate business with the intent to profit you can amend the prior three years and your farm losses will reduce your other income resulting in lower total taxes.	In a minute we will discuss the special rules for assets and the special rules for how to establish that you have a legitimate business and a profit motive.	

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
24	**The IRS Cares About Tax LOSSES and You Should Too!**	Graphic of (or hotlink to) IRS Form 1040 and 1040 Schedule 1.	Form 1040 is a summary of many forms and schedules. There are many kinds of income (wages, interest, dividends, income from sales of assets, net income from business, etc.) All of those are totaled to come to the total amount of taxable income. So, if any of those numbers are negative, that negative reduces your total taxable income. If you have wage income (W-2 from a job) and farm losses, your farm losses reduce your wage income, and you owe less taxes.	The IRS is as concerned with limiting the losses you can take as they are with ensuring you report all of your income. Generally, losses offset income and reduce taxes. There are many complex rules limiting how you may use losses to offset income. Losses may be limited, suspended, disallowed, carried forward and carried back. These are all advanced tax topics. If you have tax losses and other taxable income, you should consult a knowledgeable tax preparer.	For more information on special rules related to business losses consult a tax professional or see IRS Form 461 and instructions and Publication 925 Passive Activities and At-Risk Rules.

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25	**Farm or ranch income or loss and Earned Income Tax Credit (EITC)**	Your farm or ranch income or loss may affect your ability to access the Earned Income Tax Credit (ETIC). 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.	The tables are included in the instructions to Form 1040, after the income tax tables towards the end of the instructions. On the 2022 Instructions to the 1040 the EITC tables start on page 46.	For more information on the EITC see Lesson 3 and search for EITC on the IRS website.	You can look at the current tables for the EITC at the IRS website to see the range of when it kicks in and when it phases out for each filing status and depending on the number of dependents.

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26	**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.	You may file an amended return to make a correction showing more taxes are owed or to make a correction showing that less taxes are owed, and you may file amended returns to claim the EITC.	For more information on depreciable assets (and non-depreciable land improvements) see Lesson 6 and Pub 225.	

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
27	**3.a. Special rules - Assets and Depreciation**	**Section break slide - title and a picture only.**			

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
28	**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**" using special forms that are part of your tax return.	Buildings, trees, vines, fences, equipment, etc. are all depreciable assets. What is an ascertainable useful life? It means you know the asset will not last forever, and it can be objectively determined if the asset is still useful or functional. Land has no ascertainable useful life - presumably it goes on forever so it cannot be depreciated. Assets are not expensed (deducted) when purchased. Instead, you take a "depreciation deduction" for a partial amount of the asset value each year over the tax life of the asset. In some cases you can take special "bonus depreciation" and depreciate the full value of the asset in the same year you buy it - but you still need to report it on your tax return using the special forms dedicated to assets and depreciation.	If you have not filed tax returns and reported asset purchases and depreciation deductions, you may amend going back three years to claim depreciation deductions. For items going back longer than three years you cannot amend to claim the deductions however when you sell the assets the IRS will tax you as if you had claimed the depreciation deduction.	We will discuss assets and depreciation again in lesson 2. For more information on how to report assets and depreciation see Pub 225.

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
29	**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.	Acquisition basis is either purchase price, or for gifts the tax basis of the person who gave the gift, or for inherited items the fair market value at the date of death of the decedent (the individual who died and left you the asset). Depreciation allowed is depreciation you actually reported on a tax return. Depreciation allowable is depreciation you could have taken on a tax return had you filed one.	If you do not file a tax return and take the depreciation deductions to which you are entitled, later when you sell the asset your tax will be calculated as if you took the depreciation deduction. Generally, you should file tax returns to take depreciation deductions even if doing so creates losses. We will discuss specific rules on farm losses in a few minutes.	For more information about how to calculate and report depreciation deductions see IRS publication 946 How to Depreciate Property. For more information on how to determine your basis in property see IRS publication 551 Basis of Assets.

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
30	**3b. Special Rules - Requirements for a functioning trade or business with a legitimate profit motive**	**Section break slide - title and a picture only.**			

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31	**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.**	The first $5,000 of start-up expenses may be deducted in the first year of business. All other start-up expenses may be deducted over 15 years beginning in the year that the business becomes operational. If you use assets during the start-up phase of your business you can file a tax return to record the depreciation but also show that the depreciation is part of start-up expenses which will later be amortized. You will need a CPA to help you do this correctly.	Technically we say that start-up costs are amortized over 180 months. That is the same as saying deducted over 15 years, but it is the language you will see used by the IRS and accountants and lawyers so if you look into this topic, you are looking for information on the amortization of start-up costs. This is the general rule, but there are specific rules about what expenses count as start-up costs and organizational costs. Also, if you spend more than $50,000 in startup or organization costs, what you can deduct will be reduced.	

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32	**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?*	For annual crops, the first day of the first year you plant a crop which will be harvested within 12 months. For livestock: the first day of the first year you hold an animal that is intended for sale or the first day of the first year you hold an animal that is intended to be used in breeding animals which will be intended for sale. For permanent crops: There are special rules related to what must be capitalized and what may be expensed. These rules are closely related to the rules for start-up costs. We will cover permanent crops in a later lesson.	There is no clear rule you can follow. A judge would look at all the facts and circumstances. You would need to show evidence of production activities intended to produce items intended to be sold and marketing activities sufficient to ensure that you would be able to market your crop as intended. For operations where the growing period is more than one year or spans a calendar year end, it is not necessary to have sales in the first year your business is operational, but in the first year you claim losses you must be producing items which were reasonably intended for sale. More information on permanent crops is beyond the scope of this	Does anyone have examples of how they would decide when their farming operation stops being exploration and planning and is actually a real business? More information on permanent crops is beyond the scope of this presentation but will be covered later in this series. For more information on permanent crops see Pub 225.

	Slide Title	Slide Contents	Discussion/Presenter’s Script	Additional Discussion and Resources	Class Engagement and Additional Resources
				presentation but will be covered later in this series.	

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
33	**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.	Profit in this case means either annual profits (sales in excess of expenses) or long-term appreciation of assets (assets will later be sold for an amount in excess of cost).	Things that will never meet this test: Gardening, growing food for a food bank, growing food to give away, landscaping to maintain or improve the value of your personal residence, keeping animals or livestock for pleasure or to maintain your personal residence. If you falsely claim that an activity is a business for the purpose of reducing the income taxes you owe, or increasing your Earned Income Tax Credit that is a form of tax fraud - this is why the IRS will likely question your fundamental business profit motivation if they audit a tax return that shows farm losses, or EITC that was increased by farm income or loss.	

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
34	**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.	See Pub 225 and RuralTax.org for more information on this topic.		What are things you do for your farm/ranch that for sure you would not do for a hobby? What are things you do that would demonstrate to the IRS that you have a genuine profit motive? Attending this class is one thing for sure, right?

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
35	**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.	It is incorrect to state that if you lose money 3 out of 5 years you are a hobby. Many businesses lose money in 3 out of 5 years. Normally the IRS must assume that if you file a business tax return (Schedule C or F) you are a legitimate business, or the burden of proof is on the IRS to demonstrate that you do not have a legitimate business. If you have lost money in 3 out of 5 years, the burden of proof shifts from the IRS to you - now you have to be the one to prove your legitimate intent.	It is common for people to have an incorrect understanding of this rule - but now you know the real rule. If you have a legitimate business and can demonstrate your legitimate intent to profit you should not hesitate to file Schedule F and take your farm losses against other income.	Has anyone had the experience of being told not to file a schedule F because the tax preparer said you were a hobby?

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36	Questions? Thank you!				

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
37	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/			

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
38	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			

	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
39-End		Final UARK and funder logos Space for presenter contact info			
END					