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	Slide Title	Slide Contents	Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
1	Title Slide	Lesson 5: Agricultural Income Training	Defining agricultural income and understanding related special rules.		

2	LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW	40+ years of leadership in agricultural and food law Nationally recognized faculty <ul style="list-style-type: none">• 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	<p>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.</p>			
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<p>4</p>	<p>Funding</p>	<p>This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA22CPT0012189.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>AgFTAP.org has resources to enhance farmers, ranchers, educators, and others' ability to understand and navigate business tax and asset protection decisions.</p>		
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5	Program Overview	<ol style="list-style-type: none">1. Filing: Federal Income Tax Filing Requirements2. Records: Recordkeeping Requirements3. Taxes: Individual Federal Income Tax Return4. Entities: Business Entities and Federal Tax5. Agricultural Income: Special Rules	There are a total of five lessons in this series. This training covers the tax definition of agricultural income and why that definition matters.		
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6	Overview of Lesson 5: Agricultural Income Training	<ol style="list-style-type: none">1. Agricultural Income2. Why it matters<ol style="list-style-type: none">a. Taxesb. Other Programsc. Inventory Management			
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7	Title Slide	1. Agricultural Income			
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8	Agricultural income	Agricultural income is income from the sale of crops or livestock which you raise.	<p>Is wine a crop? Is cheese livestock? Is hosting a wedding farming? Is teaching a class on pasture management ranching?</p> <p>Why does it matter? It could affect how much you owe in income taxes, when you have to pay your income taxes, if you qualify for special debt relief and bankruptcy protection, and if you qualify for federal, state and local programs.</p> <p>How much does it matter? It ranges from not at all to very much.</p>		
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9	Agricultural income is not	Manufactured food and beverage products Income from non-farming and ranching activities that take place on the land where you farm or ranch	Cheese and wine are not considered raw agricultural products and for federal tax (and many other) purposes are not agricultural income. Income from renting land for agritourism, hunting, events, etc. is not agricultural income for federal tax (and many other) purposes.		
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<p>10</p>	<p>What happens if I call all of it farm income?</p>	<p>You get more than you should (you pay less than you owe or you take advantage of a program you do not qualify for and you may be liable for the consequences).</p> <p>You get less than you should (the only consequences are harm to yourself).</p>	<p>If you take advantage of any federal tax benefits that are based on the IRS definition of agricultural income and you have overstated your agricultural income then you may be liable for fines and penalties and repayment of the benefit.</p> <p>If you do not get any benefit from including farm and non-farm income together then the only real harm is probably to you - you may be missing out on benefits to which you are entitled, or you may be limiting your ability to access benefits in the future.</p>		
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<p>11</p>	<p>Value-added agricultural activity</p>	<p>Income from the sale of products which have been processed beyond the minimum needed to transport and sell them in available markets is not income from raw agricultural products - but is the activity substantial enough that you would need to report it separately?</p>	<p>Processing that is incidental to the growing, raising, harvesting process is still considered a farming activity. Examples are field packing, washing, cooling and putting to standard packs as required by marketing standards or local custom. Once you are beyond that - doing more than is required to get the raw agricultural product to market - doing things that alter its physical form and extend the time it can be held for sale you may be into activities which would not qualify as farming or ranching for federal income tax purposes.</p>	<p>For example, you might have to wash and cool and package a product for that product to make it to market (think fragile ripe fruit) but you do not have to turn it into jam or pie. Washing, cooling, and packing are all part of agricultural income, but if you make jam or pie that income is not agricultural income.</p> <p>In small operations it may be hard to separate the accounting for a small amount of value added activity.</p> <p>If you are just experimenting with a new product it may not be practical to set up elaborate accounting before you know if the product is going to work out for you.</p> <p>If the value-added products you make have a short shelf-life and sell about as fast as your fresh farm products, there may be no practical difference between separating the accounting and tax reporting and keeping it all together.</p>
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12	Other activities on your land	Income from renting your land for other uses is not farming or ranching income. It may be rental income or other self-employment income depending on the circumstances and your degree of involvement.	Common examples are renting your land for hunting or camping or weddings.		
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13	Renting your land for farming/ranching by others	Rent you receive from agricultural land you lease to others may be agricultural income to you if you are paid in crop proceeds. This is called a "crop share" and you report income and expense from a crop share on form 4835.			
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14	Title Slide	2a. Why it matters – Taxes			
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<p>15</p>	<p>Why does it matter - what is or is not farming?</p>	<p>You are entitled to quite a few benefits that relate to your income from farming activities. If you use non-farm income to qualify for benefits that are only available based on income from farming activities you may be committing tax fraud or fraud against some other program.</p>	<p>Farm income is reported on Schedule F or Form 4835 and those forms are used to verify if you qualify for special benefits only available to farmers and ranchers.</p> <p>Income from non-agricultural activities may not be reported on Schedule F or Form 4835.</p> <p>Agricultural income may be reported on a Schedule C rather than a Schedule F, however, doing so may prevent you from accessing benefits and services to which you would otherwise be entitled.</p>	<p>Farm income may also include gains from sales of draft, breeding, dairy, or sporting livestock that are reported on Form 4797.</p> <p>Next, we will talk about some of the benefits that are only available based on your farm/ranch income.</p>	<p>We have already covered two of these - does anyone remember what they are? Answer: filing taxes on March 1 to avoid paying estimated taxes and optional SE tax using the farm method.</p>
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16	Special rules for estimated tax payments	<p>If approximately 70% (66 and 2/3rds to be exact) or more of your gross revenue from all sources is income from farming, ranching, or fishing then you have some options for making estimated payments. You may:</p> <ol style="list-style-type: none">1) Elect to pay quarterly estimated taxes2) Make one large estimated payment by January 15th3) Not to make any estimated payments and file your tax return on March 1 and pay the full amount of tax you owe on March 1.	<p>This is a good option for people who earn all of their income in the fall. People who earn throughout the year may be better off paying quarterly estimated taxes and keeping the option to get an extension of time in which to file their tax return.</p>	<p>For more information on estimated taxes see the IRS website.</p>	
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<p>17</p>	<p>Optional Self Employment tax</p>	<p>Because farmers, ranchers and fishers often have years in which they do not earn much self-employment income (even though they were working) there is a special benefit - the ability to make optional payments into the Social Security and Medicare system by paying optional self employment taxes.</p> <p>To qualify:</p> <ul style="list-style-type: none"> ● Gross income from farming less than ~ \$9k <p>OR</p> <ul style="list-style-type: none"> ● Net income from farming less than ~ \$6k 	<p>Because paying into Social Security and Medicare (SS/Medi) is essential to maintaining a safety net, and because farmers, ranchers and fishers often have years in which they do not earn much self-employment income (even though they were working) there is a special benefit - the ability to make optional payments into the SS/Medi system.</p> <p>To qualify to make optional SS/Medi payments: <u>gross</u> income from farming or fishing must be approximately \$9,000 or less, or <u>net</u> farm income must be less than approximately \$6,000.</p> <p>Those who qualify may make an optional payment on 66 and $\frac{2}{3}$ % of <u>gross</u> income.</p>	<p>Rental income is generally not subject to self employment tax, however qualified farm rental income can be used as part of the gross income for purposes of calculating optional self employment taxes using the "Farm Method."</p> <p>For exact numbers and additional information see Pub 225 and resources at RuralTax.Org</p>	
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<p>18</p>	<p>Income Averaging and Net Operating Loss Carrybacks</p>	<p>Income averaging is a way to balance an income tax burden over several years. Income averaging is available when farm or ranch income (including gain or loss from the sale of qualifying assets used in the business) is significantly higher than income from any source over the previous three years.</p> <p>When a business has a tax loss, the owner may carry that loss forward to offset future income. Qualifying farmers have the special ability to also carry tax losses back.</p>	<p>Farming, and ranching income can fluctuate drastically. In years with significant profits farmers and ranchers pay taxes at higher tax rates. In other years they may pay taxes at lower tax rates, or they may have a loss.</p> <p>Income averaging and Net Operating Loss Carrybacks are two ways to help “smooth” the tax burden over a few years. Both require you to re-calculate prior year taxes based on current losses and both allow you to get a refund of prior taxes paid. You will need to consult a tax professional for assistance in completing the forms correctly.</p> <p>For more information on income averaging and Net Operating Losses see Pub 225.</p>		
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19	Debt relief	<p>In general, if your debt is canceled, forgiven, or discharged for less than the amount you owe, the amount of the canceled debt is taxable income in the year the cancellation occurs. There are some exceptions to this general rule, and one is for Qualified Farm Indebtedness.</p> <ul style="list-style-type: none">• Gross receipts test• Lender test	<p>A debt is Qualified Farm Indebtedness if:</p> <ol style="list-style-type: none">1. Proceeds were used directly in the farm business - this includes purchase of land and assets as well as operating loans2. At least 50% of the debtor's gross receipts for the prior three years were from farming; and3. The lender is:<ol style="list-style-type: none">a) in the active and regular business of lending money andb) not related to or otherwise connected through business or asset ownership with the debtor.		
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20	Deduction for Pre-paid Supplies	In Lesson 2 we talked about a special rule for how farmers can deduct a certain amount of pre-paid supplies.			
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21	Title Slide	2b. Why it matters - Other Programs			
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22	Special rules for bankruptcy	Chapter 12 Bankruptcy is a special option available only to farmers and ranchers meeting certain criteria related to agricultural income. Chapter 12 was written in response to the Farm Crisis of the 1980s and is generally a better option than other forms of bankruptcy when the business needs to continue operating in order to continue making payments on debts.		You can learn more about Chapter 12 Bankruptcy at the National Ag Law Center.	
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23	USDA Programs	<p>Various USDA programs are open to farmers and ranchers based on their agricultural income, or the agricultural use of their land. The USDA definition of “value added” is different from the IRS definition and even varies between USDA programs.</p> <ul style="list-style-type: none">● FSA● NRCS● AMS● RD	<ul style="list-style-type: none">● Farm Service Agency generally lends for assets and activities directly related to raising crops and livestock for sale● Natural Resources Conservation Service may extend services to agricultural land owners who are not in the business of farming or ranching● Agricultural Marketing Service makes awards specifically for value added production (using a very different definition of value added than the IRS definition)● Rural Development lends to non-farm/ranch businesses in rural areas		
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24	Agricultural credit	<p>There are a number of beneficial options for accessing agricultural credit.</p> <p>Depending on the lender and the circumstances, value-added income or income from non-agricultural rental of the property may or may not be included in the lender's decisions.</p>	<p>For sure an agricultural lender will expect to see agricultural income reported on a Schedule F or Form 4835.</p> <p>You may still get an agricultural loan if you have used the wrong form, but you will make a better impression on the lender if you use the correct form.</p>		
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25	State programs	Many states have programs designed to benefit farmers and ranchers, and there is usually a definition of farm/ranch income included in the eligibility criteria.	You need to know if income from agritourism or value added production is allowed to qualify you for a state program or not. If it is not allowed, you need to be able to separate out that other income so you can see if you qualify just on the allowable agricultural income.		
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26	Conservation and agricultural easements	A conservation or agricultural easement is a way that a community can pay a landowner to keep their land in agriculture instead of other types of uses. The easement will limit that amount of non-agricultural activity that may happen on the land and there may be a specific limit on income earned from non-agricultural activities on the land.	A community may pay a landowner to keep the land in farming, but the land owner may find that even with that payment the farm is still only profitable if there is a big harvest festival with rides and concessions and entertainment. The community might object to that use of the land - they wanted a farm, not an amusement park. So an easement will usually have language that limits how much non-farming activity can take place, and that language may be specific about income from non-farming activities.		
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27	Local taxes	You may be eligible for breaks on local property taxes based on your agricultural income. You should check the specifics of the local rules to understand how agricultural income is defined for purposes of local property taxes.			Does anyone have other examples of programs that can only be accessed by farmers and ranchers and times you need to have a Schedule F instead of a Schedule C?
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28	Title Slide	2c. Why it matters - Inventory Management			
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<p>29</p>	<p>Value Added Inventory Held for Sale</p>	<p>If you make an investment in processing your raw agricultural products beyond the minimum needed to get to market, and if you hold that inventory for sale for longer than a month - you may begin to need an inventory management system:</p> <ul style="list-style-type: none"> ● What additional costs went into creating and packaging the product? ● How much of the product do you have available to sell? ● How much is promised to a customer and needs to be delivered? ● How much is held at different locations? ● What products are moving too slowly and need to go on sale (or get discontinued?) ● What products move fast? 	<p>You may need an inventory management system in order to run your business profitably and efficiently.</p> <p>The tax code used to require people to use inventory accounting even if they had only very small inventories, but now (post 2017) businesses with less than 25M in sales do not have to use formal inventory accounting - but just because the IRS does not require it does not mean that good management and common sense do not require it.</p> <p>We introduced some of the special tax rules related to inventory in Lesson 2. In Lesson 6 we will go deeper into these rules.</p>		
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30	Questions? Thank you!				
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31	How do I learn more about federal income taxes and my farm or ranch?	<p>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.</p> <p>You can access the questions and the trainings at: https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php</p> <p>Additional project resources are available here: https://agftap.org/</p>			
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32	How do I learn more about federal income taxes and my farm or ranch?	<ul style="list-style-type: none">• IRS Publication 225, The Farmers Tax Guide• RuralTax.org• IRS website and publications			
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