

Table of Contents

General Information	1
Entities filing Schedule F.....	3
Qualified joint venture	3
Community income	4
Schedule F.....	5
Accounting methods.....	7
Cash method	7
Accrual method.....	9
Crop method.....	10
Combination method	10
Schedule F heading	11
Material participation	12
Farm inventory reporting.....	15
Uniform capitalization rules.....	16
Inventory valuation methods.....	17
Change in accounting method	20
Farm Income	23
Cash method	23
Accrual method.....	24
Sources of farm income.....	25
Sales of farm products	26
Sales due to weather conditions	26
Income from cooperatives.....	30
Agricultural program payments.....	36
Commodity Credit Corporation (CCC) loans	44
Crop insurance proceeds and disaster payments.....	45
Custom hire (machine work).....	49
Bartering	49

Easement and right-of-way	49
Cancellation of debt	50
Farm rental income	58
Sale of farm assets	60
Depreciation recapture	65
Livestock.....	66
Income averaging for farmers.....	68
Filing status change	69
Effect on other tax determinations	70
Alternative minimum tax	71
Schedule J.....	72
Deductible Expenses.....	99
Prepaid farm supplies	100
Deduction limit	101
Exceptions	101
Prepaid livestock feed	102
Purchase vs. deposit.....	102
Business purpose	103
No material distortion of income.....	103
Items purchased for resale	104
Chickens, seeds and young plants.....	104
Capitalizing costs of property.....	105
Breeding fees.....	105
Conservation expenses	105
Fertilizer and lime.....	106
Insurance	107
Advanced premiums	107
Business interruption insurance.....	108
Life insurance to secure a loan	108
Self-employed health insurance.....	108

Interest	109
Allocation of interest	109
Deduction limit	110
Business use of home	111
Eligibility	111
Regular use test	113
Principal place of business test	113
Determining business use of home deduction	115
Labor hired.....	137
Property for services rendered.....	137
Child as an employee.....	138
Custom hire	138
Nondeductible pay.....	138
Repairs and maintenance	139
Betterment.....	139
Adaptation	140
Restoration	140
Rent or lease.....	141
Lease or purchase	142
Conditional sales contract	142
Motor vehicle leases.....	143
Taxes.....	143
Allocation of taxes.....	143
Employment taxes	144
Highway use tax.....	145
Income taxes	145
Sales taxes	145
Self-employment tax	145
Tenant housing expenses	145
Marketing quota penalties	145

Other expenses.....	146
Part personal/part business expenses	147
Reasonable allocation	147
Nondeductible expenses.....	147
Depreciation.....	148
Form 4562	149
Capital expenses.....	151
Placed in service	152
Idle property.....	153
MACRS.....	153
Recovery periods	154
Conventions.....	156
MACRS depreciation methods	159
Bonus depreciation	161
Amortization.....	162
Section 179 expensing.....	164
Farm vehicles.....	171
Standard mileage rate.....	171
Actual expense method	172
Substantiation requirements.....	173
Limitations on farm losses.....	174
At-risk limits	174
Passive activity loss limits.....	175
Excess business loss rules	176
Tax Adjustments and Credits	185
Qualified business income deduction.....	185
Domestic production activities deduction	185
QBID/DPAD on Form 1099-PATR	186
Fuel tax credit	190
Farming purposes	190

Ultimate purchaser	190
Credit or refund	192
Form 4136	193
Inclusion in income.....	195
Self-employment Tax.....	199
Self-employment tax rate	199
Self-employed.....	199
Share farmer	200
Contract farming	200
4-H club or FFA project	201
Married partners.....	201
Self-employment earnings.....	201
More than one business.....	201
Community property	202
Lost income payments.....	202
Gain or loss.....	202
Wages and salaries	203
Conservation Reserve Program (CRP) payments.....	203
Landlord participation in farming	203
Net operating loss.....	205
Methods for figuring net earnings	205
Regular method	206
Optional methods.....	206
Reporting SE tax.....	209
Self-employment tax deduction.....	209
Joint return.....	209
Community property income	210
Completing Schedule SE.....	210
Part I – Self-Employment Tax.....	212
Part II: Optional Methods to Figure Net Earnings	217

Hobby Farms	225
Hobby vs. profit motive.....	225
Factors determining profit motive	225
Presumption of profit.....	231
Impact of hobby determination	233
Reporting hobby income.....	233
Hobby deductions and losses	233
Tax Court analysis.....	234
Facts.....	235
Breeding activity.....	235
Operational history	236
Breeding facilities	239
Recordkeeping.....	240
Marketing activities.....	241
Sales activities.....	242
Time and effort.....	242
Federal income tax returns.....	243
Results of IRS audit.....	244
Tax Court opinion	244
Index	259