



Beginning Farmers Learn about Farm Records

Jack and Diane live on a larger property that the previous owner had used to grow hay and raise livestock. Upon his retirement two years ago, Jack purchased several ewes and the equipment necessary to harvest the hay. He sells the lambs and any leftover hay.

Diane is a teacher who loves to spend her summers in their large garden. She generates a few extra dollars by selling some of the vegetables at the local farmers' market.

Jack and Diane were confused as they drove home from a meeting with a tax preparer. They had always filed their own tax returns. However, this year they thought it would be best to get some outside advice since they had received lots of money by

selling more lambs and hay than normal. They didn't know they were farmers. They didn't know they were running a business. And they sure didn't know there were special reporting requirements for tax purposes.

The following weekend, Jack and Diane searched the internet for information about keeping useful farm records and filing farm-related income tax returns. One discovery was the RightRisk website (Alaska.eRightRisk.com) where they found many financial management resources. They viewed the presentations that RightRisk agricultural economists had given to Alaskan producers over the past several years. Diane also went through the three "Getting on Track" self-study courses offered by RightRisk.



What is a Farm?

The Internal Revenue Service (I.R.S.) says that “you are in the business of farming if you cultivate, operate, or manage a farm for profit, either as an owner or a tenant.” Further, “a farm includes livestock, dairy, poultry, fish, fruit, and truck farms.”

Diane told Jack that he is a farmer. He raises the sheep and hay to make money. She also said that she was not considered a farmer by the IRS, because she did not sell vegetables to make money and did not deduct any associated costs. Jack agreed and indicated that her comments were consistent with the advice offered by the tax preparer.

Records

The IRS requires a farmer to “keep records to prepare an accurate income tax return and determine the correct amount of tax.” Financial records relate primarily to money and prove farm income and expense transactions. Product sales, operating expenses, equipment purchases, accounts payable and receivable, inventories, depreciation, and loan balances are examples of financial records. There are no requirements for a specific type of recordkeeping system.

Jack agreed with Diane that they should go through the course “Getting on Track: Better Management through Basic Ag Records.” As they viewed the four vignettes describing four scenarios and five content modules, they took notes about their questions and

ideas for keeping records on their farm. They also downloaded a few fact sheets which addressed some of their questions and concerns.

Since it was getting late that Sunday evening and Diane had to be at work early the next morning, they agreed to wait until the next weekend to further discuss what records they would keep and search for a computer-based recordkeeping program.

SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, 1041, or 1065. Go to www.irs.gov/ScheduleF for instructions and the latest information.		2024 Attachment Sequence No. 14	
Name of proprietor		Social security number (SSN)			
A Principal crop or activity		B Enter code from Part IV	C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	D Employer ID number (EIN) (see instr.)	
E Did you “materially participate” in the operation of this business during 2024? If “No,” see instructions for limit on passive losses				Yes <input type="checkbox"/>	No <input type="checkbox"/>
F Did you make any payments in 2024 that would require you to file Form(s) 1099? See instructions				Yes <input type="checkbox"/>	No <input type="checkbox"/>
G If “Yes,” did you or will you file required Form(s) 1099?				Yes <input type="checkbox"/>	No <input type="checkbox"/>
Part I Farm Income—Cash Method. Complete Parts I and II. (Accrual method, Complete Parts II and III, and Part I, line 9.)					
1a	Sales of purchased livestock and other resale items (see instructions)	1a			
b	Cost or other basis of purchased livestock or other items reported on line 1a	1b			
c	Subtract line 1b from line 1a	1c			
2	Sales of livestock, produce, grains, and other products you raised	2			
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	3b Taxable amount	3b	
4a	Agricultural program payments (see instructions)	4a	4b Taxable amount	4b	
5a	Commodity Credit Corporation (CCC) loans reported under election	5a	5c Taxable amount	5c	
b	CCC loans forfeited	5b			
6	Crop insurance proceeds and federal crop disaster payments (see instructions)	6	6b Taxable amount	6b	
a	Amount received in 2024	6a			
c	If election to defer to 2025 is attached, check here <input type="checkbox"/>	6c	6d Amount deferred from 2023	6d	
7	Custom hire (machine work) income	7			
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	8			
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions	9			
Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.					
10	Car and truck expenses (see instructions). Also attach Form 4562	10	23 Pension and profit-sharing plans	23	
11	Chemicals	11	24 Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	12	a Vehicles, machinery, equipment	24a	
13	Custom hire (machine work)	13	b Other (land, animals, etc.)	24b	
14	Depreciation and section 179 expense (see instructions)	14	25 Repairs and maintenance	25	
15	Employee benefit programs other than on line 23	15	26 Seeds and plants	26	
16	Feed	16	27 Storage and warehousing	27	
17	Fertilizers and lime	17	28 Supplies	28	
18	Freight and trucking	18	29 Taxes	29	
19	Gasoline, fuel, and oil	19	30 Utilities	30	
20	Insurance (other than health)	20	31 Veterinary, breeding, and medicine	31	
21	Interest (see instructions):	21	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	21a	a	32a	
b	Other	21b	b	32b	
22	Labor hired (less employment credits)	22	c	32c	
			d	32d	
			e	32e	
			f	32f	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions	33			
34	Net farm profit or (loss). Subtract line 33 from line 9	34			
35	Reserved for future use.	35			
36	Check the box that describes your investment in this activity and see instructions for where to report your loss:	36			
a	<input type="checkbox"/> All investment is at risk.	b	<input type="checkbox"/> Some investment is not at risk.		

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11346H Schedule F (Form 1040) 2024

Schedule F

The IRS requires “amounts received from the sale of products you raised on your farm (or bought for resale), such as livestock, produce, or grains, are to be reported on Schedule F” and “the ordinary and necessary costs of operating a farm for profit are deductible business expenses. Ordinary means what most farmers do, and necessary means what is useful and helpful in farming.” There are also requirements for reporting the sale and purchase of capital assets, such as breeding livestock and machinery.

While Jack ate lunch each day and Diane was at school, he carefully reviewed the Schedule F. He realized that the Schedule F combines the sale of all raised products. This would not help them make decisions about whether the sheep and hay enterprises made or lost money. Consequently, he noted that their financial records could include most of the Schedule F categories with separate categories for lambs, wool, and hay. Jack also made a note that they would need a place to enter any revenues from the sale of ewes, rams, and equipment.

Jack noted the expenses section of the Schedule F has most of the categories they would need in their financial records. While the “Getting on Track” courses and other documents suggest keeping records according to each farm enterprise, Jack was not ready to spend the necessary time to keep records with that level of detail. He also made a note that they would need a place to enter information related to purchasing breeding livestock, machinery and equipment, vehicles, and buildings.

Other Considerations

The following weekend, Jack showed Diane his notes pertaining to farm records. She was thankful for all his work, but Diane wanted to keep financial records of transactions beyond the farm. She suggested – and Jack agreed – that they have additional income categories for her salary, withdrawals from Jack’s 401(k), interest income, Jack’s stock trading account, and the garden.

Income and Expense Categories Used by Jack and Diane.		
<p><u>Farm Income</u></p> <ul style="list-style-type: none"> • Lambs • Wool • Hay • Government Payments • Crop Insurance • Custom Hire • Other <p><u>Capital Sales</u></p> <ul style="list-style-type: none"> • Breeding Sheep • Machinery/Equipment • Other <p><u>Capital Purchases</u></p> <ul style="list-style-type: none"> • Breeding Sheep • Machinery/Equipment • Buildings and Structures • Other 	<p><u>Farm Expenses</u></p> <ul style="list-style-type: none"> • Pickup • Chemicals • Custom Hire • Feed • Fertilizer • Freight/Trucking • Fuel • Insurance – Crop • Insurance – Other • Interest • Hired Labor • Rent – Land • Rent – Other • Repairs • Seed • Supplies • Real Estate Taxes • Utilities – Water • Utilities – Propane • Utilities – Electricity • Utilities – Satellite • Utilities – Cell Phones • Vet & Medicine • Other 	<p><u>Personal Income</u></p> <ul style="list-style-type: none"> • Diane’s Salary • Jack’s Retirement • Interest • Trading Account • Garden • Other <p><u>Personal Expenses</u></p> <ul style="list-style-type: none"> • Diane’s Car • Donations/Gifts • Grandchildren • Travel • Household Operations • Food • Utilities - Personal • Lawn • Garden • Other

Additional expense accounts would be needed for her car, donations and gifts, travel, household operations, food, and the garden. Diane also suggested they have separate accounts for each utility especially since they had only one water well, electric meter, and propane tank. Finally, they agreed that additional income and expense categories may be needed but they would wait to make any adjustments until they had some experience keeping records.

Their Experiences

Jack diligently recorded all income and expenses associated with the farm and their personal finances. He discovered it was difficult to sit at the computer and enter data during the summer when there was lots of outside work to be done. However, Diane had a bit more time in the summer to help him.

Jack and Diane had read in a RightRisk Profile that they should estimate their tax liability before the end of the year. Thus, they printed their financial records, made some notes about projected income and expenses, and met with their tax preparer. She was excited that they had such good records.

The accountant made a few adjustments, including reducing the farm utility accounts by the portion for personal use, and quickly estimated their income tax liability. She even counseled them that they could take a bit more income without significantly increasing the amount of tax they would pay for the year.

Jack and Diane learned that keeping good, accurate financial records does not have to be difficult. They discovered good records can be useful when making informed management decisions about the farm. They plan to visit with the professionals from RightRisk during their next trip to Alaska about how to improve their chart of accounts and use the records for completing financial statements.

Resources

RightRisk LLC | <https://alaska.erightrisk.com>

“Getting on Track” Courses by RightRisk | <https://rightrisk.org> > Courses

RightRisk Profiles | <https://rightrisk.org> > Resources

Rural Tax Education (National Farm Income Tax Extension Committee) | <https://ruraltax.org>

USDA Risk Management Agency | <http://rma.usda.gov>

Internal Revenue Service | <https://irs.gov>



RightRisk seeks to make its programs and activities available to all individuals regardless of race, color, national origin, age, disability, or where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program.

To learn more, see:
<https://RightRisk.org>

