

Understanding Schedule F

Presented by Winona Dorris



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- Basic Principles of Taxation
- Tax By Entity (For Profit)
- Definition of A Farm
- Basic Tax Formula
- Farm Income
- Farm Expenses
- Taxes for Nonprofits
- Recordkeeping

Basic Principles

- The IRS is responsible for administering the code and collecting US Federal taxes.
- Congress is empowered to tax and does so through Federal tax law in the Internal Revenue Code.
- ALL income is taxable, unless there is an exemption.
- Based on the type of income, the rules are different in determining how the income is or isn't taxed.

Basic Principles

- Businesses should always file taxes. If they have a Losses can offset income of the same type.
- NOL carryback eliminated, except for farming. Carryback is 2 years, or choose to carryforward.
- Income Averaging (Schedule J) for farming income.
- Special rules for losses related to a federal declared disaster.



TAXES BY ENTITY TYPE

Tax By Entity

Single Owner LLC

- Schedule F, C, or E
- Income transferred to 1040
- Taxed at individual marginal tax rate

LLC Partnership

- Schedule F, C, or E
- Income transferred to 1065. K-1 to owners.
- K-1 income transferred to 1040.
- Taxed at individual marginal tax rate

LLC Electing S Corp

- Schedule F, C, or E
- Income transferred to 1120S. Includes payroll. K-1 to owners.
- K-1 income transferred to 1040.
- Taxed at individual marginal tax rate

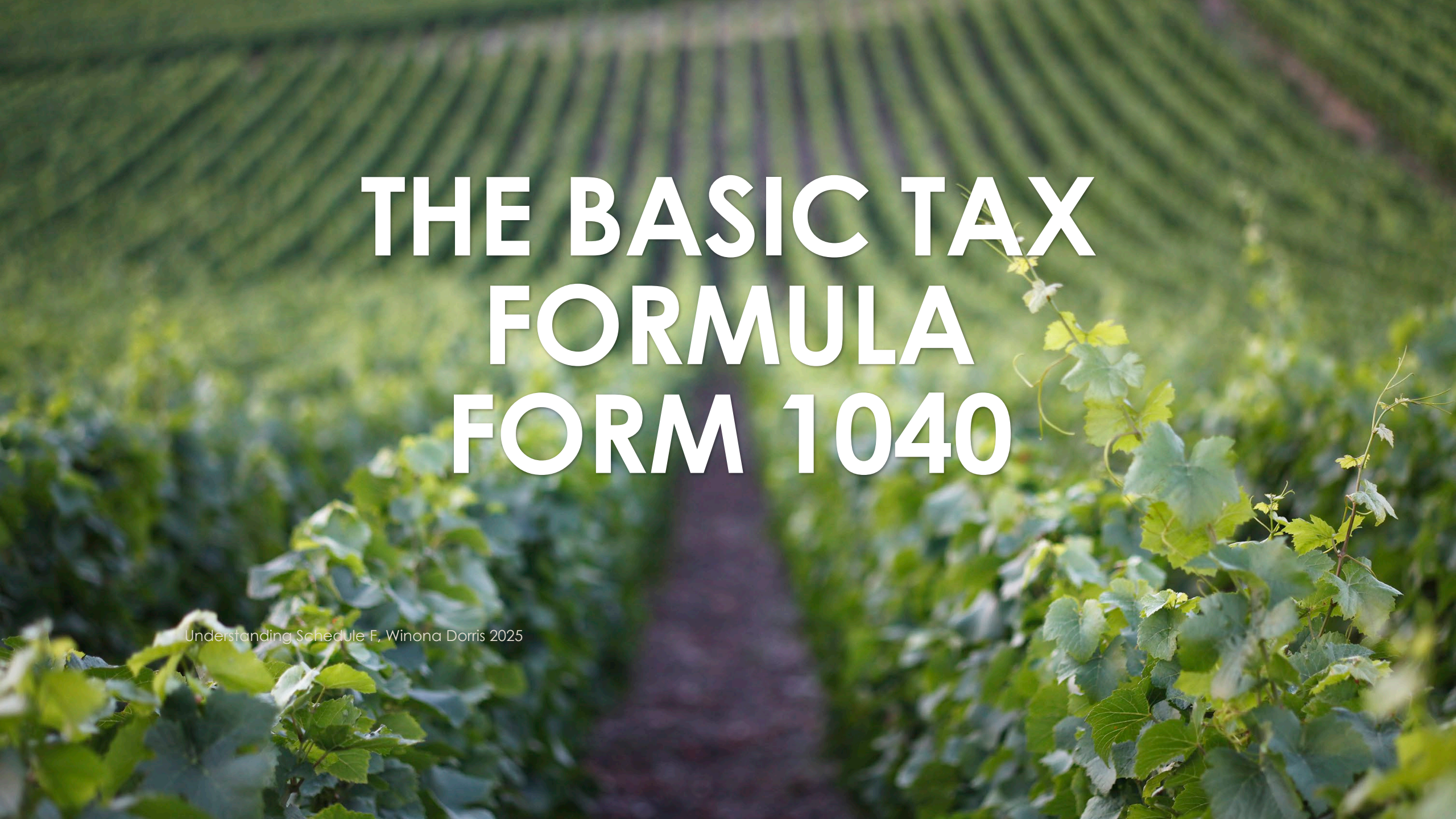


DEFINITION OF A FARM

Schedule F vs Schedule C

Income from operating a stock, dairy, poultry, fish, fruit, or vegetable farm.

Income from Commercial Fishing, Value Added.


THE BASIC TAX FORMULA FORM 1040
Understanding Schedule F, Winona Dorris 2025



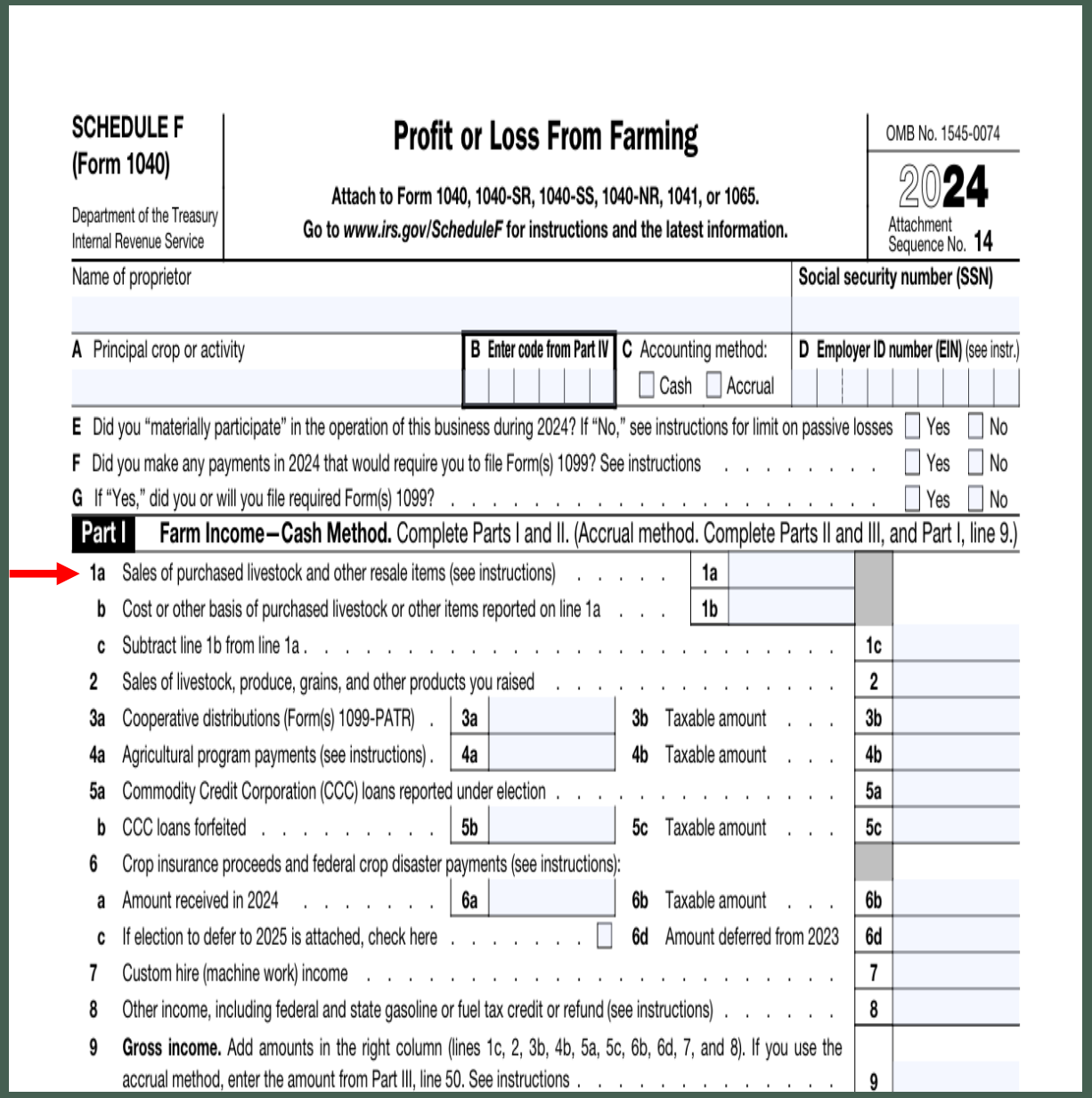
1040 Individual Tax Return

- W-2 Wage Earnings
- Dividends & Interest
- Various Retirement Income
- Sch D: Capital Gain/Loss
- Form 4797: Business Property Gain/Loss
- **Sch C: Non-Farm profit/(loss)**
- **Sch F: Farm/Ranch profit/(loss)**
- **Sch E: Pass-through profit/(loss) LLC or Partnership and Rental profit/(loss)**
- Other Taxable Income
- LESS: Adjustments to Income

Adiusted Gross Income



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SCHEDULE F (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Farming

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.

OMB No. 1545-0074

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: ☐ Cash ☐ 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 ☐ No

F Did you make any payments in 2024 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No

G If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

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	
b	CCC loans forfeited	5b		5c Taxable amount	5c	
6	Crop insurance proceeds and federal crop disaster payments (see instructions):					
a	Amount received in 2024	6a		6b Taxable amount	6b	
c	If election to defer to 2025 is attached, check here ☐			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	

Items Purchased for Resale

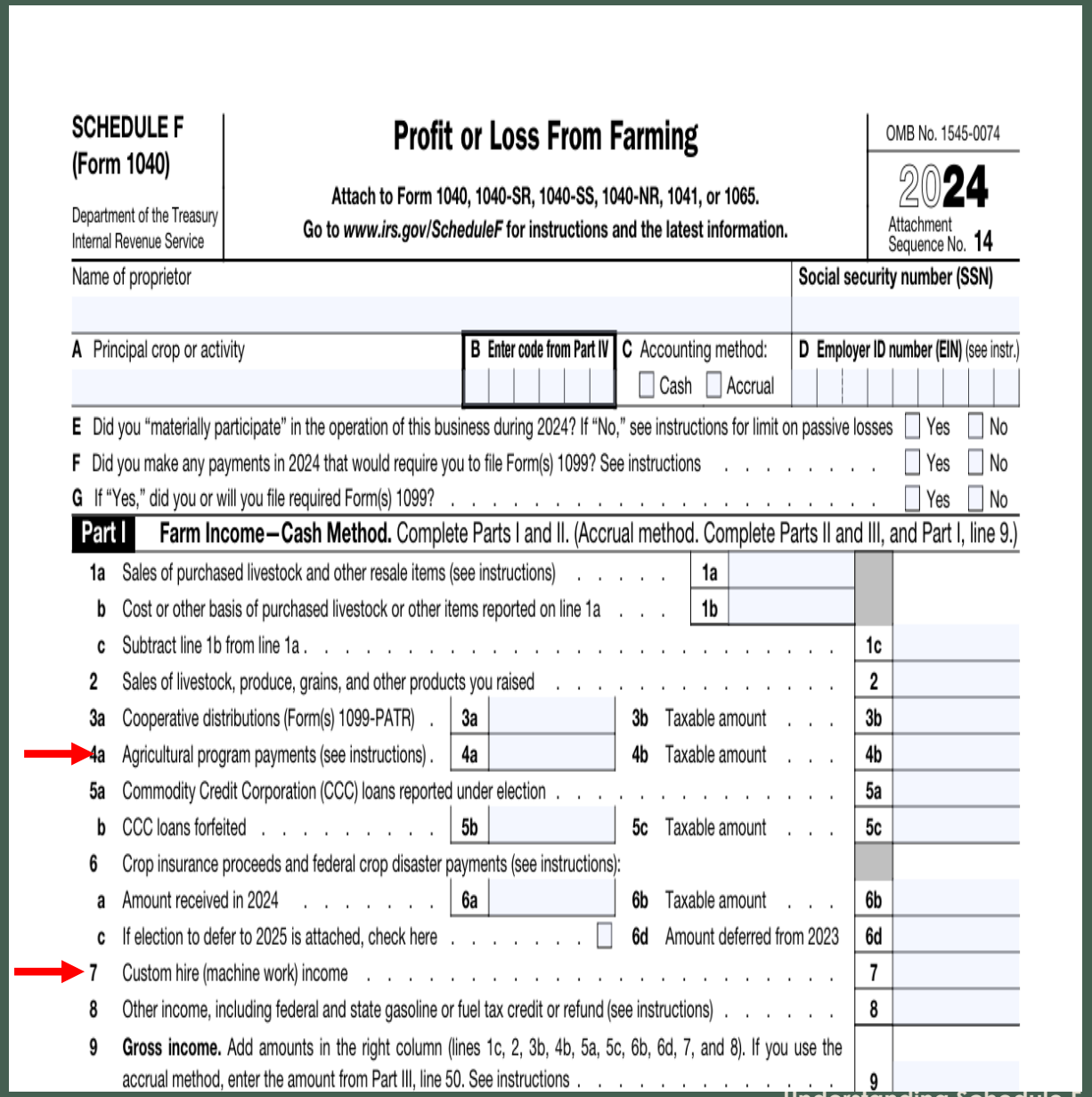
You purchase $1,000 fruits and vegetables from a nearby farm to include in your farm stand. You sell them for $1,500.

Row 1a: $1,500

Row 1b: $1,000

Row 1c: $500

Items purchased for resale need to be tracked separately in the system. You need a system!



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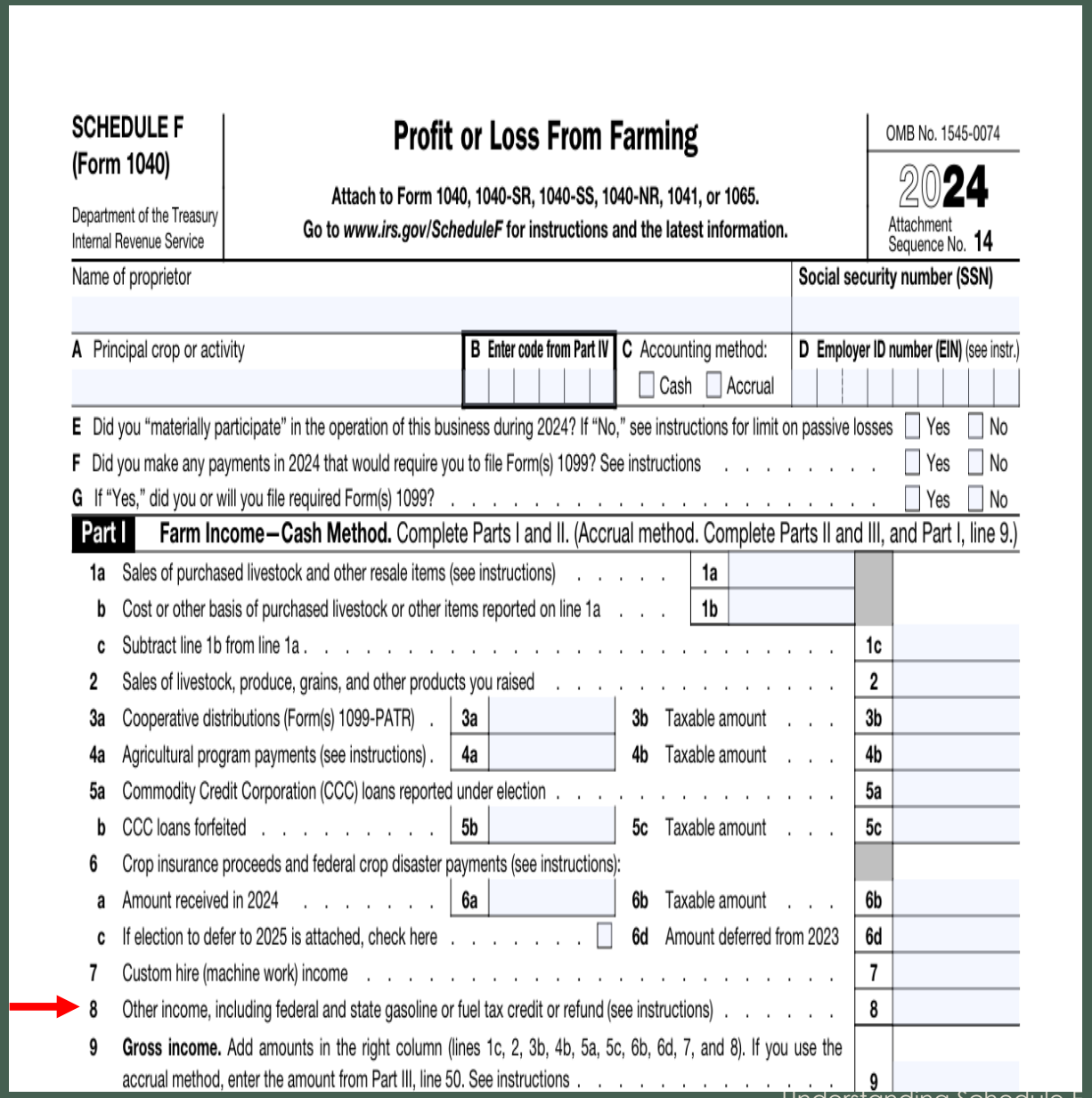
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Program Payments and Crop Insurance

Report on 4a proceeds from government programs. You should receive a Form 1099-G or CCC-1099-G from the Department of Agriculture.

Custom Hire

Report on 7 Income earned from others using your machinery and equipment. If this is more than 50% of farm income, report on Schedule C.



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Other Income

Includes Crop share rents, breeding fees, sale of soil, grants, etc.


FARM EXPENSES
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Ordinary and Necessary

26 U.S. Code § 162 - Trade or business expenses

In general.--There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including—

(1) a reasonable allowance for salaries or other compensation for personal services rendered;

(2) traveling expenses (including amounts expended for meals and lodging other than amounts which are lavish or extravagant under the circumstances) while away from home in the pursuit of a trade or business; and

(3) rentals or other payments required to be made as a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

Ordinary and Necessary

Labor

- Publication 51, Agricultural Employer's Tax Guide (pre 2023)
- Publication 15, Employer's Tax Guide (2024)
- Special rules for Foreign Agricultural Workers on H-2A workers
- State specific rules regarding overtime and pay frequency
- Rules regarding non-cash payments
- Youth labor laws for farm employers

Ordinary and Necessary

Direct, marketing and administrative costs covered in accounting

Covered here:

- Self-rent
- Depreciation
- Inventory
- Special rules for travel and meals
- Land and facility related costs
- Start-up costs

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):			32	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	

If a profit, stop here and see instructions for where to report. If a loss, complete line 36.

35 Reserved for future use.

36 Check the box that describes your investment in this activity and see instructions for where to report your loss:

a ☐ All investment is at risk. b ☐ Some investment is not at risk.



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Vehicles

- Choice of two methods: Actual or Mileage
  - Can not switch back and forth
  - Actual means keeping receipts
  - Mileage based on IRS set amount
  - Both require mileage logs

Vehicles

- Actual - costs to operate the car for the portion of the overall use of the car that's business use. Include gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments) attributable to the portion of the total miles driven that are business miles.

- Mileage – allowed for personal vehicles used for business purposes


DEPRECIATION
Understanding Schedule F, Winona Dorris 2025



- Capital assets are assets with a useful life longer than a year not intended for sale in the regular course of the business's operations.
- Capital assets are not deducted as an expense, they are depreciated.
- Depreciation is an expense that spreads the cost of an asset over its useful life.



Refer to the discussion on accounting and the homework to create or update your list of assets.

These are the items which should be depreciated.

Reference Pub 225 for the list of assets and their usual lives for depreciation.



Section 179 Depreciation

- Accelerated deprecation for tax purposes only.
- Book and tax depreciation will differ.
- Allowed only in the year put in service

Section 179 Depreciation

- For 2024, bonus depreciation is 60%, dropping 20% per year until phased out in 2027 (unless Congress extends it)
- Allowed only if business is profitable; can't create a tax loss.
- Deduction limited to $1,220,000 for 2024 and phases-out at $3,050,000 of purchases
- Publication 946
- May be different rules at the state level

Depreciation

Part I **Election To Expense Certain Property Under Section 179**

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	

6 (a) Description of property	(b) Cost (business use only)	(c) Elected cost

7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the **smaller** of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2014 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2016. Add lines 9 and 10, less line 12 ▶	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part III **MACRS Depreciation (Do not** include listed property.) (See instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2015	17
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ ☐	

Section B—Assets Placed in Service During 2015 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation System

20a	Class life				S/L	
b	12-year		12 yrs.		S/L	
c	40-year		40 yrs.	MM	S/L	



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Labor Hired

- Deduct reasonable wages for farm labor, piecework, contract labor
- For employees deduction equal to gross pay plus employer portion of social security and Medicare
- Also deduct cost of employee benefits
- Cost of boarding farm employees is also deductible

Labor Hired – Child

- Cost of wages and compensation paid to a child deductible if a true employer-employee relationship exists (i.e. W2 and withholdings)
- Child labor laws vary by state, with specific laws for Agriculture
- Wages to a child under 18 not subject to SS and Medicare

Labor Hired – Spouse

- Cost of wages and compensation paid to a spouse deductible if a true employer-employee relationship exists (i.e. W2 and withholdings)
- Sweat equity has no tax value
- Wages subject to SS and Medicare


INVENTORY
Understanding Schedule F, Winona Dorris 2025

INVENTORY

- Inventory accounting must reflect income. May be cash or accrual basis and have inventory accounting. Most **small farming businesses** (annual gross receipts of $26 million or less for the previous three years) can use the cash accounting method.

- Inventory includes all items held for sale, whether purchased, raised, or processed, at the end of the year. Includes work in process and finished goods

- Purchase of supplies are not inventory.

INVENTORY

- Pre-2017 All direct and allocable indirect costs must be capitalized to inventory and not expensed until sold.

- Post-2017 Businesses with gross receipts under $25M, choose between three inventory methods:
  - **Non-Incidental Materials and Supplies (NIMS Inventory)**
  - Applicable Financial Statement (AFS Inventory)
  - Non-AFS Inventory (per the books and records)

NIMS Election

- For qualified small businesses, treat certain costs as non-incidental materials and supplies instead of inventory.
- Under NIMS, cost are deducted in the later of the year in which a) the inventory is sold, or b) taxpayer pays for or incurs the cost of the item.
- Conform to accounting method, cash or accrual.



TRAVEL, MEALS, & INCIDENTALS

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TRAVEL

- Fully deductible if ordinary and necessary.
- Primary purpose is business, deduct all except for incremental cost of anything personal.
- Primary purpose if personal, can only deduct the business portion.
- Includes airfare, train, bus, taxi
- Also deduct travel from home to airport, train station or bus station, and all stops in between while on business travel
- Documentation required.

Meals

- Must have a valid business purpose to be deducted.
- **Meals for employees, provided for the convenience of the employer are fully deductible.**
- Other business meals deductible at 50%
    - Keep records, meals provided at home allowed, and focus of the meal is to create or maintain business relationship

Meals – Per Diems

- Allowed instead of actual receipts, tax deduction equal to 50% of what federal workers are allowed while traveling **(Pub 1542 or https://www.gsa.gov/travel/plan-book/per-diem-rates)**
- Entertainment expenses not allowed, but meals during entertainment allowed
- Easier than keeping/collecting receipts
- Documentation easier, but still required.
- Not included in taxable income.

Incidentals

- Fully deductible if ordinary and necessary
- Includes shipping, dry cleaning and laundry, telephone calls, internet, tips
- Based on actual or per diem rates
- Documentation required



OTHER EXPENSES

PROMOTION

- Event related – entertainment for customers counts as promotion (ie harvest festival with music and dancing)
- Gifts – Limited to $25 per person per year.

Must have a valid business purpose.

EDUCATION

- Necessary to maintain or improves your knowledge and skills related to your current business are deductible.
- Includes cost of magazines, books, newspapers, classes, conferences, field days, farm tours, etc.
- Can also deduct related travel.

Does not include education towards a NEW occupation.

EDUCATION

If your current business is farming, ranching, or fishing:

All costs related to:

- Farmer learning to ranch is fine.
- Rancher learning to farm is fine.
- Farmer or rancher learning to fish is probably not related to the current business unless:
  - On the same property
  - Selling into the same market
  - Creating a new market with bundled CSA
  - Other ways to connect new skill to existing business


NONPROFITS

What is a Nonprofit?

Serve the Public - Organized and operated exclusively for religious, charitable, literary, artistic, scientific or educational purposes.

No income tax on business earnings, unless Unrelated Business Income.

About Nonprofits

- May hire employees and put them on W2 payroll
- May also hire contractors, issue 1099s…. All labor laws apply
- Extensive documentation (Recordkeeping and receipts critical)
- Requires Board meetings and minutes

Nonprofits are MORE regulated than for-profits because there is no income tax on earnings. Fines and punishments can be significant.

Nonprofit Taxes

- Form 990 for nonprofit activity
- Form 990-T for activity not included under the charter
- Subject to ALL other taxes unless granted exemption



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Recordkeeping

You need to prove three things:

1. The expense was actually incurred. (cancelled check, travel log)
2. The amount of the expense is reasonable. (receipt, mileage log)
3. The expense has a legitimate relationship to generating income for the business. (contemporaneous note if the relationship is not obvious)

You generally must have **documentary evidence**, such as receipts, canceled checks, or bills, to support your expenses.

Additional evidence is required for travel, entertainment, gifts, and other expenses if business purpose is not evident. Additional evidence is usually **a contemporaneous note*** explaining the business purpose.

*Contemporaneous is made at the time or very shortly before or after.

Recordkeeping

Most ordinary and necessary business expenses are recorded through your bookkeeping system, but there are several important expenses that are not likely reported through your bookkeeping system because they are not paid out of the business.

- Depreciation and amortization
- Owner's out of pocket costs associated with the business, often travel meals and entertainment
- Expenses associated with the land where the business operates if that land is also where the residence is located
- Home office deduction


THANK YOU!
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