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Farm Income Tax Management

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YOU AND YOUR TAXES . . .

Wise tax management is a part of being a good manager of a farm. Like many other costs, income taxes can be reduced by good management. A good tax manager is one who "thinks taxes" all during the year. He does not rely on end-of-year planning alone. Little can be done to reduce taxes after the close of the year's business.

You need not be a tax expert to recognize the income tax aspects of a farm decision. If you have a knowledge of farm business situations and the resulting decisions that have tax effects, it will help you to become a good tax manager. You should be able to recognize those situations in which you need competent tax advice.

The bulletin discusses some of the major tax planning decisions that farmers must face. There is included a list of tax items often overlooked by farmers, a list of tax management ideas, and some estimate sheets for farm tax planning.

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Farm Income Tax Management

Since income tax is a personal tax levied upon the net income of the individual, it reduces the amount of money left for family living and getting ahead. Like other farm costs, income tax costs can be reduced by good management. Farmers have many opportunities during the year to make business decisions that will affect the amount of their income tax. To make wise business decisions, from an income tax standpoint, they must be informed and know the tax consequences of various farm business transactions. The timing of these transactions is important.

Tax Management — A Part of Farm Management

A farmer's net farm income varies considerably from year to year. This results from differences in production, and changes in prices and costs. In general, the less a farmer's net income fluctuates, from year to year, the less income tax he will pay over a period of years.

Good tax management means managing the farm business in such a way that the amount of taxes paid over a period of years is no more than the legal minimum. The government expects to receive no more than the amount due. It is the responsibility of the individual to use all permissible means to reduce his taxes. One important means of reducing taxes is to spread the annual net income as evenly as possible over a period of years. This is true because of the graduated tax rate, and because personal exemptions cannot be accumulated from one year to another. Some other important considerations in good tax management are capital gains provisions, methods of depreciation, and transactions involving non-business property. It is assumed that the individual farmer can do a better job of income and expense management than that resulting from chance.

Tax management, however, has some limitations. Wise farm management decisions should usually take precedence over tax management. If decisions are made and business transacted solely in an effort to reduce tax, net income after taxes may actually be lower. For example, if a decision results in the saving of $100 in income tax

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but $500 is lost by a lower selling price of a farm product, the net income after taxes is reduced approximately $400. Frequently there is no conflict between wise tax management and good farm management decisions; but when a conflict occurs, the choice resulting in the largest net cash income after taxes should be followed.

Need for Records

Successful tax management is based largely upon complete records kept regularly and carefully throughout the year. With good records, it is possible to make periodic checks of income and expenses to determine the approximate taxable income to date. This enables one to make business decisions which will result in the greatest net income after taxes. It is always advisable to have a net taxable income as large as the amount allowed for personal deductions and exemptions.

If a preliminary check indicates an unusually high net farm income, steps may be taken to delay sales beyond the end of the year or increase deductible expenditures before the end of the year. Such procedures are usually more advantageous to farmers using the cash method than those using the accrual method.

Since depreciation of farm improvements, machinery, and equipment, and of **purchased** breeding, dairy and work stock, are allowable business deductions, farm records should include a detailed record of these capital investments. Such a record should include date of purchase, cost, method and rate of depreciation, depreciation claimed, date of sale or trade, and selling price.

Occasionally bank statements are examined when tax returns are audited. Deposits shown on these statements may be assumed to be taxable income unless they are proved to be otherwise. Therefore records should be kept to identify all deposits, including borrowed money, gifts, bonds cashed, inheritance and other non-taxable receipts as well as farm receipts.

Information regarding record books suitable for keeping adequate records for tax purposes and farm business analysis is available at county agricultural extension offices.

Methods of Keeping Records

Farmers may keep records and report their income on either the cash or accrual basis. They make their choice when they file their first farm tax return. Having chosen one method they must continue using that method unless they get written consent from the Commissioner of Internal Revenue, Washington, D. C., to change methods. To get this consent, an application must be filed with the Commissioner within the first 90 days of the taxable year in which the change is to be made.

A farmer on the "cash method" of keeping books and reporting income treats items as income when received in cash or its equivalent, and treats items as deductible when they are paid. This is sometimes called the "cash receipts and disbursements" method. On the "accrual basis," items are reported as income when earned even though not actually received, and deductions are claimed when the expense is incurred even though not yet paid. A farmer using the accrual method of keeping records must keep inventories and value his inventory property each year. An increase in the value of the inventory during the year results in additional taxable income on the accrual basis.

The main difference between the cash and accrual basis (or method) of reporting income can be easily illustrated. For example, a farmer buys $100 worth of feed on December 15. The feed store sends a bill on January 2 and it is paid immediately. On the cash basis, the farmer takes his deduction in January, when he pays the bill. On accrual basis, the farmer claims the expense deduction in December, when the obligation to pay was incurred or "accrued." Income is similarly treated. Suppose $100 worth of grain was sold on December 15, and the buyer paid for it on January 2. The cash basis farmer reports income as received in January when he was paid. The accrual basis farmer reports the income in December when the right to get the $100 "accrued."

Likewise the manner in which inventories are handled differs. Suppose a farmer raised livestock during the year but did not sell any. On the cash basis there is no income from livestock until it is actually sold. The accrual basis farmer will have reportable income in the amount of the increased value of the livestock during the year.

The Cash Method

When the cash method is used, gross farm income includes: (1) receipts from the sale of livestock raised, (2) receipts from the sale of produce raised, (3) other farm income, and (4) sale of purchased livestock and other items purchased for resale. Allowable deductions include: (1) those farm operating expenses that were paid during the year, regardless of when they were incurred, and (2) allowable depreciation expense.

There are certain **advantages to the cash method** which should be carefully considered in tax planning:

(1) The young farmer, who is building up his business, has a smaller taxable income and less tax, because only his actual sales are taken into account and not the increase in value of his inventories. He thus postpones payment of higher taxes until later years.

(2) The cash method offers more flexibility in shifting income and expenses from one year to another. For example, portions of large farm production may be held over for sale in years of lower production.

Likewise, it is easier to delay expenditures, postpone payments, or make cash purchases in advance. Expense items such as feed, seed, and fertilizer may be purchased in the latter part of the year, even though they may not be used until the next taxable year.

(3) Sales of raised breeding, dairy and work stock, treated as capital assets, result in a lower tax liability than if the accrual method is used. This is because under the cash method these animals have a zero cost basis, while under the accrual method the last inventory value (less any proper depreciation) is the cost for determining gain. Livestock purchased and depreciated by a cash basis farmer will often have a lower cost basis than similar animals held in an inventory by the accrual basis farmer. However, on the accrual basis one can avoid part of this disadvantage by removing these breeding, dairy and work animals from inventories and placing them in depreciation schedules to lower their cost basis.

(4) The record keeping job is simpler because reportable income is not based on inventories.

(5) The cash method of reporting does not require the payment of taxes until after cash from sales has been received, whereas the accrual method might involve borrowing money to pay a tax based on products held in inventory.

The Accrual Method

When the accrual method is used, farm income includes: (1) all income from sales made during the year, regardless of when payment is received, (2) other farm income, and (3) the inventory values of livestock, crops, feeds, and supplies on hand at the end of the year.

Allowable deductions include: (1) all operating costs and expenses incurred during the taxable year, including items for resale, whether paid or not; (2) the inventory values of livestock, crops, feeds, and supplies on hand at the beginning of the year, and (3) depreciation expense, the same as allowable under the cash method. Costs of purchased feeder livestock are deductible in the year in which the animals are sold. However, the value of the livestock or other items is also included in the inventory at the end of the year.

Some **advantages of the accrual method** include:

(1) It may eliminate the possibility of having to pay tax in one year on income from the sale of two years production.

(2) New farm operators with adequate financing may desire to use the accrual method in order to keep their tax payments more current, rather than postpone taxes until the year in which production is sold.

(3) In some cases the use of the accrual method prevents the sharp fluctuation of income from year to year.

Management of Transactions to Minimize Taxes

Increasing Income to Cover Allowable Deductions and Exemptions

When a preliminary check of income indicates a probable net taxable income less than the total amount allowed for personal deductions and exemptions, consideration should be given to increasing reportable income for the current year. Since personal deductions and exemptions are allowed annually, any credit for such exemptions not absorbed on current income is automatically lost. That is, exemption credits cannot be applied against income of another year. The following example illustrates this principle:

John and Mary Jones have two children——

	1956	1955	Average Income	Two-Year Tax
Net Income	0	$5,334	$2,667	$480

Jim and Jane Smith, also with two children——

	1956	1955	Average Income	Two-Year Tax
Net Income	$2,667	$2,667	$2,667	0

The Joneses paid more income tax than did the Smiths even though they had the same average net income for the two years. In 1955 they failed to use up the $2,667 that tax regulations permitted them to earn before paying any income tax ($600 for each exemption plus the 10% standard deduction).

Cash Basis Records

If John and Mary Jones were using the cash basis of reporting they might have increased reportable income before the end of 1955 by doing one or more of the following things:

(1) Made additional sales before the end of the year. In many cases livestock feeders may have livestock about ready for market which can be sold either in December or January. Sale of some of these animals in December may be desirable from a tax standpoint, even though they bring less income. Other possibilities include selling grain, culling dairy cows and poultry flocks, disposing of other undesirable animals, collecting money due for labor or custom work done, and doing additional off-farm work before the end of the year.

(2) If they were eligible for their first CCC loan they might have secured a loan on some of the cotton before the end of the year and treated the amount of the loan as income. Once made, the choice of treating CCC loans as income or loan must be followed in future years.

(3) Postponement of and payment of accounts. In some cases farmers buy, on charge account, such items as feed, fertilizer, and farm

supplies. Arrangements may be made for carrying such accounts beyond the end of the taxable year.

Accrual Basis Records

If John and Mary Jones were on the accrual basis, the opportunities for increasing income late in the year may be more limited, since gross income is primarily determined by actual production of the farm. Possible ways of increasing their net income include:

(1) Incurring as few deductible expenditures as possible during the balance of the year.

(2) Doing off-farm work to increase income.

(3) Selling forest products.

(4) Selling capital items or those treated as capital items, not essential to the farm business.

(5) Buying feeder stock or other inventory property which will increase in value by the end of the year.

Planning Expenditures to Save Taxes

Planning Farm Operating Expenses

Some expenditures which are not necessarily made every year are nevertheless deductible in the year in which they occur. Such expenditures include: Repainting buildings, minor repair or improvements, many small shop tools, increased seedings of legumes and grasses, and (within limits) costs of soil and water conservation practices. Farmers can manage to make many expenditures of this type in years of high gross income to reduce their taxable income.

Full Use of Depreciation Deductions

Depreciation is a method of recovering costs of farm improvements, machinery, equipment and purchased breeding, dairy, and work stock by deducting part of the cost each year as a farm expense. Farmers should avail themselves of every opportunity to reduce their taxable income by taking all allowable depreciation. While the actual costs invested in these items are all that can be recovered, the law provides several choices as to methods used in figuring the annual depreciation.

The straight-line method, which is most commonly used, provides for distributing the cost of an item, equally each year, over a period of years representing its estimated useful life.

Two other methods are the "declining balance" method and the "sum-of-the-digits" method. Each of these provides for a more rapid recovery of cost in the early years of the life of new items, thus increasing non-taxable spendable income in those years. This makes for more up-to-date equipment and greater efficiency. These methods

appear to be especially applicable to machines which are normally traded on new machines before the end of their useful life where very heavy use is made of the machinery.

The following example illustrates the difference in the amount of depreciation allowed each year by using different methods of depreciation on a new tractor costing $3000 and having a 10-year estimated life. This example shows only the first five years of depreciation and gives no consideration to any possible salvage value.

Years	Straight-Line	Declining Balance	Sum-of-Digits
1st	$300	$600.00	$545.45
2nd	300	480.00	490.90
3rd	300	384.00	436.36
4th	300	307.20	381.81
5th	300	245.76	327.27
5-Yr. Total	$1500	$2016.96	$2181.79

Farmers might well consider using one of these new methods on some newly acquired items, particularly on motorized machines such as tractors and trucks and on high-priced purchased breeding stock.

Faster depreciation may help the individual who expects to retire before the useful life of the item is expended. It may also be of advantage to young farmers in keeping their tax bill lower and leaving them a higher disposable income for debt retirement and business expansion.

On the other hand, if an individual farmer is expanding his business for expected higher income in future years, he may prefer to continue using the straight-line method on newly purchased items to permit more depreciation deductions in future years.

Fast "Write-Off" of Grain Bins

The cost of certain grain storage facilities constructed in 1953 to 1956, inclusive, may be "written-off" over a 60-month period, instead of depreciating it over the normal period of estimated useful life. Such investments might be made and the "write-off" started to the farmer's tax advantage if an above average income is anticipated in the five-year period beginning in 1955 or 1956.

Net Operating Loss Deductions

Farmers often pay more taxes over a period of years than required by law because they fail to take advantage of net operating loss provisions. If a farmer has a net operating loss in a given year, such loss

can be used to reduce net farm income of other years. Net operating losses can be carried back two years and, if not offset, any remaining loss can be carried forward for five years.

When a net operating loss occurs, a claim for refund must be filed to recover any tax paid in prior years and to establish the amount of loss, if any, to be carried forward to offset future income. A special tax form 1045 is used for this purpose.

Beginning with the year 1954, a net operating loss includes losses from the sale of farm machinery and equipment, farm land, and other property used in the farming business. This means that losses on the sale of all or part of the farm business assets are carried back and then forward to reduce income of other years.

Tax Management of Sales or Trades

Sale or Trade of Machinery and Equipment

Where new machinery or equipment is acquired it is well to consider whether it is better to buy the new item outright and sell an old item or to trade the old one on the new one. In case the farmer's book value or remaining cost to be recovered in the old machine at the time of its disposal is lower than its trade-in value there is an advantage in selling the old machine and buying a new one.

Suppose a tractor has been depreciated down to $400 but it can be sold for $600. If such a sale is made and reported as a capital gain transaction, only 50 percent of the $200 gain is taxable, assuming no other capital gains or losses are involved. If a new machine is purchased the total purchase price is the cost basis for depreciation purposes.

In case the trade-in allowance on the old machine is less than its unrecovered cost, there is an advantage in trading. The cost basis for depreciation of the new machine will be the unrecovered cost of the old machine plus the difference paid on the trade.

Sale or Trade of Real Estate

In case a farm is sold or traded for another farm or business property, it is necessary to establish the cost basis of the farm in order that the actual gain or loss on the transaction can be determined and that no unnecessary tax be paid. In order to establish this cost basis it is necessary to have a record of the original cost and costs of all improvements made on the property since it was acquired.

Improvements made on farm property may be of three types:

(1) Farm business improvements subject to depreciation, such as farm buildings, silos, fences, and tile drains.

(2) Farm business improvements not depreciable, such as costs of clearing land, constructing open ditches, and soil and water conservation expenditures not deducted as expenses.

(3) Improvements to the farmer's personal dwelling which are not depreciable for tax purposes. Cost of these improvements is added to the original cost which is then reduced by the amount of all depreciation previously deducted or allowable.

If any item has been deducted as an expense, such as soil and water conservation expenditures, it cannot be included in the cost basis. Thus it is important to have a complete record of all depreciation and capital expenditures during the entire period of ownership.

There is frequently a tax advantage in trading a farm for another farm, rather than selling one and buying another. When such a trade is made there is no tax due unless some cash difference is received. In case of a trade, all or part of the tax liability is merely postponed. This is because no gain is recognized for tax purposes unless a difference in cash or certain non-business property is received in the transaction.

In particular cases it may be more desirable in the long run to sell, and pay taxes on the gains, in order to get a higher cost basis on the new farm or business property. This might apply in case an unimproved farm is exchanged for a well improved farm or business property.

In selling a farm, the tax liability on the gain can be spread over a period of years and in many cases can be reduced by use of the "installment sales" method. To qualify for such sale, the payments received in the year of sale must not exceed 30 percent of the selling price.

In all cases where the farmer's personal dwelling is part of the farm which is sold, any gain realized on the dwelling is not recognized for tax purposes if all of the proceeds from the dwelling are reinvested in a new dwelling, purchased and occupied by the farmer, within one year prior to or after the date of sale of his original dwelling.

Tax Planning in Buying A Farm

Tax planning should begin at the time a farm is purchased.

At the time of purchase, the buyer should allocate the total cost of the farm to: (1) growing crops, if any, (2) depreciable improvements, (3) dwelling, and (4) land. From a tax management viewpoint, the amounts allocated to the different items are handled differently.

The "cost" of the growing crops is deducted in the current year as a farm operating expense. The cost basis of the farm is, of course, reduced by the amount allocated to the crop. The part of the "cost" allocated to land will not be recovered until the farm is sold, since land cannot be depreciated or amortized. So, too, the portion allocated to the dwelling is not depreciable if used as the buyer's personal residence. However, a tenant house is depreciable for tax purposes.

Cost allocated to depreciable improvements will be recovered through depreciation.

When such property is bought, the cost should be allocated to each item purchased in proportion to its fair market value at the time of acquisition. This allocation is necessary in order to determine the basis of the depreciable items for depreciation purposes and to determine gain or loss on sale of any of the items. The portion of the cost to be allocated to each item acquired is based upon the relative value of such item to the total value of all of the items at the time of purchase. This can be figured by the following formula:

$$\text{Basis for Depreciation} = \text{Total Cost} \times \frac{\text{Fair Market Value of Item}}{\text{Fair Market Value of Total Property}}$$

The proper allocation of cost may help determine the price a buyer will pay for the farm. This is particularly true when the buyer is looking to future farm income after taxes to pay off the purchase price.

The manner of payment of the purchase price also relates to tax management. In computing taxable income the buyer deducts interest payments but not payments or principal. To the seller, interest is ordinary income. Principal payments are usually part return of capital and part capital gain. Thus, in particular cases, it might be wise for the buyer and seller to adjust the principal amount and interest rate to obtain the best tax results. Reasonable allocations and payment provisions will usually be accepted by the Internal Revenue Service. In fact, revenue agents give great weight to written contracts setting forth these details.

Managing Income for Increased Social Security

As farmers approach retirement age they may wish to increase their net farm income in order to secure maximum social security benefits. In so doing they will automatically increase their income taxes. However, they may prefer to pay these additional taxes in order to obtain additional retirement benefits. Many of these farmers are more interested in methods of increasing rather than decreasing their taxable income.

Some of the means for increasing income which should receive consideration are: (1) renting and operating additional land, (2) intensifying and expanding present enterprises, (3) adding new enterprises, (4) marketing forest products by the farm operator, (5) material participation by landlords in the management and operation of the farm, and (6) custom work or other off-farm employment.

Where choice of method of handling certain items of expense is optional, the farmer seeking to increase taxable income may choose the method which gives the smaller deductions. Examples include: (1) shifting from a rapid depreciation method to the slower straight-line method for depreciable items, (2) electing to treat soil and water

conservation costs as capital investments rather than as current operating expenses, (3) disposing of some depreciable capital items to reduce the total depreciation deductions, and (4) in general reducing operating costs to a minimum.

Summary

- Like other farm costs, income taxes can be reduced by good management.
- A good tax manager is one who is tax conscious all during the year.
- There is very little that can be done to reduce taxes after the close of the year's business.
- A farmer should know when and where to seek tax advice and how to evaluate it.

TAX REPORTING REMINDERS

1. Be sure that CCC loans are not counted as income twice (in one year when borrowed and next year when crop is sold).

2. If using the cash method, deduct cost of purchased livestock lost, strayed, or stolen, or which died during the year.

3. If using the accrual method, record all purchases of livestock. Make a "livestock number check" to see that the total number purchased, born, and on the beginning inventory equal the total number sold, died, butchered, and on the ending inventory.

4. Deduct cost of auto and truck licenses, insurance, etc.

5. Deduct as much expense of auto, utilities, telephone, etc., as is actually used in the farm business (half is not enough in many cases).

6. Take all depreciation allowable on depreciable improvements, machinery and equipment and on purchased draft, breeding and dairy livestock. Accrual basis taxpayers may remove such purchased as well as raised animals from inventory at maturity and put them on a depreciation schedule.

7. Keep records to insure deduction of easily overlooked items such as farm magazines, organization memberships, bank service fees, overnight business trips, portion of dwelling used for farm use, and losses on household goods used for feeding or lodging hired help.

8. Keep records of source of bank deposits such as gifts, borrowings, sale of bonds, etc., so that there is no chance that they will be considered farm income.

9. Keep records of all medical, dental, and hospital bills, including payments for accident and health insurance.

10. Keep exact records of dates of purchase, cost, date of sale and sale price on all items sold.

11. Do not include in income any indemnity for diseased animals if the payment has been or will be used to purchase "like or similar" animals within one year.

12. Records should always be carefully kept. Keep all paid bills, invoices, cancelled checks, etc., for at least six years, including checks used to pay income taxes. Pay bills by check whenever possible. Write down all other payments at once in an account book. Get the bank statement each month and check it against the farm account book.

13. Establish a charge account at hardware store, elevator or other places where considerable business is done during the year. Pay this account by check upon receipt of monthly statements. This prevents the omission of many small expense items which might otherwise be paid by cash and tickets lost. Every dollar of cost not deducted will result in at least 20 cents of unnecessary income tax being paid.

14. Remember to check special provisions relating to damages to land from pipe lines, oil wells, rights of way, and similar circumstances.

TAX MANAGEMENT TIPS

1. Pay wages to children for work actually performed on the farm. If the child is under 19 or regularly enrolled in school or in on-farm training program, he can earn over $600 and the father still gets an exemption for the child if the father pays over half of the child's support. This is in addition to the exemption which can be claimed by the child on his own tax return. This will place family in a lower tax bracket.

2. Give children some income-producing property (land, cattle, machinery) and let them report income from their work and capital. Family partnerships are sometimes used to do this. It is another way to spread family income over the lower brackets. Remember, gifts and partnerships must be legally sound to achieve tax savings.

3. Remember that the personal exemption increases from $600 to $1200 at age 65. It may be desirable for income tax purposes to postpone income to take advantage of the increased exemption.

4. If nearing 65, plan income from rents, dividends, interest and pensions to qualify for the retirement income credit. If 65 or over, claim retirement income credit on $1200 of rents, dividends, interest and pensions (up to $240 in tax reduction).

5. Do not hold breeding stock used for production of market livestock too long. Farrowing only one or two litters from sows will qualify a larger percentage of sales for capital gain treatment.

6. When preparing to replace machinery or equipment, decide whether it is better to trade or to sell outright and buy new. There

may be no gain or loss on the trade. Outright sale and new purchase may give greater depreciation deductions.

7. If selling or cutting timber, plan to obtain special capital gains treatment.

8. Give close attention to the timing of sales of farm machinery, equipment, land and capital livestock. These items can result in capital gains or capital losses. Secure reliable tax advice in order to obtain maximum tax benefits. Items must be held for more than six months (12 months in the case of livestock) to qualify as long-term capital gains eligible for low rate taxation.

9. Plan personal deductions. Many payments that are normally spread over two years can be paid in one year and itemized as deductions. In the next year the standard 10% deduction (or $1,000) may be taken. For example in some states auto license for two years may be purchased within the same year. The same is true of charitable contributions, medical expenses, and other deductible items.

10. Plan to have enough income to use up the personal deductions that are allowed. (See page 9.)

11. Avoid wide fluctuations in income from one year to the next. (See page 9.)

12. Accelerated depreciation can be used in many cases as an income evener and as an aid in shifting income into the capital gains category.

13. Installment sales can be used to spread income over a period of years and thus avoid a high income in one year.

14. The amount of income subject to capital gain treatment can frequently be increased on the accrual basis by setting up a depreciation schedule for draft, breeding, and dairy animals. By doing this the remaining cost is less at the time of sale. (See page 10.)

15. Keep accurate herd records, including births, deaths, purchases, sales, and designations of breeding animals.

16. Understand the effect of rapid depreciation and amortization of grain bins. Decide whether to recover costs quickly or spread them out against farm production over a longer period.

17. Check loss years in the past. Is there an unused net operating loss deduction (See page 11). Remember that claims for refund may bring an audit.

18. Decide whether to sell or trade machinery, equipment, farm land, draft, breeding, or dairy stock.

19. Don't forget about social security in tax planning. (See page 14).

20. Use the tax estimate forms to plan tax savings. (See pages 18 and 19).

Income Tax Estimate Form

Cash Basis

		Amounts to date ____ ____, 19____	Estimated rest of year	Estimated year's total
RECEIPTS				
Sales:				
Cattle, hogs, sheep & wool		$____	____	____
Dairy products		$____	____	____
Poultry and eggs		$____	____	____
All crop sales		$____	____	____
Labor and custom work		$____	____	____
Refunds, etc.		$____	____	____
____________________		$____	____	____
Total products raised	(1)	$____	____	____
Sales of purchased livestock $____			____	____
Purchase cost $____			____	____
Profits on purchased livestock	(2)	$____	____	____
50% of gain on capital sales	(3)	$____	____	____
Off-farm taxable income	(4)	$____	____	____
TOTAL RECEIPTS (1+2+3+4)	(5)	$____	____	____
EXPENSES				
Hired labor (wages, groceries, & Social Security tax)		$____	____	____
Feed purchased		$____	____	____
Seed, fertilizer, lime, etc.		$____	____	____
Repairs on machinery & improvements		$____	____	____
Fuel and oil for farm use		$____	____	____
Veterinary and livestock expense		$____	____	____
Taxes, interest, insurance & rent		$____	____	____
Truck & machinery work hired		$____	____	____
Farm share of auto expense		$____	____	____
Soil & water conservation expense		$____	____	____
____________________		$____	____	____
____________________		$____	____	____
Total farm expenses	(6)	$____	____	____
Depreciation (last years plus depreciation on new items)	(7)	$____	____	____
Expense on non-farm income	(8)	$____	____	____
TOTAL EXPENSES (6+7+8)	(9)	$____	____	____
ADJUSTED GROSS INCOME (5 minus 9)	(10)	$____	____	____
If less than, $5,000, find tax on tax table on back of form 1040		[ ]		[ ]
OR use 10% of item (10)		$____		____
$600 X ____ exemptions		$____		____
Total deductions	(11)	$____		____
TAXABLE INCOME (10 minus 11)	(12)	$____		____
Figure tax from tax table		[ ]		[ ]

Income Tax Estimate Form
Accrual Basis

	Amounts to date ____ ___, 19___	Estimated rest of year	Estimated year's total
Sales—			
Cattle, hogs, sheep & wool	$______	______	______
Poultry, eggs and dairy products	$______	______	______
All crop sales	$______	______	______
Labor and custom work	$______	______	______
Refunds, etc.	$______	______	______
______________________	$______	______	______
Total farm sales	(1) $______	______	______
Estimated inventory (new or ending)	(2) $______	______	______
50% of capital gains (schedule D)	(3) $______	______	______
Gross off-farm income	(4) $______	______	______
TOTAL CREDITS	(5) $______	______	______
Beginning-of-year inventory	(6) $______	______	______
Gross Income (5 minus 6)	(7) $______	______	______
Farm expenses—			
Hired labor (wages, groceries and Social Security tax)	$______	______	______
Feed purchased	$______	______	______
Seed, fertilizer, lime, etc.	$______	______	______
Repairs on machinery & improvement	$______	______	______
Fuel and oil for farm use	$______	______	______
Veterinary and livestock expense	$______	______	______
Taxes, interest, insurance and rent	$______	______	______
Truck and machinery work hired	$______	______	______
Farm share of auto expense	$______	______	______
Soil and water conservation expense	$______	______	______
______________________	$______	______	______
______________________	$______	______	______
Total Farm Expenses	(8) $______	______	______
Depreciation	(9) $______	______	______
Expenses on non-farm income	(10) $______	______	______
TOTALS OF ITEMS 8, 9 and 10	(11) $______	______	______
ADJUSTED GROSS INCOME (7 minus 11)	(12) $______	______	______
If less than $5,000, find tax on tax-table on back of form 1040	[ ]		[ ]
OR use 10% of item (12)	$______		______
$600 X ______ exemptions	$______		______
Total deductions	(11) $______		______
TAXABLE INCOME (10 minus 11)	(12) $______		______
Figure tax from tax-table	[ ]		[ ]

NORTH CAROLINA AGRICULTURAL EXTENSION SERVICE

D. S. Weaver, Director

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