

## Ten Things to Know about Farm Income and Deductions

If you have a farming business, there are several tax issues to consider before filing your federal tax return. The IRS has compiled a list of 10 things that farmers may want to know.

- 1. Crop Insurance Proceeds** — You must include in income any crop insurance proceeds you receive as the result of crop damage. You generally include them in the year you receive them.
- 2. Sales Caused by Weather — Related Condition** If you sell more livestock, including poultry, than you normally would in a year because of weather-related conditions, you may be able to postpone reporting the gain from selling the additional animals due to the weather until the next year.
- 3. Farm Income Averaging** — You may be able to average all or some of your current year's farm income by allocating it to the three prior years. This may lower your current year tax if your current year income from farming is high, and your taxable income from one or more of the three prior years was low. This method does not change your prior year tax, it only uses the prior year information to determine your current year tax.
- 4. Deductible Farm Expenses** — The ordinary and necessary costs of operating a farm for profit are deductible business expenses. An ordinary expense is an expense that is common and accepted in the farming business. A necessary expense is one that is appropriate for the business.
- 5. Employees and Hired Help** — You can deduct reasonable wages paid for labor hired to perform your farming operations. This includes full-time and part-time workers. You must withhold social security, medicare and income taxes on employees.
- 6. Items Purchased for Resale** — You may be able to deduct, in the year of the sale, the cost of items purchased for resale, including livestock and the freight charges for transporting livestock to the farm.
- 7. Net Operating Losses** — If your deductible expenses from operating your farm are more than your other income for the year, you may have a net operating loss. You can carry that loss over to other years and deduct it. You may get a refund of part or all of the income tax you paid for past years, or you may be able to reduce your tax in future years.
- 8. Repayment of Loans** — You cannot deduct the repayment of a loan if the loan proceeds are used for personal expenses. However, if you use the proceeds of the loan for your farming business, you can deduct the interest that you pay on the loan.
- 9. Fuel and Road Use** — You may be eligible to claim a credit or refund of federal excise taxes on fuel used on a farm for farming purposes.

10. **Farmer's Tax Guide** — More information about farm income and deductions is in IRS Publication 225, Farmer's Tax Guide, which is available at <http://www.irs.gov> or by calling the IRS at 800-TAX-FORM (800-829-3676).