



The Business of Farming:

Preparing IRS Schedule F & Hawaii State
Income Tax Returns

Summary of Business Entities

- ▶ There are four main four main types of business entities:
 - ▶ C Corporations,
 - ▶ S Corporations,
 - ▶ LLCs and
 - ▶ Informal Entities such as Sole Proprietorships and Partnerships

It is crucial that farmers understand the state and federal tax implications of business entity decisions they make.

- Farmers who operate as sole proprietors (including single member LLCs), trusts or partnerships (S corps and multiple member LLCs) file a Schedule F to report their farming income and claim their expense deductions.
- Farms that are C-Corporations do not file a Schedule F since they are separate taxable entities and file a Form 1120 used for corporations.

Federal Income Taxes for Farmers:

- For an LLC (one member) or a Sole Proprietorship, taxes are filed on Schedule F of form 1040
- S Corps file form 1120S and Partnerships file form 1065 with a Schedule F for farmers
- The IRS has many publications and instructions that are helpful to farmers, such as Publication 225



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Farmer's Tax Guide

For use in preparing
2017 Returns

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Introduction

You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant. A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards and groves.

This publication explains how the federal tax laws apply to farming. Use this publication as a guide to figure your taxes and complete your farm tax return. If you need more information on a subject, get the specific IRS tax publication covering that subject. We refer to many of these free publications throughout this publication. See chapter 10 for information on ordering these publications.

The explanations and examples in this publication reflect the Internal Revenue Service's interpretation of tax laws enacted by Congress, Treasury regulations, and court decisions. However, the information given does not cover every situation and is not intended to replace the

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Oct 19, 2017

Let's go through a general discussion of Schedule F and then we'll review the layout to see where items are posted.

Farm Income:

Income includes earnings from cultivating, operating, or managing a farm for gain or profit, either as an owner or a tenant.

- Amounts received from the sales of **livestock, produce, grains, and other products you raised**
- Earnings that result from the value of any property or services you receive (barter) in an exchange
- Profit from selling farm products bought for resale. Your profit or loss is the difference between your selling price and your cost for the item.

Farm Income (Cont'd)

- **Crop insurance proceeds.** Insurance payments from crop damage count as income.
- **Custom hire (machine work).** Pay you receive for contract work that you or your hired help perform off your farm for others, or for the use of your property or machines, is income to you whether you receive the pay in cash, services, or merchandise
- **Prizes.** Report prizes you win on farm livestock or products at contests, exhibitions, fairs, etc. If you receive a prize in cash, include the full amount in income.

Although Schedule F includes gains or losses from the sales of farm products raised for sale, it does not include gains or losses from the sale of:

- Land
- Depreciable Farm Equipment
- Building and Structures
- Livestock held for draft, breeding, sport, or dairy purposes

....this comes later.

Farm Expenses :

Deductible farm expenses. Farmers can deduct ordinary and necessary business expenses. These include:

- Chemicals
- Seeds & Plants
- Fertilizer & Lime
- Seeds & Plants
- Livestock feed
- Veterinary charges, breeding & medication
- Hand tools and Packaging
- Repairs & maintenance of farm equipment
- Utilities, rent and property upkeep
- Taxes (only include GE taxes if you have not collected these at the point of sale).

Other Items to Consider:

- **Fuel and road use.** You may be able to claim a tax credit or refund of federal excise taxes on fuel used on your farm for farm work, such as running a tractor or generator. (Chapter 14 of Publication 225)
- **Items purchased for resale.** If you purchased livestock and items for resale, you may be able to deduct their cost in the year of the sale, including freight charges for transporting livestock to your farm.
- **Employees and hired help.** You can deduct reasonable wages you paid to your farm's full and part-time workers. You must withhold Social Security and income taxes from wages.

Depreciation of Farm Assets:

If you buy or make improvements to farm property, such as machinery, equipment, livestock, or a structure with a useful life of more than a year, you generally cannot deduct its entire cost in one year. Instead, you must spread the cost over the time you use the property and deduct part of it each year. For most types of property, this is called depreciation.

Use Form 4562 to claim your deduction for depreciation and amortization.

Section 179 Expense Deduction

You can elect to deduct all or part of the cost of certain qualifying property, up to a limit, by deducting it in the year you place the property in service.

This is the section 179 expense deduction. You can elect the section 179 expense deduction instead of taking deductions for depreciation.

To do this, your property must be one of the following types of depreciable property.

- Tangible personal property such as machinery and equipment,
- Other tangible property (except buildings) such as *grain bins; agricultural structures* to house, raise, and feed livestock and its produce or to house the equipment, needed to house, raise, or feed livestock; and **horticultural structures** such as greenhouses or custom built structures to house specialty produce (for example, mushrooms).

Dispositions of Property Used in Farming:

When you dispose of (sell) property used in your farm business, your taxable gain or loss is usually treated as ordinary income or capital gain (this depends on whether or not this property was depreciated).

Ordinary income is taxed at the same rate as wages and interest.

Capital gain is generally taxed at lower rates

Gains and losses from property used in farming are reported on **Form 4797, Sales of Business Property**

Let's take a look at Schedule F



Schedule F is organized by accounting method:

- The **cash method of accounting** uses only Parts I and II of the form. This method allows farmers to generally deduct their income and expenses in the year in which they are transacted.
- The **accrual method of accounting** complete Parts II, III, and Part I, line 9. With this method, income is reported when it is earned, not when it is received. Expenses are reported in the year in which they are incurred, regardless of when they are paid.

SCHEDULE F (Form 1040 or 1040-SR) 2019 Profit or Loss From Farming

► Go to www.irs.gov/ScheduleF for instructions and the latest information.

- Name of proprietor
- Social security number (SSN)
 - A Principal crop or activity
 - B Enter code from Part IV
 - C Accounting method:: Cash or Accrual
 - D Employer ID number (EIN) (see instr.)
 - E Did you “materially participate” in the operation of this business during 2019? Yes or No
 - F Did you make any payments in 2019 that would require you to file Form(s) 1099? Yes or No
 - G If “Yes,” did you or will you file required Form(s) 1099? Yes or No

- **Part I Farm Income—**

- **Cash Method.** Complete Parts I and II.
- **Accrual Method.** Complete Parts II and III, and Part I, line 9.
- **Income Categories:**

1a Sales of livestock and other resale items (see instructions)

2 Sales of livestock, produce, grains, and other products you raised

3a Cooperative distributions (Form(s) 1099-PATR) & Taxable Amount (3b)

4a Agricultural program payments (see instructions) & Taxable Amount (4b)

5a Commodity Credit Corporation (CCC) loans reported under election

5b CCC loans forfeited & Taxable Amount (5c)

6 Crop insurance proceeds and federal crop disaster payments (see instructions):

6a Amount received in 2019

6b Taxable amount - **6c** If election to defer to 2020 is attached, check here - **6d** Amount deferred from 2018

7 Custom hire (machine work) income

8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)

9 Gross income Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, Sales of livestock, produce, grains, and other products you raised. If you use the accrual method, enter the amount from Part III, line 50. See instructions .

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**
- 11** Chemicals
- 12** Conservation expenses (see instructions)
- 13** Custom hire (machine work) ...
- 14** Depreciation and section 179 expense (see instructions)
- 15** Employee benefit programs other than on line 23
- 16** Feed
- 17** Fertilizers and lime
- 18** Freight and trucking
- 19** Gasoline, fuel, and oil
- 20** Insurance (other than health) ..
- 21** Interest (see instructions):-**21 a** Mortgage (paid to banks, etc.) .-.**21 b** Other Interest
- 22** Labor hired (less employment credits)
- 23** Pension and profit-sharing plans..
- 24** Rent or lease (see instructions): **24a** Vehicles, machinery, equipment .. **24b** Other (land, animals, etc.)
- 25** Repairs and maintenance
- 26** Seeds and plants
- 27** Storage and warehousing ... **28** Supplies
- 29** Taxes
- 30** Utilities
- 31** Veterinary, breeding, and medicine .
- 32** Other expenses (specify):attach schedule if you do not have enough space

Income Taxes: Transfer to Tax Forms

When setting up QuickBooks Desktop you can direct the various Accounts to a line on the appropriate Federal tax for your business. This can be done when setting up the Chart of Accounts. This can usually be uploaded to Intuit's TurboTax software.

In QuickBooks Online, this must be done by an accountant or tax preparer who will be directing your accounts to their correct lines on your tax returns. They will then be transferred directly to whatever tax preparation software is being used.

State of Hawaii Income Taxes:

E-File Individual and Corporate Income Tax Returns

The State of Hawaii is a participant in an Internal Revenue Service program that allows taxpayers to electronically file their federal and state income tax returns using approved tax preparation software or authorized tax professionals.

E-File with Hawaii Tax Online

Hawaii Tax Online is a new Department website that supports Corporate Income, Franchise, General Excise, and Withholding tax types, among others.

It will provide taxpayers and practitioners with 24/7 access to account information, notices, and returns. Filing taxes and making debit payments through this system is free.

Hawaii State Income Taxes

Filing and payment deadline

For 2020 state taxes, the state the filing and payment deadline, so far, is April 20, 2021.

For 2019, Hawaii has conformed with federal deadline extensions and won't charge interest on unpaid balances between April 20 and July 20, 2020.

If you don't file your return on time, the state will charge you a penalty of 5% per month, or part of a month, on the unpaid tax bill, up to a cap of 25%.

Personal Exemptions and Standard Deductions:

- You can deduct \$1,144 for each personal exemption you claim for yourself, your spouse and your dependents. Blind, deaf or totally disabled filers who qualify can get a disability exemption in lieu of the regular personal exemption. Those exemption amounts are ...
 - \$7,000 for one individual of any filing status
 - \$8,144 for a qualifying taxpayer and non-disabled spouse younger than 65
 - \$9,288 for a qualifying taxpayer and non-disabled spouse 65 and older
 - \$14,000 if both the taxpayer and spouse are disabled
- For 2019, the standard deduction amounts are ...
 - \$2,200 for single filers and married couples who file separately
 - \$4,400 for those married filing jointly and qualifying widow(er)s
 - \$3,212 for head of household filers

Some special credits you may be eligible to use:

- Energy credit: If you install and begin using certain renewable energy systems like solar water heaters, photovoltaic systems or solar or wind energy systems, you may be able to claim this credit. Limitations apply on how much credit you may get and whether it's refundable or nonrefundable, so check all of the qualifications before claiming this credit.
- If you have a tree on your private property that's been certified as exceptional by your local county arborist advisory committee, you may be able to take a deduction (up to \$3,000 per exceptional tree) for qualified expenses related to maintaining the tree. You don't need to itemize to take this deduction.

SCHEDULE CR
(REV. 2020)



Name(s) as shown on return

SSN(s) or Federal Employer I.D. No.

	Column (a) Total New Credit Claimed for this Tax Year	Column (b) Total Credit Applied to this Tax Year	Column (c) Unused Credit to Carryover to Next Tax Year	
17 Carryover of the Renewable Energy Technologies Income Tax Credit (For Systems Installed and Placed in Service Before July 1, 2009) (attach Form N-323)				17•
18 Attach Form N-586				18•
19 Attach Form N-884				19•
20 Attach Form N-330				20•
21 Fill in the appropriate oval to indicate the type of energy system installed and placed in service: Attach all Form(s) N-342			<input type="checkbox"/> Solar <input type="checkbox"/> Wind	21•
22 Attach Form N-348				22•
23 Attach Form N-350				23•
24 Attach Form N-352				24•
25 Attach Form N-354				25•
26 Attach Form N-356 (N-11 and N-15 filers only) ...				26•
27 Attach Form N-358 (N-11 and N-15 filers only) ...				27•
28 Attach Form N-325				28•
29 Total Nonrefundable Credits. Add lines 9, 10 and Column (b) of lines 11 through 28. Enter here and on Form N-11, line 35; N-15, line 52; N-30, line 14; N-40, Schedule G, line 4; or N-70NP, line 19. <i>Attach this schedule directly behind your Form N-11, N-15, N-30, N-40 or N-70NP.</i>				29•

INCOME TAX in a Pandemic

- ▶ Hawaii generally conforms to federal treatment, however, the IRS has only provided limited guidance.
- ▶ IRS Notice 2020-32 - ordinary and necessary business expenses may not be deducted to the extent that PPP loans were forgiven but excluded from gross income under the CARES Act.
- ▶ Hawaii adopts this rule preventing a double benefit for income tax purposes.

SOURCE OF FUNDING

- ▶ Coronavirus Preparedness Responses
 - ▶ Supplemental Appropriations Act
- ▶ Families First Coronavirus Response Act
- ▶ Coronavirus Aid Relief and Economic Security Act (CARES)
- ▶ Paycheck Protection Program and Healthcare Enhancement Act (PPP)

TAX TREATMENT – TIR 2020-06

INDIVIDUAL INCOME PROGRAMS	Federal Income Tax	State Income Tax	State GE Tax
Economic Impact Payment (\$1,200 payment to individuals)	No	No	No
Pandemic Unemployment Assistance (PUA)	Yes	Yes	No
Federal Pandemic Unemployment Compensation (FPUC)	Yes	Yes	No
Lease and rent payments received by residential landlords	Yes	Yes	Yes

TAX TREATMENT – TIR 2020-06 (CONT'D)

SMALL BUSINESS PROGRAMS	Federal Income Tax	State Income Tax	State GE Tax
Paycheck Protection Program (PPP) Loan Forgiveness	No	No	No
Economic Injury Disaster Loan Emergency Advances (EIDL Grant)	Yes	Yes	No
Economic Injury Disaster Loans (EIDL)	No	No	No
Lease and rent payments received by commercial landlords	Yes	Yes	Yes

TAX TREATMENT

	Federal Income Tax	State Income Tax	State GE Tax
City & County of Honolulu Small Business Relief and Recovery Fund	?	No	No
Kokua Maui County-Small Business Recovery & Relief Fund	?	No	No
SBA Debt Relief	?	No	No
Salesforce CARE Small Business Grants	?	No	No

TAX TREATMENT

	Federal Income Tax	State Income Tax	State GE Tax
SBA Express Bridge Loan	No	No	No
Hawaii Restaurant Card (Beneficiary/Individual)	No	No	No
Hawaii Restaurant Card (Restaurant)	Yes	Yes	Yes
Lost Wages Assistance (Additional \$300 for UI and PUA recipients)	Yes	Yes	No

TAX TREATMENT (CONT'D)

	Federal Income Tax	State Income Tax	State GE Tax
Rent Relief & Housing Assistance Program (Beneficiary)	No	No	No
Rent Relief & Housing Assistance Program (Landlord)	Yes	Yes	Yes
Hawaii Business Pivot Grant Program	?	No	No
Agriculture Micro-Grant Program	?	No	No

TAX TREATMENT (CONT'D)

	Federal Income Tax	State Income Tax	State GE Tax
Kama'aina First (Maui)	No	No	No
Other Programs	?	?	?

Federal and State of Hawaii Payroll Taxes

There can be more layers to paying someone than you may realized before becoming the boss. It is a good idea to consult with a tax professional.

- ▶ When you're starting out there can be some cash under the table dealings going on where you hire someone, pay them cash and you avoid "the books" all together.
- ▶ That's not good for you, because, if you do it's difficult to account for that missing money when it comes to tax time.
- ▶ The IRS doesn't like not getting their "cut" and they share information with every State.
- ▶ Forms you will provide to workers can include 1099, W2, W4, and K1.
- ▶ For now, just remember to pay yourself and your employees fairly.

Form W-2 - Wage and Tax Statement, is used to report wages paid to employees and the taxes withheld from them. Employers must complete a Form W-2 for each employee to whom they pay a salary, wage, or other compensation.

Form 1099 - Form 1099-MISC, Miscellaneous Income, is filed for each person paid at least \$600 in rents, services (including parts and materials), prizes and awards, other income payments

Form W-4 - Form W-4 is an Internal Revenue Service tax form completed by an employee in the United States to indicate his or her tax situation to the employer. The W-4 form tells the employer the correct amount of tax to withhold from an employee's paycheck.

Form W-9 - Request for Taxpayer Identification Number and Certification. It is used by third parties to collect identifying information to help file information returns with the IRS. It requests the name, address, and taxpayer identification information of a taxpayer (in the form of a Social Security Number or Employer Identification Number).

Hawaii Withholding Requirements:

- Register as an employer by registering online by visiting this link:
<http://hbe.ehawaii.gov>
- Register to pay GE and income taxes at this link:
<https://tax.hawaii.gov/>
- Employee's Withholding Allowance and Status Certificate - HW-4
Withholding Method = formula based on exemptions on HW-4
http://files.hawaii.gov/tax/forms/2019/hw4_i.pdf
- State Tax Unemployment Insurance (SUI):
Wage base is \$48,100 for 2020, rates range from 0.0% to 5.6% for 2019
If you're a new employer (congratulations!), you pay a flat rate of 2.4%.
- State Disability Insurance (SDI):
Wage Base is \$1,119.44 and maximum employee withholding is \$5.60,
and the maximum weekly benefit amount is \$650 for 2020. Rate is 0.50% of wages
- Also, State Labor Laws: *Minimum Wage* - \$10.10 hourly effective 1/1/19

Income taxes are administered by the following two agencies for businesses located in Hawaii:

- Federal Income taxing agency is the Internal Revenue Service (IRS)
www.irs.gov
- The State of Hawaii taxing agency is the Department of Taxation
<https://hitax.hawaii.gov/>

Questions?

If you have questions that we have not addressed in this presentation, you can contact me by email at abchiodini@gmail.com

I will try to answer all questions or direct you to where you can find the answers.