

# Publication 225

## Farmer's Tax Guide

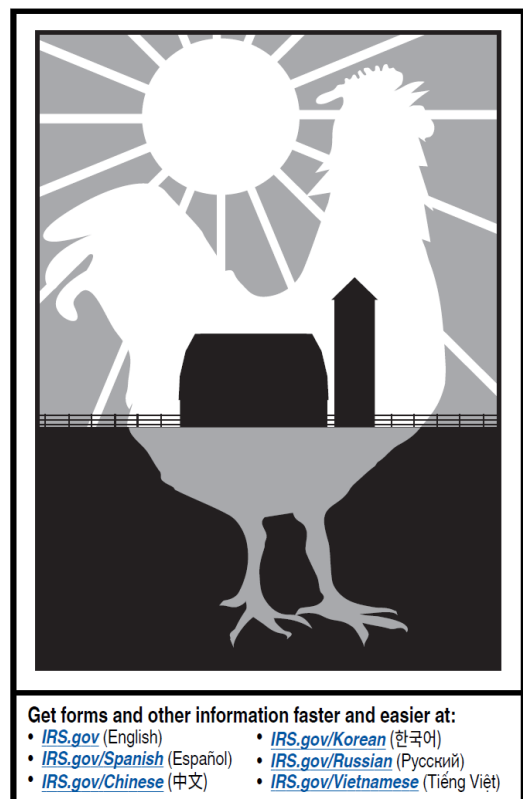
For use in preparing **2023** Returns

**Acknowledgment:** The valuable advice and assistance given us each year by the National Farm Income Tax Extension Committee is gratefully acknowledged.

Volume 1 of 10



Publication 225 (Rev. 2023) Catalog Number 39248W  
Department of the Treasury **Internal Revenue Service** [www.irs.gov](http://www.irs.gov)



Visit the Accessibility  
Page on [IRS.gov](http://IRS.gov)

This page is intentionally left blank

# Contents

<b>Topic</b>	<b>Regular Page</b>	<b>Large Print Page</b>
Introduction	1	5
What's New for 2023	2	11
What's New for 2024	3	18
Reminders	3	20
Chapter 1. Importance of Records	4	33
Chapter 2. Accounting Methods	6	50
Chapter 3. Farm Income	9	82
Chapter 4. Farm Business Expenses	19	188
Chapter 5. Soil and Water Conservation Expenses	28	279
Chapter 6. Basis of Assets	31	311

Chapter 7. Depreciation, Depletion, and Amortization	37	365
Chapter 8. Gains and Losses	49	484
Chapter 9. Dispositions of Property Used in Farming	57	565
Chapter 10. Installment Sales	60	603
Chapter 11. Casualties, Thefts, and Condemnations	66	656
Chapter 12. Self- Employment Tax	74	744
Chapter 13. Employment Taxes	79	788
Chapter 14. Fuel Excise Tax Credits and Refunds	85	847
Chapter 15. Estimated Tax	88	877

Chapter 16. How To Get Tax Help	89	893
Index	93	916

## 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 16](#) for information on ordering these publications.

The explanations and examples in this publication reflect the IRS'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 law or change its meaning.

This publication covers subjects on which a court may have rendered a decision more favorable to taxpayers than the interpretation by the IRS. Until these differing interpretations are resolved by higher court decisions, or in some other way, this publication will continue to present the interpretation by the IRS.

**The IRS Mission.** Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the tax law with integrity and fairness to all.

**Comments and suggestions.** We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications.

**Don't** send tax questions, tax returns, or payments to the above address.

***Getting answers to your tax questions.*** If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at [IRS.gov/Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics by using the search feature or viewing the categories listed.

***Getting tax forms, instructions, and publications.*** Go to [IRS.gov/Forms](https://www.irs.gov/Forms) to

download current and prior-year forms, instructions, and publications.

***Ordering tax forms, instructions, and publications.*** Go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to order current forms, instructions, and publications; call 800-829-3676 to order prior-year forms and instructions. The IRS will process your order for forms and publications as soon as possible. **Don't** resubmit requests you've already sent us. You can get forms and publications faster online.

**Comments on IRS enforcement actions.**

The Small Business and Agricultural Regulatory Enforcement Ombudsman and 10 Regional Fairness Boards were established to receive comments from small business about federal agency enforcement actions. The Ombudsman will annually evaluate the enforcement activities of each agency and rate its responsiveness to small business. If you wish to comment on the enforcement actions of the IRS, you can:



- Call 888-734-3247;
- Fax your comments to 202-481-5719;
- Write to:  
  
Office of the National Ombudsman  
U.S. Small Business Administration  
409 3rd Street SW  
Washington, DC 20416;
- Send an email to [ombudsman@sba.gov](mailto:ombudsman@sba.gov); or
- Complete and submit a Federal Agency Comment Form online at [sba.gov/ombudsman/comment](https://sba.gov/ombudsman/comment).

**Treasury Inspector General for Tax Administration (TIGTA).** If you want to confidentially report misconduct, waste, fraud, or abuse by an IRS employee, you can visit [TIGTA](https://tigris.tigta.dhs.gov). You can remain anonymous.

**Farm tax classes.** Many state Cooperative Extension Services conduct farm tax workshops in conjunction with the IRS.

Contact your county or regional extension office for more information.

**Rural Tax Education website.** The Rural Tax Education website is a source for information concerning agriculturally related income and deductions and self-employment tax. The website is available for farmers and ranchers, other agricultural producers, Extension educators, and anyone interested in learning about the tax side of the agricultural community. Members of the National Farm Income Tax Extension Committee are contributors to the website, and the website is hosted by Utah State University Cooperative Extension. You can visit the website at [ruraltax.org](http://ruraltax.org).

## **Future Developments**

The IRS has created a page on IRS.gov for information about Pub. 225 at [IRS.gov/Pub225](http://IRS.gov/Pub225). Information about recent

developments affecting Pub. 225 will be posted on that page.

## **What's New for 2023**

The following items highlight a number of administrative and tax law changes for 2023. They are discussed in more detail throughout this publication.

**Standard mileage rate.** The business standard mileage rate for 2023 has increased to 65.5 cents per business mile. See [chapter 4](#).

**Increased section 179 expense deduction dollar limits.** The maximum amount you can elect to deduct for most section 179 property you placed in service in 2023 is \$1,160,000. This limit is reduced by the amount by which the cost of the property placed in service during the tax year exceeds \$2,890,000. Also, the maximum section 179 expense deduction for sport utility vehicles placed in

service in tax years beginning in 2023 is \$28,900. See [chapter 7](#).

**Phase down of special depreciation allowance.** The special depreciation allowance is 80% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2022, and before January 1, 2024 (other than certain property with a long production period and certain aircraft). The special depreciation allowance is also 80% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2022, and before January 1, 2024. See [Certain qualified property acquired after September 27, 2017](#) and [Certain specified plants](#) under [What Is Qualified Property](#), later.

**Maximum net earnings.** The maximum net self-employment earnings subject to the social security part (12.4%) of the self-employment tax is \$160,200 for 2023, up from \$147,000 for 2022. There is no

maximum limit on earnings subject to the Medicare part (2.9%) or, if applicable, the Additional Medicare Tax (0.9%).

The maximum net self-employment earnings subject to the social security part of the self-employment tax for 2024 will be discussed in the 2023 Pub. 334.

**2023 withholding tables.** The federal income tax withholding tables are now included in Pub. 15-T, Federal Income Tax Withholding Methods.

**Business meals deduction.** The temporary 100% deduction for food or beverages provided by a restaurant has expired. The business meal deduction reverts back to the previous 50% allowable deduction beginning January 1, 2023.

**Qualified small business payroll tax credit for increasing research activities.** For tax years beginning before January 1, 2023, a qualified small business may elect to

claim up to \$250,000 of its credit for increasing research activities as a payroll tax credit. The Inflation Reduction Act of 2022 (the IRA) increases the election amount to \$500,000 for tax years beginning after December 31, 2022. The payroll tax credit election must be made on or before the due date of the originally filed income tax return (including extensions). The portion of the credit used against payroll taxes is allowed in the first calendar quarter beginning after the date that the qualified small business filed its income tax return. The election and determination of the credit amount that will be used against the employer's payroll taxes are made on Form 6765, Credit for Increasing Research Activities. The amount from Form 6765, line 44, must then be reported on Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities.

Starting in the first quarter of 2023, the payroll tax credit is first used to reduce the

employer share of social security tax up to \$250,000 per quarter and any remaining credit reduces the employer share of Medicare tax for the quarter. Any remaining credit, after reducing the employer share of social security tax and the employer share of Medicare tax, is then carried forward to the next quarter. Form 8974 is used to determine the amount of the credit that can be used in the current quarter. The amount from Form 8974, line 12 or, if applicable, line 17, is reported on Form 943, line 12a. For more information about the payroll tax credit, see the Instructions for Form 8974 and go to [IRS.gov/ ResearchPayrollTC](https://www.irs.gov/ResearchPayrollTC).

**Credit for COBRA premium assistance payments.** The COBRA premium assistance credit lines have been “Reserved for future use” on Form 943 because the first quarter of 2022 was the last quarter in which most employers may have been eligible to claim the COBRA premium assistance credit.

Section 9501 of the American Rescue Plan Act of 2021 (the ARP) provided for COBRA premium assistance in the form of a full reduction in the premium otherwise payable by certain individuals and their families who elected COBRA continuation coverage due to a loss of coverage as the result of a reduction in hours or an involuntary termination of employment (assistance eligible individuals). This COBRA premium assistance was available for periods of coverage beginning on or after April 1, 2021, through periods of coverage beginning on or before September 30, 2021. A premium payee was entitled to the COBRA premium assistance credit at the time an eligible individual elected coverage. Therefore, due to the COBRA notice and election period requirements (generally, employers had 60 days to provide notice and assistance eligible individuals had 60 days to elect coverage), the first quarter of 2022 was the last quarter in which most employers may



have been eligible to claim the COBRA premium assistance credit.

**Pub. 51 discontinued after 2023.** Pub. 51, Agricultural Employer's Tax Guide, will no longer be available after 2023. Instead, information specific to agricultural employers will be included in Pub. 15, Employer's Tax Guide, beginning with the Pub. 15 for use in 2024. Beginning in 2024, there will be a new Pub. 15 (sp) that is a Spanish-language version of Pub. 15. References to Pub. 51 were retained throughout this chapter because this chapter is for tax year 2023. If you need information specific to tax year 2024, you will use Pub. 15 or Pub. 15 (sp) in 2024.

**Social security and Medicare tax for 2023.** The rate of social security tax on taxable wages, including qualified sick leave wages and qualified family leave wages paid in 2023 for leave taken after March 31, 2021, and before October 1, 2021, is 6.2% each for

the employer and employee or 12.4% for both. Qualified sick leave wages and qualified family leave wages paid in 2023 for leave taken after March 31, 2020, and before April 1, 2021, aren't subject to the employer share of social security tax; therefore, the tax rate on these wages is 6.2%. The social security wage base limit is \$160,200.

The Medicare tax rate is 1.45% (0.0145) each for the employee and employer, unchanged from 2022. There is no wage base limit for Medicare tax.

## **What's New for 2024**

**Phase down of special depreciation allowance.** The special depreciation allowance is 60% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2023, and before January 1, 2025 (other than certain property with a long production period and certain aircraft). For property with a long

production period and certain aircraft placed in service after December 31, 2023, and before January 1, 2025, the special depreciation allowance is 80%. The special depreciation allowance is also 60% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2023, and before January 1, 2025. See [Certain qualified property acquired after September 27, 2017](#) and [Certain specified plants](#) under [What Is Qualified Property](#), later.

**Social security and Medicare tax for 2024.** The employee and employer tax rates for social security and the maximum amount of wages subject to social security tax for 2024 will be discussed in Pub. 15 (for use in 2024).

The Medicare tax rate for 2024 will also be discussed in Pub. 15 (for use in 2024). There is no limit on the amount of wages subject to Medicare tax.

# Reminders

The following reminders and other items may help you file your tax return.

**Principal agricultural activity codes.** You must enter on line B of Schedule F (Form 1040) a code that identifies your principal agricultural activity. It is important to use the correct code because this information will identify market segments of the public for IRS Taxpayer Education programs. The U.S. Census Bureau also uses this information for its economic census. See the list of *Principal Agricultural Activity Codes* on page 2 of Schedule F (Form 1040).

**Publication on employer identification numbers (EINs).** Pub. 1635, Understanding Your Employer Identification Number, provides general information on EINs. Topics include how to apply for an EIN and how to complete Form SS-4.

**Change of address.** If you change your home address, you should use Form 8822, Change of Address, to notify the IRS. If you change your business address, you should use Form 8822-B, Change of Address or Responsible Party—Business, to notify the IRS. Be sure to include your suite, room, or other unit number.

**Coronavirus Food Assistance Program (CFAP).** The CFAP provides direct payments to producers of eligible agricultural commodities adversely affected by the coronavirus (COVID-19) pandemic to help offset sales losses and increased marketing costs associated with the COVID-19 pandemic. CFAP payments are agricultural program payments that you must include in gross income. Report the full amount of your CFAP payments on Schedule F (Form 1040), lines 4a and 4b. Go to [usda.gov](https://www.usda.gov). See [chapter 3](#).

**The COVID-19 related credit for qualified sick and family leave wages is limited to leave taken after March 31, 2020, and before October 1, 2021.** Generally, the credit for qualified sick and family leave wages, as enacted under the Families First Coronavirus Response Act (FFCRA) and amended and extended by the COVID-related Tax Relief Act of 2020, for leave taken after March 31, 2020, and before April 1, 2021, and the credit for qualified sick and family leave wages under sections 3131, 3132, and 3133 of the Internal Revenue Code, as enacted under the ARP, for leave taken after March 31, 2021, and before October 1, 2021, have expired. However, employers that pay qualified sick and family leave wages in 2023 for leave taken after March 31, 2020, and before October 1, 2021, are eligible to claim a credit for qualified sick and family leave wages in 2023.

For more information about the credit for qualified sick and family leave wages, see the Instructions for Form 943, and go to [IRS.gov/PLC](https://www.irs.gov/PLC).



*An employer who receives a refund of payroll taxes resulting from qualified sick and family leave credit reported on a 2022 Form 943 generally won't receive that refund until the 2023 calendar year. Even though that credit isn't received until 2023, income reported in 2022 must be increased by the refundable and nonrefundable portions of the qualified sick and family leave credit reported on their 2022 Form 943. For more information, see the instructions for the income tax return or the Form 1040 schedule you file for your business.*

**Advance payment of COVID-19 credits ended.** Although you may pay qualified sick and family leave wages in 2023 for leave taken after March 31, 2020, and before October 1, 2021, or provide COBRA premium

assistance payments in 2023, you may no longer request an advance payment of any credit on Form 7200, Advance Payment of Employer Credits Due to COVID-19.

**Certification program for professional employer organizations (PEOs).** The Stephen Beck, Jr., Achieving a Better Life Experience Act of 2014 required the IRS to establish a voluntary certification program for PEOs. PEOs handle various payroll administration and tax reporting responsibilities for their business clients and are typically paid a fee based on payroll costs. To become and remain certified under the certification program, certified professional employer organizations (CPEOs) must meet various requirements described in sections 3511 and 7705 and related published guidance. Certification as a CPEO may affect the employment tax liabilities of both the CPEO and its customers. A CPEO is generally treated for employment tax purposes as the



employer of any individual who performs services for a customer of the CPEO and is covered by a contract described in section 7705(e)(2) between the CPEO and the customer (CPEO contract), but only for wages and other compensation paid to the individual by the CPEO. To become a CPEO, the organization must apply through the IRS Online Registration System. For more information or to apply to become a CPEO, go to [IRS.gov/CPEO](https://www.irs.gov/CPEO).

CPEOs must generally file Form 943 and Schedule R (Form 943), Allocation Schedule for Aggregate Form 943 Filers, electronically. For more information about a CPEO's requirement to file electronically, see Revenue Procedure 2023-18, 2023-13 I.R.B. 605, available at [IRS.gov/irb/2023-13\\_IRB#REV-PROC-2023-18](https://www.irs.gov/irb/2023-13_IRB#REV-PROC-2023-18).

**Work opportunity tax credit for qualified tax-exempt organizations hiring qualified veterans.** Qualified tax-exempt organizations

that hire eligible unemployed veterans may be able to claim the work opportunity tax credit against their payroll tax liability using Form 5884-C. For more information, go to [IRS.gov/ WOTC](https://www.irs.gov/WOTC).

**Correcting a previously filed Form 943.** If you discover an error on a previously filed Form 943, or if you otherwise need to amend a previously filed Form 943, make the correction using Form 943-X, Adjusted Employer's Annual Federal Tax Return for Agricultural Employees or Claim for Refund. Form 943-X is filed separately from Form 943. For more information, see the Instructions for Form 943-X, section 9 of Pub. 51, or go to [IRS.gov/CorrectingEmploymentTaxes](https://www.irs.gov/CorrectingEmploymentTaxes).

**Federal tax deposits must be made by electronic funds transfer (EFT).** You must use EFT to make all federal tax deposits. Generally, an EFT is made using the Electronic Federal Tax Payment System

(EFTPS). If you don't want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make electronic deposits on your behalf. Also, you may arrange for your financial institution to initiate a same-day wire payment on your behalf. EFTPS is a free service provided by the Department of the Treasury. Services provided by your tax professional, financial institution, payroll service, or other third party may have a fee.

**Note.** An exception applies to the EFT requirement for making your federal tax deposits. If your liability is less than \$2,500 (Form 943, line 13), you may pay in full with a check or money order with a timely filed return. See the Instructions of Form 943 for more information.

For more information on making federal tax deposits, see section 7 of Pub. 51. To get more information about EFTPS or to enroll in

EFTPS, go to [EFTPS.gov](https://eftps.gov) or call one of the following numbers.

- 800-555-4477
- 800-244-4829 (Spanish)
- 303-967-5916 if you're outside the United States (toll call)

To contact EFTPS using Telecommunications Relay Services (TRS) for people who are deaf, hard of hearing, or have a speech disability, dial 711 and then provide the TRS assistant the 800-555-4477 number above or 800-733-4829. Additional information about EFTPS is also available in Pub. 966.

**Electronic filing and payment.** Businesses can enjoy the benefits of filing tax returns and paying their federal taxes electronically. Whether you rely on a tax professional or handle your own taxes, the IRS offers you convenient and secure programs to make filing and paying easier. Spend less time worrying about taxes and more time running

your business. Use e-file and EFTPS to your benefit.

- For e-file, go to [IRS.gov/EmploymentEfile](https://www.irs.gov/employmentefile) for additional information. A fee may be charged to file electronically.
- For EFTPS, go to [EFTPS.gov](https://www.eftps.gov) or call EFTPS at one of the numbers provided under the **Note**, earlier.
- For electronic filing of Form W-2, Wage and Tax Statement, go to [SSA.gov/employer](https://www.ssa.gov/employer). You may be required to file Forms W-2 electronically. For details, see the General Instructions for Forms W-2 and W-3.

**Note.** For employers in Puerto Rico, references to Form W-2 also apply to Form 499R-2/W-2PR and references to Form W-3 also apply to Form W-3 (PR), unless otherwise specified.

## **Special rules for qualified disaster losses.**

Special rules apply to federally declared disaster area losses. A federally declared disaster is a disaster that occurred in an area declared by the President to be eligible for federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

See [Disaster Area Losses](#), later, and Pub. 547, Casualties, Disasters, and Thefts, for more information on the special relief. Also, see [IRS.gov/DisasterTaxRelief](https://www.irs.gov/DisasterTaxRelief) for more information.

**Additional employment tax information for farmers.** See Pub. 51 for more detailed guidance on employment taxes for tax year 2023 for employers of agricultural workers. See Pub. 15 for more detailed guidance on employment taxes for tax year 2024 for employers of agricultural workers. For the latest information about developments related to Pub. 15, such as legislation enacted after it

was published, go to [IRS.gov/Pub15](https://www.irs.gov/pub15). For general tax information relevant to agricultural employers, go to [IRS.gov/AgricultureTaxCenter](https://www.irs.gov/AgricultureTaxCenter). For general information about employment taxes, go to [IRS.gov/EmploymentTaxes](https://www.irs.gov/EmploymentTaxes). For information about employer responsibilities under the Affordable Care Act, go to [IRS.gov/ACA](https://www.irs.gov/ACA). For information about COVID-19 tax relief, go to [IRS.gov/Coronavirus](https://www.irs.gov/Coronavirus).



*You may have nonfarm employees as well as farm employees, for example, workers at a retail farm market. See Pub.15 for employment tax rules for wages and noncash wages paid to these employees as they may differ from those discussed in this chapter.*

**Photographs of missing children.** The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) (24 hours a day, 7 days a week) if you recognize a child.



# **1.**

## **Importance of Records**

### **Introduction**

A farmer, like other taxpayers, must keep records to prepare an accurate income tax return and determine the correct amount of tax. This chapter explains the benefits of keeping records, what kinds of records you must keep, and how long you must keep them for federal tax purposes.

While this publication only discusses tax records, the records you keep as a farm business owner should allow you to accurately measure your farm's financial performance, create financial statements, and help you make management decisions in addition to calculating taxable farm income.

Records that provide information beyond your tax return require additional information and effort on the part of the record keeper. To

assist you in developing or improving your recordkeeping system, the Farm Financial Standards Council produces publications that provide recommendations for financial reporting and analysis. You can download the *Implementation Guidelines* at <https://ffsc.org>. For more information, contact the Farm Financial Standards Council in the following manner.

- Call 262-253-6902.
- Send a fax to 262-253-6903.
- Write to:

Farm Financial Standards Council  
N78 W14573 Appleton Ave., #287  
Menomonee Falls, WI 53051.

## **Topics**

This chapter discusses:

- Benefits of recordkeeping
- Kinds of records to keep

- How long to keep records

## Useful Items

You may want to see:

### Publication

- ☐ **51** (Circular A), Agricultural Employer's Tax Guide
- ☐ **463** Travel, Gift, and Car Expenses
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **946** How To Depreciate Property

See [chapter 16](#) for information about getting

## Benefits of Recordkeeping

Everyone in business, including farmers, must keep appropriate records. Recordkeeping will help you do the following.

**Monitor the progress of your farming business.** You need records to monitor the progress of your business. In addition to measuring overall profitability, detailed records can help you identify which crop or livestock enterprises are most profitable or indicate where management changes may be needed to improve profitability. Records that help you make better decisions should also increase the likelihood of business success.

**Prepare your financial statements.** You will need records to prepare accurate financial statements. These include income (profit and loss) statements, cash flow statements, balance sheets, and statements of owner's equity. These statements will be required and helpful when working with your bank or creditors and may also help you manage your farm business.

**Identify source of receipts.** You will receive money, property, and/or services from many sources. Your records can identify the source

of your receipts. You need this information to separate farm from nonfarm receipts and taxable from nontaxable income. See [chapter 3](#) for more information.

**Keep track of deductible expenses.** You may forget expenses when you prepare your tax return unless you record them when they occur. Your records can identify the purpose and timing of expenses. You need this information to separate farm business expenses from nonfarm payments and other expenses. You also need to keep these records to separate expenses deductible for tax purposes from those that are nontax related. See [chapter 4](#) for more information.

**Prepare your tax returns.** You need records to prepare your tax return. These records must accurately support the income, expenses, and credits you report. Generally, these are the same records you use to monitor your farming business and prepare your financial statements. You will also need

records to prepare information returns such as a Form 1099MISC or Form 1099NEC provided to a vendor or a Form W2 provided to an employee.

### **Support items reported on tax returns.**

You must keep your business records available at all times for inspection by the IRS. If the IRS examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will assist in the examination.

## **Kinds of Records To Keep**

Except in a few cases, the law does not require any specific kind of records. You can choose any recordkeeping system suited to your farming business that clearly shows, for example, your income and expenses.

You should set up your recordkeeping system using an accounting method that clearly shows your income for your tax year. If you are in more than one business, you should

keep a complete and separate set of records for each business. A corporation's recordkeeping system should include board of directors meeting minutes. See [chapter 2](#) for more information.

Your recordkeeping system should include a summary of your business transactions, which shows your gross income, as well as any expenses, deductions, and credits you are reporting. In addition, you must keep supporting documents, such as invoices and receipts, for purchases, sales, payroll, and other business transactions.

It is important to keep these documents because they support the entries in your journals and ledgers and on your tax return. Keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of income or expense.

**Electronic records.** All requirements that apply to hard copy books and records also apply to electronic storage systems that

maintain tax books and records. When you replace hard copy books and records, you must maintain the electronic storage systems for as long as they are material to the administration of tax law.

An electronic storage system is any system for preparing or keeping your records either by electronic imaging or by transfer to electronic storage media. The electronic storage system must index, store, preserve, retrieve, and reproduce the electronically stored books and records in legible format. All electronic storage systems must provide a complete and accurate record of your data that is accessible to the IRS.

Electronic storage systems are also subject to the same controls and retention guidelines as those imposed on your original hard copy books and records. The original hard copy books and records may be destroyed, provided that the electronic storage system has been tested to establish that the hard



copy books and records are being reproduced in compliance with IRS requirements for an electronic storage system and procedures are established to ensure continued compliance with all applicable rules and regulations. You still have the responsibility of retaining any other books and records that are required to be retained.

The IRS may test your electronic storage system, including the equipment used, indexing methodology, software, and retrieval capabilities. This test is not considered an examination and the results must be shared with you. If your electronic storage system meets the requirements mentioned earlier, you will be in compliance. If not, you may be subject to penalties for noncompliance, unless you continue to maintain your original hard copy books and records in a manner that allows you and the IRS to determine your correct tax. For details on electronic storage system requirements, see Revenue Procedure

9722. You can find Revenue Procedure 9722 on page 9 of Internal Revenue Bulletin 199713 at [IRS.gov/pub/irsirbs/irb97-13.pdf](https://www.irs.gov/pub/irsirbs/irb97-13.pdf).

**Travel, transportation, entertainment, and gift expenses.** Specific recordkeeping rules apply to these expenses. For more information, see Pub. 463.

**Employment taxes.** There are specific employment tax records you must keep. Payroll records are important when claiming various tax deductions and credits based on payroll items such as number of employees and wages paid. For a list of employment tax records you must keep, see Pub. 51 (Circular A).

**Excise taxes.** See [How To Claim a Credit or Refund](#) in [chapter 14](#) for the specific records you must keep to verify your claim for credit or refund of excise taxes on certain fuels.

**Assets.** Assets are the property, such as machinery and equipment, you own and use

in your business. You must keep records to verify certain information about your business assets. You need records to figure your annual depreciation deduction and the gain or (loss) when you sell the assets. Your records should show all the following.

- When and how you acquired the asset (whether the asset was new or used).
- Full purchase cost of the asset.
- Cost of any improvements.
- Section 179 deduction taken.
- Deductions taken for depreciation.
- Deductions taken for casualty losses, such as losses resulting from fires or storms.
- How you used the asset.
- When and how you disposed of the asset.
- Fair market value of property when traded.
- Selling price.

- Expenses of sale.

The following are examples of records that may show this information.

- Purchase and sales invoices.
- Real estate closing statements.
- Canceled checks.
- Bank statements.

**Financial account statements as proof of payment.** If you do not have a canceled check, you may be able to prove payment with certain financial account statements prepared by financial institutions. These include account statements prepared for the financial institution by a third party. These account statements must be legible. The following table lists acceptable account statements.

**IF payment is  
by...**

**THEN the statement  
must show the...**

---

Check

- Check number.
- Amount.
- Payee's name.
- Date the check amount was posted to the account by the financial institution.

Electronic funds  
transfer

- Amount transferred.
- Payee's name.
- Date the transfer was posted to the account by the financial institution.

Credit card

- Amount charged.
  - Payee's name.
  - Transaction date.
- 



*Proof of payment of an amount, by itself, does not establish you are entitled to a tax deduction. You should also keep other documents, such as credit card sales slips and invoices, to show that you also incurred the cost.*

**Tax returns.** Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you file an amended return. Keep copies of your information returns such as Form 1099, Schedule K-1, and Form W-2.

## **How Long To Keep Records**

You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Keep

records that support an item of income or a deduction appearing on a return until the period of limitations for the return runs out. A period of limitations is the period of time after which no legal action can be brought.

Generally, that means you must keep your records for at least 3 years from when your tax return was due or filed or within 2 years of the date the tax was paid, whichever is later. However, certain records must be kept for a longer period of time, as discussed below.

**Employment taxes.** If you have employees, you must keep all employment tax records for at least 4 years after the date the tax becomes due or is paid, whichever is later.

**Assets.** Keep records relating to property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure any depreciation, amortization, or depletion deduction and to

figure your basis for computing gain or (loss) when you sell or otherwise dispose of the property.

You may need to keep records relating to the basis of property longer than the period of limitation. Keep those records as long as they are important in figuring the basis of the original or replacement property. Generally, this means as long as you own the property and, after you dispose of it, for the period of limitations that applies to you. For example, if you received property in a nontaxable exchange, you must keep the records for the old property, as well as for the new property, until the period of limitations expires for the year in which you dispose of the new property in a taxable disposition. For more information on basis, see [chapter 6](#).



**Records for nontax purposes.** When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.

## **2.**

# **Accounting Methods**

## **Introduction**

You must use an accounting method that clearly shows the income and expenses used to figure your taxable income. You must also file an income tax return for an annual accounting period called a "tax year."

This chapter discusses accounting methods. For information on accounting periods, see Pub. 538, Accounting Periods and Methods, and the Instructions for Form 1128, Application To Adopt, Change, or Retain a Tax Year.

## **Topics**

This chapter discusses:

- Cash method
- Accrual method

- Farm inventory
- Special methods of accounting
- Changes in methods of accounting

## **Useful Items**

You may want to see:

### **Publication**

- ☐ **538** Accounting Periods and Methods

### **Form (and Instructions)**

- ☐ **1128** Application To Adopt, Change, or Retain a Tax Year
- ☐ **3115** Application for Change in Accounting Method

See [chapter 16](#) for information about getting publications and forms.

# **Accounting Methods**

An accounting method is a set of rules used to determine when and how your income and expenses are reported on your tax return. Your accounting method includes not only your overall method of accounting, but also the accounting treatment you use for any material item.

Facts and circumstances affect whether an item is material. Factors to consider in determining the materiality of an item include the size of the item (both in absolute terms and in relation to income and expenses) and the treatment of the item on your financial statements. Generally, an item considered material for financial statement purposes is also considered material for income tax purposes. See Pub. 538 for more information.

You generally choose an accounting method for your farm business when you file your first income tax return that includes a Schedule F

(Form 1040), Profit or Loss From Farming. If you later want to change your accounting method, you must generally get IRS approval. How to obtain IRS approval is discussed later under [\*Changes in Methods of Accounting\*](#).

**Types of accounting methods.** Generally, you can use any of the following accounting methods. Each method is discussed in detail below.

- Cash method.
- Accrual method.
- Special methods of accounting for certain items of income and expenses.
- Combination (hybrid) method using elements of two or more of the above methods.

**Business and other items.** You can account for business and personal items using different accounting methods. For example, you can figure your business income under an

accrual method, even if you use the cash method to figure personal items.

**Two or more businesses.** If you operate two or more separate and distinct businesses, you can use a different accounting method for each business. Generally, no business is separate and distinct unless a complete and separate set of books and records is maintained for each business.

## **Cash Method**

Most farmers use the cash method because they find it easier to keep records using the cash method. Certain farm corporations and partnerships and all tax shelters are generally required to use an accrual method of accounting. However, for tax years beginning in 2023, farm corporations or partnerships that have average annual gross receipts of \$29 million or less for the 3 preceding tax years and are not tax shelters can use the cash method instead of the accrual method.

See [Accrual Method Required](#), later. Also, see [Inventory](#), later.

## **Income**

Under the cash method, include in your gross income all items of income you actually or constructively received during the tax year. Items of income include money received as well as property or services received. If you received property or services, you must include the fair market value (FMV) of the property or services received in income. See [chapter 3](#) for information on how to report farm income on your income tax return.

**Constructive receipt.** Income is constructively received when an amount is credited to your account or made available to you without restriction. You do not need to have possession of the income for it to be treated as income for the tax year. You need to have the ability to receive the income. If you authorize someone to be your agent and

receive income for you, you are considered to have received the income when your agent receives it. Income is not constructively received if your receipt of the income is subject to substantial restrictions or limitations.

***Delaying receipt of income.*** You cannot hold checks or postpone taking possession of similar property from one tax year to another to avoid paying tax on the income. You must report the income in the year the money or property is received or made available to you without restriction.

***Example.*** Frances Jones, a farmer who uses the cash method of accounting was entitled to receive a \$10,000 payment on a grain contract in December 2023. Frances was told in December that the payment was available, and requested not to be paid until January 2024. Frances must include this payment in 2023 income because it was made available in 2023.



***Debts paid by another person or canceled.*** If your debts are paid by another person or are canceled by your creditors, you may have to report part or all of this debt relief as income. If you receive income in this way, you constructively receive the income when the debt is canceled or paid. See [Cancellation of Debt](#) in [chapter 3](#) for more information.

***Deferred payment contract.*** If you sell an item under a deferred payment contract that calls for payment in a future year, there is no constructive receipt in the year of sale. However, if the sales contract states that you have the right to the proceeds of the sale from the buyer at any time after delivery of the item, then you must include the sales price in income in the year of the sale, regardless of when you actually receive payment.

***Example.*** You are a farmer who uses the cash method and a calendar tax year. You sell

grain in December 2023 under a bona fide arm's-length contract that calls for payment in 2024. You include the proceeds from the sale in your 2024 gross income since that is the year payment is received. However, if the contract states that you have the right to the proceeds from the buyer at any time after the grain is delivered, you must include the sales price in your 2023 income, even if payment is received in the following year.

**Repayment of income.** If you include an amount in income and in a later year you have to repay all or part of it, then you may be able to deduct the repayment in the year repaid. The type of deduction you are allowed in the year of repayment depends on the type of income you included in the earlier year. If you use the cash method of accounting, you can take the deduction (or credit, if applicable) for the tax year in which you actually make the repayment. If you use any other accounting method, you can deduct the

repayment or claim a credit for it only for the tax year in which it is a proper deduction under your accounting method. For example, if you use the accrual method, you are entitled to the deduction or credit in the tax year in which the obligation for the repayment accrues.

## **Expenses**

Under the cash method, you generally deduct expenses in the tax year you pay them. This includes business expenses for which you contest liability. However, you may not be able to deduct an expense paid in advance or you may be required to capitalize certain costs, as explained under [\*Uniform Capitalization Rules\*](#) in [chapter 6](#). See [chapter 4](#) for information on how to deduct farm business expenses on your income tax return.

**Prepayment.** Generally, you cannot deduct expenses paid in advance. This rule applies to any expense paid far enough in advance to, in

effect, create an asset with a useful life extending substantially beyond the end of the current tax year.

**Example.** On November 1, 2023, you signed and paid \$3,600 for a 3-year (36-month) insurance contract for equipment. In 2023, you are allowed to deduct only \$200 ( $2/36 \times \$3,600$ ) of the cost of the policy that is attributable to 2023. In 2024, you'll be able to deduct \$1,200 ( $12/36 \times \$3,600$ ); in 2025, you'll be able to deduct \$1,200 ( $12/36 \times \$3,600$ ); and in 2026, you'll be able to deduct the remaining balance of \$1,000.

An exception applies if the expense qualifies for the 12-month rule. Under the 12-month rule, a taxpayer is not required to capitalize amounts paid to create certain rights or benefits for the earlier of the following:

- 12 months after the right or benefit begins, or

- The end of the tax year after the tax year in which payment is made.

See Pub. 538 for more information and examples.

See [chapter 4](#) for special rules for prepaid farm supplies and prepaid livestock feed.

## **Accrual Method**

Under the accrual method of accounting, you generally report income in the year earned and deduct or capitalize expenses in the year incurred. The purpose of an accrual method of accounting is to correctly match income and expenses in the correct tax year. Certain large farm businesses must use an accrual method of accounting for its farm activities and for sales and purchases of inventory items. See [Accrual Method Required](#) and [Farm Inventory](#), later.

# Income

Generally, you include an amount in income for the tax year in which all events that fix your right to receive the income have occurred, and you can determine the amount with reasonable accuracy. Under this rule, include an amount in income on the earliest of the following dates.

- When you receive payment.
- When the income amount is due to you.
- When you earn the income.
- When title passes.
- When included as revenue in an applicable financial statement, if you have an applicable financial statement.

For more information, see Pub. 538. If you use an accrual method of accounting, complete Part III of Schedule F (Form 1040) to report your income.

## Inventory

Generally, if you keep an inventory, you must use an accrual method of accounting to determine your gross income. However, see *Exception* below. An inventory is necessary to clearly show income when the production, purchase, or sale of merchandise is an income-producing factor. See Pub. 538 for more information. Also, see [Farm Inventory](#), later, for more information on items that must be included in inventory by farmers, and inventory valuation methods for farmers.

**Exception.** For tax years beginning in 2023, you are not required to maintain an inventory if the average annual gross receipts for the 3 preceding tax years for the farm is \$29 million or less and the farm is not a tax shelter. In this case, the farm can use a method of accounting that (1) treats inventory as nonincidental materials and supplies, or (2) accounts for the inventory in the same manner as the applicable financial

statements. If it does not have an applicable financial statement, it can use the method of accounting used in its books and records prepared according to its accounting procedures.

## **Expenses**

Under an accrual method of accounting, you generally deduct or capitalize a business expense when both of the following apply.

1. The all-events test has been met. This test is met when:
  - a. All events have occurred that fix the fact that you have a liability, and
  - b. The amount of the liability can be determined with reasonable accuracy.
2. Economic performance has occurred.

**Economic performance.** Generally, you cannot deduct or capitalize a business



expense until economic performance occurs. If your expense is for property or services provided to you, or for your use of property, economic performance occurs as the property or services are provided or as the property is used. If your expense is for property or services you provide to others, economic performance occurs as you provide the property or services.

**Example.** Jane, who is a farmer, uses a calendar tax year and an accrual method of accounting. To take advantage of early payment discounts, Jane paid for seed in October 2022. The seed was delivered in March 2023. Economic performance did not occur until the seed was delivered and planted. Jane incurs the expense in 2023.

An exception to the economic performance rule allows certain recurring items to be treated as incurred during a tax year even though economic performance has not

occurred. For more information, see *Economic Performance* in Pub. 538.

**Special rule for related persons.** Business expenses and interest owed to a related person who uses the cash method of accounting are not deductible until you make the payment and the corresponding amount is includible in the related person's gross income. Determine the relationship for this rule as of the end of the tax year for which the expense or interest would otherwise be deductible.

## **Accrual Method Required**

Generally, the following businesses, if engaged in farming, are required to use an accrual method of accounting.

1. A corporation that has gross receipts of more than \$29 million.

2. A partnership with a corporation as a partner, if that corporation meets the requirements of (1) above.
3. A tax shelter (discussed below).

**Note.** Items (1) and (2) above do not apply to an S corporation or a business operating a nursery or sod farm, or the raising or harvesting of trees (other than fruit and nut trees).

**Tax shelter.** A tax shelter is a partnership, noncorporate enterprise, or S corporation that meets either of the following tests.

1. Its principal purpose is the avoidance or evasion of federal income tax.
2. It is a farming syndicate. A farming syndicate is an entity that meets either of the following tests.
  - a. Interests in the activity have been offered for sale in an offering required to be registered

with a federal or state agency  
with the authority to regulate the  
offering of securities for sale.

- b. More than 35% of the losses  
during the tax year are allocable  
to limited partners or limited  
entrepreneurs.

A “limited partner” is one whose personal liability for partnership debts is limited to the money or other property the partner contributed or is required to contribute to the partnership.

A “limited entrepreneur” is one who has an interest in an enterprise other than as a limited partner and does not actively participate in the management of the enterprise.

**Note.** If a farming business has average annual gross receipts of \$29 million or less for the 3 preceding tax years and is not a tax shelter, the farm is not subject to the uniform

capitalization rules. See *Uniform capitalization rules*, later. Also, see *Uniform Capitalization Rules* in chapter 6.

## **Farm Inventory**

If you are required to keep an inventory, you should keep a complete record of your inventory as part of your farm records. This record should show the actual count or measurement of the inventory. It should also show all factors that enter into its valuation, including quality and weight, if applicable. Below are some items that could be included in inventory.

**Hatchery business.** If you are in the hatchery business, and use an accrual method of accounting, you must include in inventory eggs in the process of incubation.

**Products held for sale.** All harvested and purchased farm products held for sale or for feed or seed, such as grain, hay, silage,

concentrates, cotton, tobacco, etc., must be included in inventory.

**Supplies.** Supplies acquired for sale or that become a physical part of items held for sale must be included in inventory. Deduct the cost of supplies in the year used or consumed in operations. Do not include incidental supplies in inventory as these are deductible in the year of purchase.

**Livestock.** Livestock held primarily for sale must be included in inventory. Livestock held for draft, breeding, or dairy purposes can either be depreciated or included in inventory. Also, see [Unit-livestock-price method](#), later. If you are in the business of breeding and raising chinchillas, mink, foxes, or other fur-bearing animals, these animals are livestock for inventory purposes.

**Growing crops.** Generally, growing crops are not required to be included in inventory. However, if the crop has a preproductive

period of more than 2 years, you may have to capitalize (or include in inventory) costs associated with the crop.

***Uniform capitalization rules.*** The following applies if you are required to use an accrual method of accounting.

- The uniform capitalization rules apply to all costs of raising a plant, even if the preproductive period of raising a plant is 2 years or less.
- The costs of animals are subject to the uniform capitalization rules.

**Note.** If a farming business has average annual gross receipts of \$29 million or less for the 3 preceding tax years and is not a tax shelter, the farm is not subject to the uniform capitalization rules. See *Uniform Capitalization Rules* in chapter 6.

**Items to include in inventory.** Your inventory should include all items held for

sale, or for use as feed, seed, etc., whether raised or purchased, that are unsold at the end of the year.

**Inventory valuation methods.** The following methods, described below, are those generally available for valuing inventory. The method you use must conform to generally accepted accounting principles for similar businesses and must clearly reflect income.

- Cost.
- Lower of cost or market.
- Farm-price method.
- Unit-livestock-price method.

***Cost and lower of cost or market methods.*** See Pub. 538 for information on these valuation methods.



*If you value your livestock inventory at cost or the lower of cost or market, you do not need IRS approval to change to the unit-livestock-price method.*



*However, if you value your livestock inventory using the farm-price method, then you must obtain permission from the IRS to change to the unit-livestock-price method.*

***Farm-price method.*** Under this method, each item, whether raised or purchased, is valued at its market price less the direct cost of disposition. Market price is the current price at the nearest market in the quantities you usually sell. Cost of disposition includes broker's commissions, freight, hauling to market, and other marketing costs. If you use this method, you must use it for your entire inventory, except that livestock can be inventoried under the unit-livestock-price method.

***Unit-livestock-price method.*** This method recognizes the difficulty of establishing the exact costs of producing and raising each animal. You group or classify livestock according to type and age and use a standard unit price for each animal within a class or

group. The unit price you assign should reasonably approximate the normal costs incurred in producing the animals in such classes. Unit prices and classifications are subject to approval by the IRS on examination of your return. You must annually reevaluate your unit livestock prices and adjust the prices upward or downward to reflect increases or decreases in the costs of raising livestock. IRS approval is not required for these adjustments.

Any other changes in unit prices or classifications do require IRS approval.

If you use this method, include all raised livestock in inventory, regardless of whether they are held for sale or for draft, breeding, sport, or dairy purposes. This method accounts only for the increase in cost of raising an animal to maturity. It does not provide for any decrease in the animal's market value after it reaches maturity. Also, if

you raise cattle, you are not required to inventory hay you grow to feed your herd.

Do not include animals that were sold or lost in the year-end inventory. If your records do not show which animals were sold or lost, treat the first animals acquired as sold or lost. The animals on hand at the end of the year are considered those most recently acquired.

You must include in inventory all livestock purchased primarily for sale. You can choose either to include in inventory or depreciate livestock purchased for draft, breeding, sport, or dairy purposes. However, you must be consistent from year to year, regardless of the method you have chosen. You cannot change your method without obtaining approval from the IRS.

You must include in inventory animals purchased after maturity or capitalize them at their purchase price. If the animals are not mature at purchase, increase the cost at the end of each tax year according to the

established unit price. However, in the year of purchase, do not increase the cost of any animal purchased during the last 6 months of the year. This “no increase” rule does not apply to tax shelters, which must make an adjustment for any animal purchased during the year. It also does not apply to taxpayers that must make an adjustment to reasonably reflect the particular period in the year in which animals are purchased, if necessary to avoid significant distortions in income.

**Note.** A farmer can determine costs required to be allocated under the uniform capitalization rules by using the farm-price or unit-livestock-price inventory method. This applies to any plant or animal, even if the farmer does not hold or treat the plant or animal as inventory property.

## **Cash Versus Accrual Method**

The following examples compare the cash and accrual methods of accounting.

**Example 1, Accrual Method.** You are a farmer who uses an accrual method of accounting. You keep your books on the calendar year basis. You sell grain in December 2023 but you are not paid until January 2024. Because you use the accrual method, you report the grain sale in 2023 because that is when the income was earned, even though you did not receive the income until 2024.

**Example 2, Cash Method.** Assume the same facts as in *Example 1* except that you use the cash method and there was no constructive receipt of the sales proceeds in 2023. Under the cash method, you include the sales proceeds in income in 2024, the year you receive payment. You deduct the costs of producing the grain in the year you pay for them.

## Special Methods of Accounting

There are special methods of accounting for certain items of income and expense.

**Crop method.** If you do not harvest and dispose of your crop in the same tax year that you plant it, you can, with IRS approval, use the crop method of accounting. You cannot use the crop method for any tax return, including your first tax return, unless you receive approval from the IRS. Under this method, you deduct the entire cost of producing the crop, including the expense of seed or young plants, in the year you realize income from the crop.

See [chapter 4](#) for details on deducting the costs of operating a farm. Also, see Regulations section 1.16212.

**Other special methods.** Other special methods of accounting apply to the following items.

- Amortization, see [chapter 7](#).

- Casualties, see [chapter 11](#).
- Condemnations, see [chapter 11](#).
- Depletion, see [chapter 7](#).
- Depreciation, see [chapter 7](#).
- Farm business expenses, see [chapter 4](#).
- Farm income, see [chapter 3](#).
- Installment sales, see [chapter 10](#).
- Soil and water conservation expenses, see [chapter 5](#).
- Thefts, see [chapter 11](#).

## **Combination Method**

Generally, you can use any combination of cash, accrual, and special methods of accounting if the combination clearly shows your income and expenses and you use it consistently. However, the following restrictions apply.

- If you use the cash method for figuring your income, you must use the cash method for reporting your expenses.
- If you use an accrual method for reporting your expenses, you must use an accrual method for figuring your income.

## **Changes in Methods of Accounting**

A change in your method of accounting includes a change in:

- Your overall method, such as from the cash method to an accrual method, and
- Your treatment of any material item, such as a change in your method of valuing inventory. For example, you change your inventory method from the farm-price method to the unit-livestock-price method.

Generally, once you have set up your accounting method, you must receive approval from the IRS before you can change



either an overall method of accounting or the accounting treatment of any material item. A user fee may be required for any nonautomatic change requests.

**Form 3115.** To obtain approval, you must generally file Form 3115. There are instances when you can obtain automatic consent to change certain accounting methods. In other instances, you can file Form 3115 using the non-automatic change request procedures to request an accounting method change. For more information, see Form 3115 and the Instructions for Form 3115. Also, see Pub. 538.

# 3.

## Farm Income

### Reminders

#### **Coronavirus Food Assistance Program**

**(CFAP) payments.** You must report the full amount of the CFAP payments you received in 2023 as gross income on Schedule F (Form 1040). See [CFAP](#), later.

### Introduction

You may receive income from many sources. You must report the income from all the different sources on your tax return, unless it is excluded by law. Where you report the income on your tax return depends on its source.

This chapter discusses farm income you report on Schedule F (Form 1040), Profit or Loss From Farming. For information on where to re-port other income, see the Instructions

for Forms 1040 and 1040-SR, U.S. Individual In-come Tax Return.

**Accounting method.** The rules discussed in this chapter assume you use the cash method of accounting. Under the cash method, you generally include an item of income in gross in-come in the year you receive it. See [Cash Method](#) in [chapter 2](#).

If you use an accrual method of accounting, different rules may apply to your situation. See [Accrual Method](#) in [chapter 2](#).

## Topics

This chapter discusses:

- Schedule F (Form 1040)
- Sales of farm products
- Rents (including crop shares)
- Agricultural program payments
- Income from cooperatives

- Cancellation of debt
- Income from other sources
- Income averaging for farmers

## **Useful Items**

You may want to see:

### **Publication**

- ☐ **525** Taxable and Nontaxable Income
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **550** Investment Income and Expenses
- ☐ **908** Bankruptcy Tax Guide
- ☐ **925** Passive Activity and At-Risk Rules
- ☐ **4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments

## **Form (and Instructions)**

- ☐ **982** Reduction of Tax Attributes Due to Discharge of Indebtedness
- ☐ **Sch E (Form 1040)** Supplemental Income and Loss
- ☐ **Sch F (Form 1040)** Profit or Loss From Farming
- ☐ **Sch J (Form 1040)** Income Averaging for Farmers and Fishermen
- ☐ **1099-G** Certain Government Payments
- ☐ **1099-MISC** Miscellaneous Information
- ☐ **1099 NEC** Nonemployee Compensation
- ☐ **1099-PATR** Taxable Distributions Received From Cooperatives
- ☐ **4797** Sales of Business Property

## □ **4835** Farm Rental Income and Expenses

See [chapter 16](#) for information about getting publications and forms.

## **Schedule F (Form 1040)**

Individuals, trusts, partnerships, S corporations, LLCs taxed as partnerships, and sole members of a domestic LLC engaged in the business of farming report farm income on Schedule F (Form 1040). Use this schedule to figure the net profit or loss from regular farming operations.



*Corporations use Form 1120 to report the income or loss from regular farming operations.*

Income from farming reported on Schedule F includes amounts you receive from cultivating, operating, or managing a farm for gain or profit, either as owner or tenant. This includes income from operating a stock, dairy, poultry, fish, fruit, or truck farm and

income from operating a plantation, ranch, range, orchard, or grove. It also includes income from the sale of crop shares if you materially participate in producing the crop. See [\*Rents \(Including Crop Shares\)\*](#), later.

Income received from operating a nursery, which specializes in growing ornamental plants, is considered to be income from farming.

Income reported on Schedule F doesn't include gains or losses from sales or other dispositions of the following farm assets.

- Land.
- Depreciable farm equipment.
- Buildings and structures.
- Livestock held for draft, breeding, sport, or dairy purposes.

Gains and losses from most dispositions of farm assets are discussed in [chapters 8](#) and [9](#). Gains and losses from casualties, thefts,

and condemnations are discussed in [chapter 11](#).

## Sales of Farm Products

**Where to report.** [Table 3-1](#) shows where to report the sale of farm products on your tax return.

**Table 3-1. Where To Report Sales of Farm Products**

Item Sold	Schedule F*	Form 4797**
Farm products raised for sale	X	
Farm products bought for resale	X	
Farm assets not held primarily for sale, such as livestock held for draft,		X



breeding, sport, or dairy purposes (bought or raised), and equipment		
<p>* See the Instructions for Schedule F for more information.</p> <p>** See the Instructions for Form 4797 for more information.</p>		

***Schedule F.*** Amounts received from the sales of products you raised on your farm for sale (or bought for resale), such as livestock, produce, or grains, are reported on Schedule F. This includes money and the fair market value of any property or services you receive. When you sell farm products bought for resale, your profit or loss is the difference between your selling price (money plus the fair market value of any property) and your basis in the item (usually the cost). See [chapter 6](#) for information on the basis of assets. You generally report these amounts

on Schedule F for the year you receive payment.

**Example.** In 2022, you bought 20 feeder calves for \$20,000 for resale. You sold them in 2023 for \$25,000. You report the \$25,000 sales price on Schedule F, line 1a, subtract your \$20,000 basis on line 1b, and report the resulting \$5,000 profit on line 1c.

**Form 4797.** Sales of livestock held for draft, breeding, sport, or dairy purposes may result in ordinary or capital gains or losses, depending on the circumstances. In either case, you should not report these sales on Schedule F. Instead, report these sales on Form 4797. See [Livestock](#) under [Ordinary or Capital Gain or Loss](#) in [chapter 8](#). Animals that you don't hold primarily for sale are considered business assets of your farm. Some sales of timber/forest products are also reported on Form 4797. See [Timber](#) in [chapter 8](#) for more information.

**Sale by agent.** If your agent sells your farm products, you have constructive receipt of the income when your agent receives payment and you must include the net proceeds from the sale in gross income for the year the agent receives payment. This applies even if your agent pays you in a later year. For a discussion on constructive receipt of income, see [\*Cash Method\*](#) under [\*Accounting Methods\*](#) in [\*chapter 2\*](#).

## **Sales Caused by Weather-Related Conditions**

If you sell or exchange more livestock, including poultry, than you normally would in a year because of a drought, flood, or other weather-related condition, you may be able to postpone reporting the gain from the additional animals until the next year. This applies to livestock that are held for sale (either raised or purchased) as well as livestock held for draft, breeding, sport, or

dairy purposes. You must meet all the following conditions to qualify.

- Your principal trade or business is farming.
- You use the cash method of accounting.
- You can show that, under your usual business practices, you wouldn't have sold or exchanged the additional animals this year except for the weather-related condition.
- The weather-related condition caused an area to be designated as eligible for assistance by the federal government.



***Disaster assistance and emergency relief for individuals and***

***businesses***. Special tax law provisions may help taxpayers and businesses recover financially from the impact of a disaster, especially when the federal government declares their location to be a major disaster area. Get the latest tax relief guidance in

disaster situations at [IRS.gov/uac/Tax-Relief-in-Disaster-Situations](https://www.irs.gov/uac/Tax-Relief-in-Disaster-Situations) and in disaster area losses-agriculture tax tips at [IRS.gov/businesses/Small-Businesses-Self-Employed/Disaster-Assistance-and-Emergency-Relief-for-Individuals-and-Businesses](https://www.irs.gov/businesses/Small-Businesses-Self-Employed/Disaster-Assistance-and-Emergency-Relief-for-Individuals-and-Businesses).

Sales or exchanges made before an area became eligible for federal assistance qualify if the weather-related condition that caused the sale or exchange also caused the area to be designated as eligible for federal assistance. The designation can be made by the President, the Department of Agriculture (or any of its agencies), or by other federal departments or agencies.



*A weather-related sale or exchange of livestock (other than poultry) held for draft, breeding, or dairy purposes may be an involuntary conversion. See [Other Involuntary Conversions](#) in [chapter 11](#).*

**Usual business practice.** You must determine the number of animals you would have sold had you followed your usual business practice in the absence of the weather-related condition. Do this by considering all the facts and circumstances, but don't take into account your sales in any earlier year for which you postponed the gain. If you haven't yet established a usual business practice, rely on the usual business practices of similarly situated farmers in your general region.

**Connection with affected area.** The livestock doesn't have to be raised or sold in an area affected by a weather-related condition for the postponement to apply. However, the sale must occur solely because of a weather-related condition that affected the water, grazing, or other requirements of the livestock. This requirement generally won't be met if the costs of feed, water, or other requirements of the livestock affected by the weather-related condition aren't substantial in

relation to the total costs of holding the livestock.

**Classes of livestock.** You must figure the amount to be postponed separately for each generic class of animals—for example, hogs, sheep, and cattle. Don't separate animals into classes based on age, sex, or breed.

**Amount to be postponed.** Follow these steps to figure the amount of gain to be postponed for each class of animals.

1. Divide the total income realized from the sale of all livestock in the class during the tax year by the total number of such livestock sold. For this purpose, don't treat any postponed gain from the previous year as income received from the sale of livestock.
2. Multiply the result in (1) by the excess number of such livestock sold solely because of weather-related conditions.

**Example.** You're a calendar year taxpayer and you normally wean 100 beef calves in the fall and feed them through the winter, selling in January or February. As a result of drought, you decide you don't have enough feed for all of your calves, so you sell 35 head in the fall at weaning and plan to sell the remaining 65 calves in January. As a result, you sold 135 head during 2022. You realized \$121,500 from the sale ( $\$121,500 \div 135 = \$900$  per head). On August 10, 2022, as a result of drought, the affected area was declared a disaster area eligible for federal assistance. The income you can postpone until 2023 is \$31,500 [ $(\$121,500 \div 135) \times 35$ ].

**How to postpone gain.** To postpone gain, attach a statement to your tax return for the year of the sale. The statement must include your name and address and give the following information for each class of livestock for which you're postponing gain.



- A statement that you're postponing gain under section 451(e).
- Evidence of the weather-related conditions that forced the early sale or exchange of the livestock and the date, if known, on which an area was designated as eligible for assistance by the federal government because of weather-related conditions.
- A statement explaining the relationship of the area affected by the weather-related condition to your early sale or exchange of the livestock.
- The number of animals sold in each of the 3 preceding years.
- The number of animals you would have sold in the tax year had you followed your normal business practice in the absence of weather-related conditions.
- The total number of animals sold and the number sold because of weather-related conditions during the tax year.

- A computation, as described above, of the income to be postponed for each class of livestock.

Generally, you must file the statement and the return by the due date of the return, including extensions. However, for sales or exchanges treated as an involuntary conversion from weather-related sales of livestock in an area eligible for federal assistance (discussed in [chapter 11](#)), you are required to attach a statement in the year you realize the gain and again in the year you replace the livestock. For other sales or exchanges, if you timely filed your return for the year without postponing gain, you can still postpone gain by filing an amended return within 6 months of the due date of the return (excluding extensions). Attach the statement to the amended return and write "Filed pursuant to section 301.9100-2" at the top of the amended return. File the amended return at the same address you filed the original

return. Once you have filed the statement, you can cancel your postponement of gain only with the approval of the IRS.

## **Rents (Including Crop Shares)**

The rent you receive for the use of your farmland by another person or entity is generally rental income, not farm income. However, the rent is farm income if:

1. Your arrangement with your tenant provides that you will materially participate in the production or management of production of the farm products on the land, and
2. You materially participate.

See [Landlord Participation in Farming](#) in [chapter 12](#).

**Pasture income and rental.** If you pasture someone else's livestock and take care of them for a fee, the income is from your farming business. You must enter it as "Other Income" on Schedule F. If you simply rent your pasture or other farm real estate for a flat cash amount without providing services, report the income as rent on Schedule E (Form 1040), Part I.