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# 2018 Instructions for Schedule F

## Profit or Loss From Farming

Use Schedule F (Form 1040) to report farm income and expenses. File it with Form 1040, 1040NR, 1041, or 1065.

Your farming activity may subject you to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

**Additional information.** Pub. 225 has more information and examples to help you complete your farm tax return. It also lists important dates that apply to farmers.

Section references are to the Internal Revenue Code unless otherwise noted.

**Standard mileage rate.** The standard mileage rate for business use of your vehicle for 2018 is 54.5 cents per mile.

## Future Developments

For the latest information about developments related to Schedule F (Form 1040) and its instructions, such as legislation enacted after they were published, go to [IRS.gov/ScheduleF](https://www.irs.gov/ScheduleF).

## What's New

**Business interest expense limitation.** For tax years beginning after 2017, your business interest expense deduction may be limited. See Form 8990 and its instructions for details.

**Deduction for qualified business income.** For tax years beginning after 2017, you may be entitled to a deduction of up to 20 percent of your qualified business income from your qualified trade or business, plus 20 percent of the aggregate amount of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. The deduction is subject to various limitations such as limitations based on your type of trade or business, your taxable income, the amount of W-2 wages paid with respect to the trade or business, and the unadjusted basis immediately after acquisition of qualified property held by the trade or business. You will claim this deduction on Form 1040, and unlike other deductions, this deduction can be taken in addition to the standard or itemized deductions. For more information, see the Instructions for Form 1040 and Pub. 535, Business Expenses.

**Excess farm loss limitation.** The excess farm loss rules don't apply in 2018. However, any loss from this activity that wasn't allowed last year because of the excess farm loss rules is treated as a deduction allocable to this activity in 2018. See Form 461 and its instructions for details on the amount of excess business loss limitation.

**Net operating loss (NOL).** An NOL can no longer be carried back to any tax year, unless the NOL is a farming loss. To the extent the NOL is a farming loss, you can carry back the NOL to each of the 2 tax years preceding the tax year of the loss. For additional information on NOLs for individuals, estates and trusts, and corporations, see Pubs. 225 and 536.

**Small business taxpayers.** For tax years beginning after 2017, more small business taxpayers may be eligible to use the cash method.

## General Instructions

### Other Schedules and Forms You May Have To File

- Schedule E (Form 1040), Part I, to report rental income from pastureland based on a flat charge. However, report on Schedule F (Form 1040), line 8, pasture income received from taking care of someone else's livestock. Also use Schedule E (Form 1040), Part I, to report farm rental income and expenses of a trust or estate based on crops or livestock produced by a tenant.
- Schedule J (Form 1040) to figure your tax by averaging your farm income over the previous 3 years. Doing so may reduce your tax.
- Schedule SE (Form 1040) to pay self-employment tax on income from your farming business.
  - Form 3800 to claim any general business credits.
  - Form 4562 to claim depreciation (including the special allowance) on assets placed in service in 2018, to claim amortization that began in 2018, to make an election under section 179 to expense certain property, or to report information on vehicles and other listed property.
  - Form 4684 to report a casualty or theft gain or loss involving farm business property, including purchased livestock held for draft, breeding, sport, or dairy purposes. See Pub. 225 for more information on how to report various farm losses, such as losses due to death of livestock or damage to crops or other farm property.
    - Form 4797 to report sales, exchanges, or involuntary conversions (other than from a casualty or theft) of certain farm property. Also use this form to report sales of livestock held for draft, breeding, sport, or dairy purposes.
    - Form 4835 to report rental income based on crop or livestock shares produced by a tenant if you didn't materially participate in the management or operation of a farm. This income isn't subject to self-employment tax. See Pub. 225.
    - Form 6198 to figure your allowable loss if you have a business loss and you have amounts invested in the business for which you aren't at risk.

- Form 8582 to figure your allowable loss from passive activities.
- Form 8824 to report like-kind exchanges.
- Form 8990 to figure any interest expense limitation and carryover amount. However, a small business taxpayer is not subject to the business interest expense limitation and is not required to file Form 8990. Also, certain farming businesses and specified agricultural or horticultural cooperatives can make an election not to have the limitation apply.
- Form 461 to compute your excess business loss.
- Form 1045 to compute any carryback loss.

Also, see the Deduction for Qualified Business Income Worksheet in the Instructions for Form 1040 to figure a deduction for qualified business income.

**Single-member limited liability company (LLC).** Generally, a single-member domestic LLC isn't treated as a separate entity for federal income tax purposes. If you are the sole member of a domestic LLC engaged in the business of farming, file Schedule F (Form 1040). However, you can elect to treat a domestic LLC as a corporation. See Form 8832 for details on the election.

**Heavy highway vehicle use tax.** If you use certain highway trucks, truck-trailers, tractor trailers, or buses in your farming business, you may have to pay a federal highway motor vehicle use tax. See the Instructions for Form 2290 to find out if you owe this tax and go to [IRS.gov/Trucker](https://www.irs.gov/Trucker) for the latest developments.

**Information returns.** You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. For details, see *Line F* later, and the 2018 General Instructions for Certain Information Returns.

If you received cash of more than \$10,000 in one or more related transactions in your farming business, you may have to file Form 8300. For details, see Pub. 1544.

**Reportable transaction disclosure statement.** If you entered into a reportable transaction in 2018, you must file Form 8886 to disclose information if your federal income tax liability is affected by your participation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but don't do so. You also may have to pay interest and penalties on any reportable transaction understatements. For more information on reportable transactions, see the Instructions for Form 8886.

## Farm Owned and Operated By Spouses

If you and your spouse jointly own and operate a farm as an unincorporated business and share in the profits and losses, you can be taxed as a partnership and file Form 1065, or you each can file Schedule F (Form 1040) as a qualified joint venture.

### Qualified Joint Venture

If you and your spouse each materially participate as the only members of a jointly owned and operated farm, and you file a joint return for the tax year, you can elect to be treated as a qualified joint venture instead of a partnership. This election in most cases won't increase the total tax owed on the joint return,

but it does give each of you credit for social security earnings on which retirement benefits are based and for Medicare coverage without filing a partnership return. For an explanation of "material participation," see the Instructions for Schedule C (Form 1040), line G, and *Line E*, later, in these instructions.

**Making the election.** To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the farming business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule F (Form 1040). On each line of your separate Schedule F (Form 1040), you must enter your share of the applicable income, deduction, or loss. Each of you also must file a separate Schedule SE (Form 1040) to pay self-employment tax, as applicable.

As long as you remain qualified, your election can't be revoked without IRS consent.

For more information on qualified joint ventures, go to [IRS.gov](https://www.irs.gov) and enter "qualified joint venture" in the search box.

### Exception—Community Income

If you and your spouse wholly own an unincorporated farming business as community property under the community property laws of a state, foreign country, or U.S. possession, you can treat your wholly owned, unincorporated business as a sole proprietorship, instead of a partnership. Any change in your reporting position will be treated as a conversion of the entity.

Report your income and deductions as follows.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.
- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.
- If either or both you and your spouse are partners in a partnership, see Pub. 541.
- If you and your spouse elected to treat the business as a qualifying joint venture, see *Qualified Joint Venture*, earlier, for how to report income and deductions.

States with community property laws include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. See Pub. 555 for more information about community property laws.

### Estimated Tax

If you had to make estimated tax payments for 2018, and you underpaid your estimated tax, you won't be charged a penalty if both of the following apply.

- Your gross farming or fishing income for 2017 or 2018 is at least two-thirds of your gross income, and
- You file your 2018 tax return and pay the tax due by March 1, 2019.

For details, see chapter 15 of Pub. 225.

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## Specific Instructions

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**Filers of Forms 1041 and 1065.** Don't complete the block labeled "Social security number (SSN)." Instead, enter the employer identification number (EIN) issued to the estate, trust, or partnership on line D.

### Line B

On line B, enter one of the 14 principal agricultural activity codes listed in Part IV on page 2 of Schedule F (Form 1040). Select the code that best describes the source of most of your income.

### Line C

If you use the cash method, check the box for "Cash." Complete Schedule F (Form 1040), Parts I and II. In most cases, report income in the year in which you actually or constructively received it and deduct expenses in the year you paid them. However, if the payment of an expenditure creates an intangible asset (such as prepaid expense) having a useful life that extends beyond 12 months or the end of the next tax year, it may not be deductible or may be deductible only in part for the year of the payment. See chapter 2 of Pub. 225.

If you use an accrual method, check the box for "Accrual." Complete Schedule F (Form 1040), Parts II, III, and Part I, line 9. Generally, report income in the year in which you earned it and deduct expenses in the year you incurred them, even if you didn't pay them in that year. Accrual basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See Pub. 538.

**Farming syndicates.** Farming syndicates can't use the cash method of accounting. A farming syndicate may be a partnership, LLC, S corporation, or any other enterprise other than a C corporation if:

- The interests in the business have at any time been offered for sale in a way that would require registration with any federal or state agency, or
- More than 35% of the losses during any tax year are allowable to limited partners or limited entrepreneurs. A limited partner is one who can lose only the amount invested or required to be invested in the partnership. A limited entrepreneur is a person who doesn't take any active part in managing the business.

### Line D

Enter on line D the employer identification number (EIN) that was issued to you on Form SS-4. Don't enter your SSN. Don't enter another taxpayer's EIN (for example, from any Forms 1099-MISC that you received). **If you don't have an EIN, leave line D blank.**

You need an EIN only if you have a qualified retirement plan or are required to file employment, excise, alcohol, tobacco, or firearms returns, or if you are a payer of gambling winnings. If you need an EIN, see the Instructions for Form SS-4.

**Single-member LLCs.** If you are a sole owner of an LLC that isn't treated as a separate entity for federal income tax purposes, you may have an EIN that was issued to the LLC (and in the LLC's legal name) if you are required to file employment tax returns and certain excise tax returns. However, you should **enter on line D only the EIN issued to you and in your name as the sole proprietor of your farming business.** If you don't have such an EIN, leave line D blank. Don't enter on line D the EIN issued to the LLC.

**Single-member limited liability companies (LLCs) with employees.** Single-member LLCs that are disregarded as entities separate from their owner for federal income tax purposes are required to file employment tax returns using the LLC's name and EIN rather than the LLC owner's name and EIN. For more information, see the Instructions for Form SS-4.

**Filers of Forms 1041 and 1065.** Enter on line D the EIN issued to the estate, trust, or partnership.

### Line E

**Material participation.** For the definition of material participation for purposes of the passive activity rules, see the Instructions for Schedule C (Form 1040), line G. If you meet any of the material participation tests described in those instructions, check the "Yes" box.

If you are a retired or disabled farmer, you are treated as materially participating in a farming business if you materially participated 5 or more of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if he or she actively manages the farm and the real property used for farming meets the estate tax rules for special valuation of farm property passed from a qualifying decedent.

Check the "No" box if you didn't materially participate. If you checked "No" and you have a loss from this business, see *Limit on passive losses*, next. If you have a profit from this business activity but have current year losses from other passive activities or prior year unallowed passive activity losses, see the Instructions for Form 8582.

**Limit on passive losses.** If you checked the "No" box and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule F (Form 1040), line 34. In most cases, you can deduct losses from passive activities only to the extent of income from passive activities. For details, see Pub. 925.

### Line F

If you made any payments in 2018 that would require you to file any Forms 1099, check the "Yes" box. Otherwise, check the "No" box. See the 2018 General Instructions for Certain Information Returns if you are unsure whether you are required to file any Forms 1099. Also see the separate specific instructions for each Form 1099.



Generally, you must file Form 1099-MISC if you paid at least \$600 in rents, services, prizes, medical and health care payments, and other income payments. The Guide to Information Returns in the 2018 General Instructions for Certain Information Returns has more information, including the due dates for the various information returns.

## Part I. Farm Income—Cash Method

In Part I, show income received for items listed on lines 1 through 8. In most cases, include both the cash actually or constructively received and the fair market value of goods or other property received for these items. Income is constructively received when it's credited to your account or set aside for you to use.

If you ran the farm yourself and received rents based on crop shares or farm production, report these rents as income on line 2.

**Sales of livestock because of weather-related conditions.** If you sold livestock because of drought, flood, or other weather-related conditions, you can elect to report the income from the sale in the year after the year of sale if all of the following apply.

- Your main business is farming.
- You can show that you sold the livestock only because of weather-related conditions.
- Your area qualified for federal aid.

See chapter 3 of Pub. 225 for details.

**Chapter 11 bankruptcy.** If you were a debtor in a chapter 11 bankruptcy case during 2018, see *Chapter 11 Bankruptcy Cases* in the Instructions for Form 1040 (under *Income*) and the Instructions for Schedule SE (Form 1040).

**Forms 1099 or CCC-1099-G.** If you received Forms 1099 or CCC-1099-G showing amounts paid to you, first determine if the amounts are to be included with farm income. Then use the following chart to determine where to report the income on Schedule F (Form 1040). Include the Form 1099 or CCC-1099-G amounts in the total amount reported on that line.

Form	Where to report
1099-PATR . . . . .	Line 3a
1099-A . . . . .	Line 5b
1099-MISC for crop insurance . . . . .	Line 6a
1099-G or CCC-1099-G	
• for disaster payments . . . . .	Line 6a
• for other agricultural program payments . . . . .	Line 4a

You may receive Form 1099-MISC for other types of income. In this case, report it on whichever line best describes the income. For example, if you receive a Form 1099-MISC for custom farming work, include this amount on line 7. In most cases, your business income will be in the form of cash, checks, and debit/credit card payments. Therefore, you should

consider the amounts shown on Form 1099-K, Payment Card and Third-Party Network Transactions, along with all other amounts received, when calculating gross receipts. (See [Understanding your 1099K](#) on IRS.gov.)

### Lines 3a and 3b

If you received distributions from a cooperative in 2018, you should receive a Form 1099-PATR. On line 3a, show your total distributions from cooperatives. This includes patronage dividends, nonpatronage distributions, per-unit retain allocations, and redemptions of nonqualified written notices of allocation and per-unit retain certificates.

Show patronage dividends received in cash and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income. Include cash advances received from a marketing cooperative. If you received per-unit retains in cash, show the amount of cash. If you received qualified per-unit retain certificates, show the stated dollar amount of the certificates.

Don't include as income on line 3b patronage dividends from buying personal or family items, capital assets, or depreciable assets. Enter these amounts on line 3a only. Because you don't report patronage dividends from these items as income, you must subtract the amount of the dividend from the cost or other basis of these items.

### Lines 4a and 4b

Enter on line 4a the total of the following amounts.

- Price loss coverage payments.
- Agriculture risk coverage payments.
- Market Facilitation Program payments.
- Market gain from the repayment of a secured Commodity Credit Corporation (CCC) loan for less than the original loan amount.
- Diversion payments.
- Cost-share payments (sight drafts).
- Payments in the form of materials (such as fertilizer or lime) or services (such as grading or building dams).

These amounts are government payments you received and are usually reported to you on Form 1099-G. You also may receive Form CCC-1099-G from the Department of Agriculture showing the amounts and types of payments made to you.

On line 4b, report only the taxable amount. For example, don't report the market gain shown on Form CCC-1099-G on line 4b if you elected to report CCC loan proceeds as income in the year received (see *Lines 5a Through 5c*, next). No gain results from redemption of the commodity because you previously reported the CCC loan proceeds as income. You are treated as repurchasing the commodity for the amount of the loan repayment. However, if you didn't report the CCC loan proceeds under the election, you must report the market gain on line 4b.

### Lines 5a Through 5c

**Commodity Credit Corporation (CCC) loans.** In most cases, you don't report CCC loan proceeds as income. However,

if you pledge part or all of your production to secure a CCC loan, you can elect to report the loan proceeds as income in the year you receive them. If you make this election (or made the election in a prior year), report loan proceeds you received in 2018 on line 5a. Attach a statement to your return showing the details of the loan(s). See chapter 3 of Pub. 225.

**Forfeited CCC loans.** Include the full amount forfeited on line 5b, even if you reported the loan proceeds as income. This amount may be reported to you on Form 1099-A.

If you didn't elect to report the loan proceeds as income, also include the forfeited amount on line 5c.

If you did elect to report the loan proceeds as income, you generally won't have an entry on line 5c. But if the amount forfeited is different from your basis in the commodity, you may have an entry on line 5c.

See chapter 3 of Pub. 225 for details on the tax consequences of electing to report CCC loan proceeds as income or forfeiting CCC loans.

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## Lines 6a Through 6d

In most cases, you must report crop insurance proceeds in the year you receive them. Federal crop disaster payments are treated as crop insurance proceeds. However, if 2018 was the year of damage, you can elect to include certain proceeds in income for 2019. To make this election, check the box on line 6c and attach a statement to your return. See chapter 3 of Pub. 225 for a description of the proceeds for which an election can be made and for what you must include in your statement.

If you elect to defer any eligible crop insurance proceeds, you must defer all such crop insurance proceeds (including federal crop disaster payments) from a single trade or business.

Enter on line 6a the total crop insurance proceeds you received in 2018, even if you elect to include them in income for 2019.

Enter on line 6b the taxable amount of the proceeds you received in 2018. Don't include proceeds you elect to include in income for 2019.

Enter on line 6d the amount, if any, of crop insurance proceeds you received in 2017 and elected to include in income for 2018.

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## Line 8

Enter on line 8 income not otherwise reportable on lines 1 through 7. This includes the following types of income.

- Illegal federal irrigation subsidies. See chapter 3 of Pub. 225.
- Bartering income.
- Income from cancellation of debt. In most cases, if a debt is canceled or forgiven, you must include the canceled amount in income. If a federal agency, financial institution, or credit union canceled or forgave a debt you owed of \$600 or more, it should send you a Form 1099-C, or similar statement, by January 31, 2019, showing the amount of debt canceled in 2018. However, you may be able to exclude the canceled debt from income. See Pub. 4681 for details.
- State gasoline or fuel tax refunds you received in 2018.

- Any amount included in income from line 2 of Form 6478, Biofuel Producer Credit.

- Any amount included in income from line 8 of Form 8864, Biodiesel and Renewable Diesel Fuels Credit.

- The amount of credit for federal tax paid on fuels claimed on your 2017 Form 1040. For information on including the credit in income, see chapter 2 of Pub. 510.

- Any recapture of excess depreciation on any listed property, including any section 179 expense deduction, if the business use percentage of that property decreased to 50% or less in 2018. Use Part IV of Form 4797 to figure the recapture. See the Instructions for Schedule C (Form 1040), line 13, for the definition of listed property.

- The inclusion amount on leased listed property (other than vehicles) when the business use percentage drops to 50% or less. See chapter 5 of Pub. 946 to figure the amount.

- Any recapture of the deduction or credit for clean-fuel vehicle refueling property or alternative fuel vehicle refueling property used in your farming business. For details on how to figure recapture, see Regulations section 1.179A-1.

- Any income from breeding fees, or fees from renting teams, machinery, or land that isn't reported on Schedule E (Form 1040) or Form 4835.

- The gain or loss on the sale of commodity futures contracts if the contracts were made to protect you from price changes. These are a form of business insurance and are considered hedges. If you had a loss in a closed futures contract, enclose the amount of the loss in parentheses.



*For property acquired and hedging positions established, you must clearly identify on your books and records both the hedging transaction and the item(s) or aggregate risk being hedged.*

Purchase or sales contracts aren't true hedges if they offset losses that already occurred. If you bought or sold commodity futures with the hope of making a profit due to favorable price changes, report the profit or loss on Form 6781 instead of this line.

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## Part II. Farm Expenses

Don't deduct the following.

- Personal or living expenses (such as taxes, insurance, or repairs on your home) that don't produce farm income.
- Expenses of raising anything you or your family used.
- The value of animals you raised that died.
- Inventory losses.
- Personal losses.

If you were repaid for any part of an expense during the same year, you must subtract the amount you were repaid from the deduction.

**Capitalizing costs to property produced and property acquired for resale.** If you produced real or tangible personal property or acquired property for resale, you generally must capitalize certain expenses to your inventory or other property. These expenses include the direct costs of the property and any indirect costs properly allocable to that property.

For tax years beginning after 2017, small business taxpayers, defined later, are not required to capitalize costs under section 263A. Section 263A generally doesn't apply to the following expenses.

1. Producing any plant that has a preproduction period of 2 years or less.
2. Raising animals.
3. Replanting certain crops if they were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty.

Exceptions (1) and (2) don't apply to tax shelters, farming syndicates, partnerships, or corporations required to use the accrual method of accounting under section 447 or 448(a)(3).

Special rules apply to exception (3) if replanting costs are paid or incurred by a taxpayer other than the person described in section 263A(d)(2)(C). See section 263A(d)(2)(B) and (C) for these different rules. Under section 263A(d)(2)(C), there is a temporary rule for replanting costs of citrus plants that are paid or incurred after December 22, 2017 and on or before December 22, 2027.

**Small business taxpayer.** A small business taxpayer is a taxpayer that has average annual gross receipts of \$25 million or less for the 3 prior tax years and is not a tax shelter as defined in section 448(d)(3).

If you capitalize your expenses, don't reduce your deductions on lines 10 through 32e by the capitalized expenses. Instead, enter the total amount capitalized in parentheses on line 32f (to indicate a negative amount) and enter "263A" in the space to the left of the total. See *Preproductive period expenses*, later, for details.

But you may be able to currently deduct rather than capitalize the expenses of producing a plant with a preproductive period of more than 2 years.

### **Election to deduct certain preproductive period expenses.**

If the preproductive period of any plant you produce is more than 2 years, you can elect to currently deduct the expenses rather than capitalize them. But you can't make this election for the costs of planting or growing citrus or almond groves incurred before the end of the fourth tax year beginning with the tax year you planted them in their permanent grove. You are treated as having made the election by deducting the preproductive period expenses in the first tax year for which you can make this election and by applying the special rules, discussed later.



*In the case of a partnership or S corporation, the election must be made by the partner, shareholder, or member. This election can't be made by tax shelters, farming syndicates, partnerships, or corporations required to use the accrual method of accounting under section 447 or 448(a)(3).*

Unless you obtain IRS consent, you must make this election for the first tax year in which you engage in a farming business involving the production of property subject to the capitalization rules. You can't revoke this election without IRS consent.

**Special rules.** If you make the election to deduct preproductive expenses for plants:

- Any gain you realize when disposing of the plants is ordinary income up to the amount of the preproductive expenses you deducted, and
- The alternative depreciation rules apply to property placed in service in any tax year your election is in effect.

For details, see *Uniform Capitalization Rules* in chapter 6 of Pub. 225.

**Prepaid farm supplies.** In most cases, if you use the cash method of accounting and your prepaid farm supplies are more than 50% of your other deductible farm expenses, your deduction for those supplies may be limited. Prepaid farm supplies include expenses for feed, seed, fertilizer, and similar farm supplies not used or consumed during the year.

They also include the cost of poultry that would be allowable as a deduction in a later tax year if you were to:

1. Capitalize the cost of poultry bought for use in your farming business and deduct it ratably over the lesser of 12 months or the useful life of the poultry, and
2. Deduct the cost of poultry bought for resale in the year you sell or otherwise dispose of it.

If the limit applies, you can deduct prepaid farm supplies that don't exceed 50% of your other deductible farm expenses in the year of payment. You can deduct the excess only in the year you use or consume the supplies (other than poultry, which is deductible as explained above). For details and exceptions to these rules, see chapter 4 of Pub. 225.

Whether or not this 50% limit applies, your expenses for livestock feed paid during the year but consumed in a later year may be subject to the rules explained in the line 16 instructions.

## **Line 10**

You can deduct the actual expenses of operating your car or truck or take the standard mileage rate. You must use actual expenses if you used five or more vehicles simultaneously in your farming business (such as in fleet operations). You can't use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2018 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or
- Leased the vehicle and are using the standard mileage rate for the entire lease period.

If you take the standard mileage rate:

- Multiply the number of business miles driven by 54.5 cents, and
- Add to this amount your parking fees and tolls, and enter the total on line 10.

Don't deduct depreciation, rent or lease payments, or your actual operating expenses.

If you deduct actual expenses:

- Include on line 10 the business portion of expenses for gasoline, oil, repairs, insurance, license plates, etc.; and
- Show depreciation on line 14 and rent or lease payments on line 24a.

If you claim any car or truck expenses (actual or the standard mileage rate), you must provide the information requested on Form 4562, Part V. Be sure to attach Form 4562 to your return.

For details, see chapter 4 of Pub. 463.

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## Line 12

Deductible conservation expenses generally are those that are paid to conserve soil and water for land used in farming, to prevent erosion of land used for farming, or for endangered species recovery. These expenses include (but aren't limited to) costs for the following.

- The treatment or movement of earth, such as leveling, grading, conditioning, terracing, contour furrowing, and the restoration of soil fertility.
- The construction, control, and protection of diversion channels, drainage ditches, irrigation ditches, earthen dams, watercourses, outlets, and ponds.
- The eradication of brush.
- The planting of windbreaks.
- The achievement of site-specific management actions recommended in recovery plans approved pursuant to the Endangered Species Act of 1973.

These expenses can be deducted only if they're consistent with a conservation plan approved by the Natural Resources Conservation Service of the Department of Agriculture or a recovery plan approved pursuant to the Endangered Species Act of 1973, for the area in which your land is located. If no plan exists, the expenses must be consistent with a plan of a comparable state agency. You can't deduct the expenses if they were paid or incurred for land used in farming in a foreign country.

Don't deduct expenses you paid or incurred to drain or fill wetlands, or to prepare land for center pivot irrigation systems.

Your deduction can't exceed 25% of your gross income from farming (excluding certain gains from selling assets such as farm machinery and land). If your conservation expenses are more than the limit, the excess can be carried forward and deducted in later tax years. However, the amount deductible for any 1 year can't exceed the 25% gross income limit for that year.

For details, see chapter 5 of Pub. 225.

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## Line 13

Enter amounts paid for custom hire or machine work (the machine operator furnished the equipment).

Don't include amounts paid for rental or lease of equipment you operated yourself. Instead, report those amounts on line 24a.

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## Line 14

You can deduct depreciation of buildings, improvements, cars and trucks, machinery, and other farm equipment of a permanent nature.

Don't deduct depreciation on your home, furniture or other personal items, land, livestock you bought or raised for resale, or other property in your inventory.

You also can elect under section 179 to expense a portion of the cost of certain property you bought in 2018 for use in your farming business. The section 179 election is made on Form 4562.

**Special depreciation allowance for fruit or nut trees and vines.** For certain trees and vines, bearing fruits and nuts, planted or grafted after September 27, 2017, and before January 1, 2027, you may elect to claim the special depreciation allowance at the time they were planted or grafted. See the Instructions for Form 4562 for more information.

For information about depreciation and the section 179 deduction, see Pub. 946 and chapter 7 of Pub. 225. For details on the special depreciation allowance, see chapter 3 of Pub. 946.

See the Instructions for Form 4562 for information on when you must complete and attach Form 4562.

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## Line 15

Deduct contributions to employee benefit programs that aren't an incidental part of a pension or profit-sharing plan included on line 23. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs. If you made contributions on your behalf as a self-employed person to a dependent care assistance program, complete Form 2441, Parts I and III, to figure your deductible contributions to that program.

Contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance aren't deductible on Schedule F (Form 1040). However, you may be able to deduct on Schedule 1 (Form 1040), line 29 (or on Form 1040NR, line 29), the amount you paid for health insurance on behalf of yourself, your spouse, and dependent(s) even if you don't itemize your deductions. See the instructions for Schedule 1 (Form 1040), line 29, or the Instructions for Form 1040NR, line 29, for details.

You must reduce your line 15 deduction by the amount of any credit for small employer health insurance premiums determined on Form 8941. See Form 8941 and its instructions to determine which expenses are eligible for the credit.

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## Line 16

If you use the cash method, you can't deduct when paid the cost of feed your livestock will consume in a later year unless all of the following apply.

- The payment was for the purchase of feed rather than a deposit.
- The prepayment had a business purpose and wasn't made merely to avoid tax.
- Deducting the prepayment won't materially distort your income.

If all of the above apply, you can deduct the prepaid feed when paid, subject to the overall limit for *Prepaid farm supplies*, explained earlier. If all of the above doesn't apply, you can deduct the prepaid feed only in the year it's consumed.



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## Line 18

Don't include the cost of transportation incurred in purchasing livestock held for resale as freight paid. Instead, add these costs to the cost of the livestock.

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## Line 20

Deduct on this line premiums paid for farm business insurance. Deduct on line 15 amounts paid for employee accident and health insurance. Amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability aren't deductible. For details, see chapter 6 of Pub. 535.

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## Lines 21a and 21b

**Interest allocation rules.** The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it's deducted (or capitalized) on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule F (Form 1040).

In most cases, you allocate interest expense by tracing how the proceeds of the loan are used. See chapter 4 of Pub. 535 for details.

If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in your farming business, see chapter 4 of Pub. 535 to figure the amount to include on lines 21a and 21b.

**How to report.** Before entering an amount on line 21a or 21b, see the Instructions for Form 8990, Limitation on Business Interest Expense Under Section 163(j), to identify whether you are required to limit your business interest expense or whether you can elect not to limit your business interest expense. If you are required to limit your business interest expense, include only the amount you are allowed to deduct on lines 21a and 21b. If you are not required to limit your business interest expense and if you have a mortgage on real property used in your farming business (other than your main home), enter on line 21a the interest you paid for 2018 to banks or other financial institutions for which you received a Form 1098 (or similar statement). If you didn't receive a Form 1098, enter the interest on line 21b.

If you paid more mortgage interest than is shown on Form 1098, see chapter 4 of Pub. 535 to find out if you can deduct the additional interest. If you can, include the amount on line 21a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 21a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 21b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 21b, enter "See attached."


Don't deduct interest you prepaid in 2018 for later years; include only the part that applies to 2018.

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## Line 22

Enter the amounts you paid for farm labor. Don't include amounts paid to yourself. Reduce your deduction by the amounts claimed on:

- Form 5884, Work Opportunity Credit, line 2; and
- Form 8932, Credit for Employer Differential Wage Payments, line 2.
- Form 8994, Employer Credit for Paid Family and Medical Leave.

 *At the time these instructions went to print, the empowerment zone employment credit and the Indian employment credit had expired. If these credits are extended, and you can claim them, be sure to reduce your deduction by the amount of the applicable credit. To find out if legislation extended these credits, go to [IRS.gov/ScheduleF](https://www.irs.gov/ScheduleF).*

Include the cost of boarding farm labor but not the value of any products they used from the farm. Include only what you paid household help to care for farm laborers.

 *If you provided taxable fringe benefits to your employees, such as personal use of a car, don't include in farm labor the amounts you depreciated or deducted elsewhere.*

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## Line 23

Enter your deduction for contributions to employee pension, profit-sharing, or annuity plans. If the plan included you as a self-employed person, enter contributions made as an employer on your behalf on Schedule 1 (Form 1040), line 28 (or on Form 1040NR, line 28), not on Schedule F (Form 1040).

In most cases, you must file the applicable form listed next if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement isn't affected by whether the plan qualified under the Internal Revenue Code, or whether you claim a deduction for the current tax year. There is a penalty for failure to timely file these forms.

**Form 5500-EZ.** File this form if you have a one-participant retirement plan that meets certain requirements. A one-participant plan is a plan that covers only you (or you and your spouse).

**Form 5500-SF.** File this form electronically with the Department of Labor (at [www.efast.dol.gov](https://www.efast.dol.gov)) if you have a small plan (fewer than 100 participants in most cases) that meets certain requirements.

**Form 5500.** File this form electronically with the Department of Labor (at [www.efast.dol.gov](https://www.efast.dol.gov)) for a plan that doesn't meet the requirements for filing Form 5500-EZ or Form 5500-SF.

For details, see Pub. 560.

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## Lines 24a and 24b

If you rented or leased vehicles, machinery, or equipment, enter on line 24a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may

have to reduce your deduction by an inclusion amount. See *Leasing a Car* in chapter 4 of Pub. 463 to figure this amount.

Enter on line 24b amounts paid to rent or lease other property such as pasture or farmland.

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## Line 25

Enter amounts you paid for repairs and maintenance of farm buildings, machinery, and equipment that are not payments for improvements to the property. Amounts are paid for improvements if they are for betterments to your property, restorations of your property (such as the replacements of major components or substantial structural parts), or if they adapt your property to a new or different use. See Pub. 225, Chapter 4 for more information.

Don't deduct repairs or maintenance on your home.

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## Line 29

You can deduct the following taxes on this line.

- Real estate and personal property taxes on farm business assets.
- Social security and Medicare taxes you paid to match what you are required to withhold from farm employees' wages.
- Federal unemployment tax.
- Federal highway use tax.
- Contributions to state unemployment insurance fund or disability benefit fund if they're considered taxes under state law.

Don't deduct the following taxes on this line.

- Federal income taxes, including your self-employment tax. However, you can deduct one-half of self-employment tax on Schedule 1 (Form 1040), line 27, or Form 1040NR, line 27.
- Estate and gift taxes.
- Taxes assessed for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your farming business. Instead, treat these taxes as part of the cost of the property.
- Other taxes not related to your farming business.

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## Line 30

Enter amounts you paid for gas, electricity, water, and other utilities for business use on the farm. Don't include personal utilities. You can't deduct the base rate (including taxes) of the first telephone line into your residence, even if you use it for your farming business. But you can deduct expenses you paid for your farming business that are more than the cost of the base rate for the first phone line. For example, if you had a second phone line, you can deduct the business percentage of the charges for that line, including the base rate charges.

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## Lines 32a Through 32f

Include all ordinary and necessary farm expenses not deducted elsewhere on Schedule F (Form 1040), such as advertising, office supplies, etc. Don't include fines or penalties paid to a government for violating any law.

**At-risk loss deduction.** Any loss from this activity that wasn't allowed last year because of the at-risk rules is treated as a deduction allocable to this activity in 2018.

**Bad debts.** See chapter 10 of Pub. 535.

**Business start-up costs.** If your farming business began in 2018, you can elect to deduct up to \$5,000 of certain business start-up costs. The \$5,000 limit is reduced (but not below zero) by the amount by which your start-up costs exceed \$50,000. Your remaining start-up costs can be amortized over a 180-month period, beginning with the month the farming business began. For details, see chapters 4 and 7 of Pub. 225. For amortization that begins in 2018, you must complete and attach Form 4562.

**Business use of your home.** You may be able to deduct certain expenses for business use of your home, subject to limitations. You also may be able to use a simplified method to figure your deduction. Use the appropriate worksheets in Pub. 587 to figure your allowable deduction. Don't use Form 8829.

**De minimis safe harbor for tangible property.** You may be able to elect to use a de minimis safe harbor to deduct amounts paid for certain tangible real or personal property used in your farming business. If you elect the de minimis safe harbor for the tax year, enter the total amounts you paid for property qualifying under the de minimis safe harbor on line 32. Don't include these amounts on any other line. For details, see chapter 1 of Pub. 535.

**Excess farm loss deduction.** Any loss from this activity that wasn't allowed last year because of the excess farm loss rules is treated as a deduction allocable to this activity in 2018. However, the excess farm loss rules have been replaced with excess business loss rules for tax years ending after 2017. See Form 461 and its instructions for details on the amount of excess business loss limitation.

**Forestation and reforestation costs.** Reforestation costs are generally capital expenditures. However, for each qualified timber property, you can elect to expense up to \$10,000 (\$5,000 if married filing separately) of qualifying reforestation costs paid or incurred in 2018.

You can elect to amortize the remaining costs over 84 months. For amortization that begins in 2018, you must complete and attach Form 4562.

The amortization election doesn't apply to trusts, and the expense election doesn't apply to estates and trusts. For details on reforestation expenses, see chapters 4 and 7 of Pub. 225.

**Legal and professional fees.** You can include on this line fees charged by accountants and attorneys that are ordinary and necessary expenses directly related to your farming business. Include fees for tax advice and for the preparation of tax forms related to your farming business. Also include expenses incurred in resolving asserted tax deficiencies related to your farming business.

**Tools.** You can deduct the amount you paid for tools that have a short life or cost a small amount, such as shovels and rakes.

**Travel and meals.** In most cases, you can deduct expenses for farm business travel and 50% of your business meals. But there are exceptions and limitations. See the Instructions for Schedule C (Form 1040), lines 24a and 24b.



*Entertainment expenses related to your trade or business are generally no longer deductible after 2017.*

**Preproductive period expenses.** If you had preproductive period expenses in 2018 that you are capitalizing, enter the total of these expenses in parentheses on line 32f (to indicate a negative amount) and enter "263A" in the space to the left of the total.

For details, see *Capitalizing costs of producing property and acquiring property for resale*, earlier, and *Uniform Capitalization Rules* in chapter 6 of Pub. 225.

## Line 33

If line 32f is a negative amount, subtract it from the total of lines 10 through 32e. Enter the result on line 33.

## Line 34

**Figuring your net profit or loss.** If line 33 is more than line 9, don't enter your loss on line 34 until you have applied the at-risk rules, and the passive activity loss rules. To apply these rules, follow the instructions for line 36, and the Instructions for Form 8582. After applying these rules, the amount on line 34 will be your loss, and it may be smaller than the amount figured by subtracting line 33 from line 9. You also may be required to file Form 461, which limits the allowable loss. See Form 461 and its instructions for more information.

If line 9 is more than line 33, and you don't have prior year unallowed passive activity losses, subtract line 33 from line 9. The result is your net profit.

If line 9 is more than line 33, and you have prior year unallowed passive activity losses, don't enter your net profit on line 34 until you have figured the amount of prior year unallowed passive activity losses you may claim this year for this activity. Use Form 8582 to figure the amount of prior year unallowed passive activity losses you may include on line 34. Make sure to indicate that you are including prior year passive activity losses by entering "PAL" to the left of the entry space.

If you checked the "No" box on line E, see the Instructions for Form 8582; you may need to include information from this schedule on that form, even if you have a net profit.

**Partnerships.** Subtract line 33 from line 9. If the amount is a loss, the partners may need to apply the at-risk rules, and the passive activity loss rules to determine the amount of their loss on line 34. A partner may also be required to File 461 to limit any excess business loss. See Form 461 and its instructions for more information.

**Reporting your net profit or loss.** Once you have figured your net profit or loss, report it as follows. You must also consider any excess business loss limitation. See Form 461 and its instructions for more information.

**Individuals.** Enter your net profit or loss on line 34 and on Schedule 1 (Form 1040), line 18, and Schedule SE (Form 1040), line 1a.

**Nonresident aliens.** Enter the net profit or loss on line 34 and on Form 1040NR, line 19. You also should enter this amount on Schedule SE (Form 1040), line 1a, if you are covered under the U.S. social security system due to an international social security agreement currently in effect. See the Instructions for Schedule SE (Form 1040) for information on international social security agreements.

**Partnerships.** Enter the net profit or loss on line 34 and on Form 1065, line 5. The excess business loss rules are applied at the partner level.

**Trusts and estates.** Enter the net profit or loss on line 34 and on Form 1041, line 6.

**Community income.** If you and your spouse had community income and are filing separate returns, see the Instructions for Schedule SE (Form 1040) before figuring self-employment tax.

**Earned income credit.** If you have a net profit on line 34, this amount is earned income and may qualify you for the earned income credit if you meet certain conditions. See the Instructions for Form 1040, line 17, for details.

**Conservation Reserve Program (CRP) payments.** If you received social security retirement or disability benefits in addition to CRP payments, the CRP payments aren't subject to self-employment tax. You will deduct these payments from your net farm profit or loss on Schedule SE (Form 1040), line 1b. Don't make any adjustment on Schedule F (Form 1040).

## Line 35

**Reserved for future use.** Effective for tax years beginning after 2017, and before January 1, 2026, the Tax Law and Jobs Act of 2017 limits excess business losses of a taxpayer other than a corporation after application of passive loss rules. Effective for the same tax years, the Act also suspends the limitation relating to excess farm losses.

**Excess business loss limitation.** Noncorporate taxpayers may be subject to excess business loss limitations. The at-risk limits and the passive activity limits are applied before calculating the amount of any excess business loss. An excess business loss is the amount by which the total deductions attributable to all of your trades or businesses exceed your total gross income and gains attributable to those trades or businesses plus \$250,000 (or \$500,000 in the case of a joint return). A "trade or business" includes, but is not limited to, Schedule F and Schedule C activities, the activity of being an employee, an activity reported on Form 4835, and other business activities reported on Schedule E. Business gains and losses reported on Form 4797 and Form 8949 are included in the excess business loss calculation. This includes farming losses from casualty losses or losses by reason of disease or drought. Excess business losses that are disallowed are treated as a net operating loss carry-over to the following tax year. See Form 461 and instructions for details.

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## Line 36



You don't need to complete line 36 if line 9 is more than line 33.

**At-risk rules.** In most cases, if you have a loss from a farming activity and amounts invested in the activity for which you aren't at risk, you must complete Form 6198 to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity.

Check box 36b if you have amounts invested in this activity for which you aren't at risk, such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire the activity that aren't secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (other than you) having such an interest.

**Figuring your loss.** Before determining your loss on line 34, you must check box 36a or 36b to determine if your loss from farming is limited by the at-risk rules. Follow the instructions below that apply to your box 36 activity.

**All investment is at risk.** If all your investment amounts are at risk in this activity, check box 36a. If you also checked the "Yes" box on line E, your remaining loss is your loss. The at-risk rules and the passive activity loss rules don't apply. See *Line 34*, earlier, for how to report your loss.

But if you checked the "No" box on line E, you may need to complete Form 8582 to figure your loss to enter on line 34. See the Instructions for Form 8582.

**Some investment isn't at risk.** If some investment isn't at risk, check box 36b; the at-risk rules apply to your loss. Be sure to attach Form 6198 to your return.

If you also checked the "Yes" box on line E, complete Form 6198 to determine the amount of your loss. The passive activity loss rules don't apply. See *Line 34*, earlier, for how to report your loss.

But if you checked the "No" box on line E, the passive activity loss rules may apply. First complete Form 6198 to figure the amount of your profit or loss for the at-risk activity, which may include amounts reported on other forms and schedules, and the at-risk amount for the activity. Follow the Instructions for Form 6198 to determine how much of your Schedule F loss to enter on line 34. After you figure the amount of your loss under the at-risk rules, you may need to complete Form 8582 to figure the amount of loss to enter on line 34. See the Instructions for Form 8582 for details.



If you checked box 36b because some investment isn't at risk and you don't attach Form 6198, the processing of your return may be delayed.

**At-risk loss deduction.** Any loss from this activity not allowed for 2018 only because of the at-risk rules is treated as a deduction allocable to the activity in 2019.

**More information.** For details, see Pub. 925 and the Instructions for Form 6198. Also, see Form 461 and its instructions.

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## Part III. Farm Income—Accrual Method

You may be required to use the accrual accounting method. If you use the accrual method, report farm income when you earn it, not when you receive it. In most cases, you must include animals and crops in your inventory if you use this method. See Pub. 225 for exceptions, inventory methods, how to change methods of accounting, and rules that require certain costs to be capitalized or included in inventory. For information about accounting periods, see Pub. 538, Accounting Periods and Methods.

**Chapter 11 bankruptcy.** If you were a debtor in a chapter 11 bankruptcy case during 2018, see *Chapter 11 Bankruptcy Cases* in the Instructions for Form 1040 (under *Income*) and the Instructions for Schedule SE (Form 1040).

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### Lines 38a Through 40c

See the [instructions for lines 3a through 5c](#), earlier.

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### Line 43

See [Line 8](#), earlier.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You aren't required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is approved under OMB control number 1545-1975 and is shown next.

**Estimated Burden is:**

Recordkeeping . . . . .	11 hr., 16 min.
Learning about the law or the form. . . . .	2 hr., 33 min.
Preparing and sending the form to the IRS . . . . .	5 hr., 10 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

**DRAFT AS OF  
December 11, 2018**