

SCHEDULE OF FARM INCOME AND EXPENSES

Attach This Form to Your Income Tax Return Form 1040 and File It With the Collector of Internal Revenue for Your District

For Calendar Year 1926

Or for year begun _____, 1925, and ended _____, 1926

Name _____

Address _____

Fill in Pages 1 and 3 if Your Accounts Are Kept on a Cash Basis. If you Keep Books on an Accrual Basis and Desire to Use This Form, Fill in Pages 2 and 3 instead

FARM INCOME FOR TAXABLE PERIOD

1. SALE OF LIVE STOCK AND PRODUCE RAISED			2. SALE OF CROPS AND OTHER PRODUCE RAISED			3. OTHER RECEIPTS		
Kind of animals	Quantity	Amount	Kind of crop	Quantity	Amount	Items	Amount	
Cows		\$	Corn		\$	Merchandise rec'd for produce	\$	
Calves			Wheat			Machine work		
Bulls			Cotton			Hire of teams		
Steers			Tobacco			Breeding fees		
Horses								
Mules								
Colts								
Sheep								
Lambs								
Hogs								
Pigs			Cottonseed					
Chickens			Sirup					
Turkeys								
Ducks								
Bees								
Milk			TOTAL		\$	TOTAL	\$	
Butter					(Enter on line 2)		(Enter on line 3)	
Cream								
			4. SALE OF LIVE STOCK, CROPS, OR OTHER ITEMS PURCHASED					
Eggs			Description		Received	Cost	Profit	
Wool					\$	\$	\$	
Hides								
Honey								
TOTAL		\$					\$	
		(Enter on line 1)	TOTAL				(Enter on line 4)	

SUMMARY OF INCOME AND EXPENSES COMPUTED ON A CASH RECEIPT AND DISBURSEMENT BASIS

1. Sale of live stock and produce raised	\$	7. Expenses (column 1, page 3)	\$
2. Sale of crops and other produce raised		8. Expenses (column 2, page 3)	
3. Other receipts		9. Repairs (from page 3)	
4. Sale of live stock, or other items purchased		10. Depreciation (from page 3)	
5. GROSS PROFITS	\$	11. TOTAL EXPENSES	\$
6. Net farm profit (Line 5 minus Line 11) to be reported in Item 2 on Form 1040	\$		

FARM INVENTORY FOR INCOME COMPUTED ON AN ACCRUAL BASIS

DESCRIPTION (Kind of animals, crops, or other products)	ON HAND AT BEGINNING OF YEAR		PURCHASED DURING YEAR		RAISED DURING YEAR		CONSUMED OR LOST DURING YEAR		SOLD DURING YEAR		ON HAND AT END OF YEAR	
	Quan- tity	Inventory value	Quan- tity	Amount paid	Quan- tity	Inventory value	Quan- tity	Inventory value	Quan- tity	Amount received	Quan- tity	Inventory value
		\$		\$		\$		\$		\$		\$
TOTALS		\$		\$		\$		\$		\$		\$

SUMMARY OF INCOME AND EXPENSES COMPUTED ON AN ACCRUAL BASIS

1. Inventory of live stock, crops, and products at end of year	\$		7. Expenses (column 1, page 3)	\$	
2. Sales of live stock, crops, and products during year			8. Expenses (column 2, page 3)		
2a. Other miscellaneous receipts			9. Repairs (from page 3)		
3. TOTAL	\$		10. Depreciation (from page 3)		
4. Inventory of live stock, crops, and products at beginning of year	\$				
5. Cost of live stock and products purchased during year	\$				
6. Gross profits (Item 3 minus the sum of Items 4 and 5)	\$		11. TOTAL EXPENSES	\$	
12. Net farm profit (Line 6 minus Line 11) to be reported in Item 2 on Form 1040	\$				

ITEMS		(1) AMOUNT	ITEMS		(2) AMOUNT
Hired help for farm.....		\$.....			\$.....
Feed, hay, straw, etc.....					
Seed, plants, etc.....					
Threshing and baling.....					
Cotton ginning.....					
Silo filling.....					
Milling and grinding feed.....					
Fertilizers and spraying materials.....					
Blacksmithing.....					
Fuel and oil for farm work.....					
Barrels, bags, crates, and twine.....					
Taxes (except Federal income taxes).....					
Insurance on property other than your dwelling and personal effects.....					
Interest on farm notes and mortgages.....					
Water rent.....					
Rent for farm.....					
TOTAL.....		\$.....	TOTAL.....		\$.....

(Enter on line 7) (Enter on line 8)

REPAIRS AND DEPRECIATION

DESCRIPTION (If buildings, state the material of which constructed)	AGE WHEN ACQUIRED	DATE ACQUIRED OR CONSTRUCTED	COST		VALUE AS OF MARCH 1, 1913		REPAIRS		DEPRECIATION	
			\$		\$		\$		\$	
Farm buildings.....			\$.....		\$.....		\$.....		\$.....	
Farm machinery and tools.....										
Farm fences, drains, ditches, etc.....										
TOTALS.....			\$.....		\$.....		\$.....		\$.....	

(Enter on line 9) (Enter on line 10)

REMARKS:
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METHOD OF ACCOUNTING

Farmers may compute their income either on the cash receipts and disbursements basis, or the accrual basis, but whichever method is adopted must be followed until the consent of the Commissioner is received to compute the income upon a new basis.

CASH RECEIPTS AND DISBURSEMENTS BASIS

A farmer reporting on the basis of cash receipts and disbursements shall include in his gross income for the taxable year the amount of cash or the value of merchandise or other property received from the sale of live stock and produce which were raised during the taxable year or prior years, also the profits from the sale of any stock or other items which were purchased. The farm expenses will be the actual amounts paid out during the taxable year. But see Article 38 of Regulations 69.

ACCRUAL BASIS

If your farm books of account are kept on an accrual basis, the filing of this form is optional.

For those reporting on the accrual basis, the gross profits are obtained by adding to the inventory value of live stock and products on hand at the end of the year the amount received from the sale of stock and products, and other miscellaneous receipts for hire of teams, machinery, etc., during the year, and deducting from this sum the inventory value of stock and products on hand at the beginning of the year plus the cost of stock and produce purchased during the year. The farm expenses will be the actual expenses incurred during the year, whether paid or not.

Inventories of live stock raisers and other farmers.—Farmers may change the basis of their returns from that of receipts and disbursements to that of an inventory basis provided adjustments are made in accordance with one of the two methods outlined in (1) and (2) below. It is optional with the taxpayer which method is used, but, having elected one method the option so exercised will be binding upon the taxpayer, and he will be precluded from filing amended returns upon the basis of the other method.

(1) Opening and closing inventories shall be used for the year in which the change is made. There should be included in the opening inventory all farm products (including live stock) purchased or raised which were on hand at the date of the inventory, and there must be submitted with the return for the current taxable year an adjustment sheet for the preceding taxable year based on the inventory method, upon the amount of which adjustment the tax shall be assessed and paid (if any be due) at the rate of tax in effect for that year. Ordinarily an adjustment sheet for the preceding year will be sufficient, but if, in the opinion of the Commissioner, such adjustment is not sufficient clearly to reflect income, adjustments for earlier years may be accepted or required. Where it is impossible to render complete inventories for the preceding year or years, the Commissioner will accept estimates which, in his opinion, substantially reflect the income on the inventory basis for such preceding year or years; but inventories must not include real estate, buildings, permanent improvements, or any other assets subject to depreciation.

(2) No adjustment sheets will be required, but the net income for the taxable year in which the change is made must be computed without deducting from the sum of the closing inventory and the sales and other receipts, the inventory of live stock, crops, and products at the beginning of the year; provided, however—

(a) That if any live stock, grain, or other property on hand at the beginning of the taxable year has been purchased and the cost thereof not charged to expense, only the difference between the cost and the selling price should be reported as income for the year in which sold;

(b) But if the cost of such property has been charged to expense for a previous year, the entire amount received must be reported as income for the year in which sold.

Because of the difficulty of ascertaining actual cost of live stock and other farm products, farmers who render their returns upon an inventory basis may at their option value their inventories for the current taxable year according to the "farm-price method," which provides for the valuation of inventories at market price less cost of marketing. If the use of the "farm-price method" of valuing inventories for any taxable year involves a change in method of valuing inventories from that employed in prior years, the opening inventory for the taxable year in which the change is made should be brought in at the same value as the closing inventory for the preceding taxable year. If such valuation of the opening inventory for the taxable year in which the change is made results in an abnormally large income for that year, there may be submitted with the return for such taxable year an adjustment statement for the preceding year based on the "farm-price method" of valuing inventories, upon the amount of which adjustments the tax, if any be due, shall be assessed and paid at the rate of tax in effect for such preceding year. If an adjustment for the preceding year is not, in the opinion of the Commissioner, sufficient clearly to reflect income, adjustment sheets for prior years may be accepted or required.

Where returns have been made in which the taxable net income has been computed upon incomplete inventories, the abnormality should be corrected by submitting with the return for the current taxable year a statement for the preceding year in which such adjustments shall be made as are necessary to bring the closing inventory for the preceding year into agreement with the opening complete inventory for the current taxable year. If necessary clearly to reflect income, similar adjustments may be made as at the beginning of the preceding year or years, and the tax, if any be due, shall be assessed at the rate of tax in effect for such year or years.

INCOME

All the farm income from whatever source must be reported in this schedule. Anything of value received instead of cash must be treated as income to the extent of its market value. Thus, the market value of groceries, merchandise, or the like, received in exchange for butter, eggs, or other farm produce must be reported as income.

Hail and fire insurance on growing crops should be included in gross income to the amount received in cash or the equivalent for the crop injured or destroyed.

If you sold your farm or any part of it, fill in Schedule C or Schedule D on Form 1040 in accordance with the instructions thereon.

The value of farm produce which is consumed by the farmer and his family need not be reported as income; but expenses incurred in raising produce thus consumed must not be claimed as deductions.

The term "farm" embraces the farm in the ordinarily accepted sense, and includes stock, dairy, poultry, fruit, and truck farms, also plantations, ranches, and all land used for farming operations. All individuals, partnerships, or corporations that cultivate, operate, or manage farms for gain or profit, either as owners or tenants, are designated farmers. A person cultivating or operating a farm for recreation or pleasure, the result of which is a continual loss from year to year, is not regarded as a farmer.

EXPENSES AND OTHER DEDUCTIONS

Labor.—Only that part of the board which is purchased for hired labor should be included as a deduction. The value of products furnished by the farm and used in the board of hired labor is not a deductible expense. Rations purchased and furnished to laborers or share croppers are deductible as a part of the labor expense. Do not deduct the value of your own labor or that of your wife or dependent minor children, unless the amount deducted is reported as income in Item 1 on Form 1040. Do not deduct amounts paid to persons engaged in household work, except to the extent that the services of such employees are used in boarding and otherwise caring for farm laborers. Services of such employees engaged in caring for the farmer's own household are not a deductible expense.

Fertilizers, manures, etc.—The cost of manures, and commercial fertilizers, purchased during the year may be deducted as an expense.

Taxes.—State and local taxes are deductible. Do not deduct Federal income taxes, nor taxes assessed for any improvement or betterment tending to increase the value of the property assessed. Be ready to show tax receipts for taxes claimed as a deduction. Taxes on your dwelling or household property should be reported in Item 12, on Form 1040. (See Articles 131 to 135, of Regulations 69.)

Interest on indebtedness.—Any interest paid on farm mortgages, notes, and other obligations incurred to carry on the farm business may be deducted.

Bad debts.—Report only debts, or portions thereof, arising from sales that have been reported as income, which have been definitely proved within the year to be worthless, or such reasonable amount as has been added to a reserve for bad debts within the year. If you report your farm income on a cash basis, bad debts arising from sales are not an allowable deduction.

Repairs and depreciation.—The amount claimed on account of depreciation should not exceed the original cost (not replacement cost) of the property, or if acquired prior to March 1, 1913, the cost or value as of that date, divided by the probable number of years remaining of its useful life. In computing depreciation do not include the value of farm land nor the land on which farm buildings are located. Do not deduct repairs or depreciation on the dwelling you occupy or on your personal or household equipment. Do not claim as a separate item depreciation on live stock or any other property included in your inventory, as such depreciation is taken care of in the reduced amount of the inventory at the close of the year. Depreciation, however, may be claimed on draft or work animals and animals held for breeding purposes which were purchased and which are not included in your inventory of stock bought or raised for sale.

Losses.—You may deduct in Item 13, on Form 1040, losses of buildings, machinery, and other property not included in your inventory, resulting from fires, storms, or other casualty and not compensated for by insurance or otherwise. Losses of property included in your inventory are taken care of by the reduced amount of the inventory at the close of the year. The total loss of a prospective crop by frost, storm, flood, or fire, or the loss of animals that perish from those raised, is not deductible.

Tools, machinery, and equipment.—The cost of small tools of short life, such as shovels, rakes, etc., may be deducted as an expense. You may deduct expenses of operation, repairs, and depreciation on automobiles used exclusively in farm business. If an automobile is used in farm business for a part of the time only, a corresponding part of the expense may be deducted. Amounts expended for automobiles, farm machinery, farm buildings, or other farm equipment of a permanent nature are not deductible as expenses, as such expenditures are regarded as investment of capital which is returned to the owner through depreciation allowances prorated over the useful life of the property.

Rent paid in crops.—Where a tenant farmer pays his rent to the landlord in form of crops raised on the farm (the agreement being on a crop-share basis), the tenant can not deduct as rent the value of the crop given to the landlord, but he may deduct all amounts paid by him in raising the crop.