

Instructions for Schedule F, Profit or Loss From Farming

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

This 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 samples of filled-in forms and schedules, and lists important dates that apply to farmers.

General Instructions

A Change To Note

Effective for sales after 1996, the Taxpayer Relief Act of 1997 expanded the rule that allows farmers on the cash method to defer income from sales of livestock due to a drought to cover other weather-related conditions (such as a flood). For more details, see page F-2.

Other Schedules and Forms You May Have To File

Schedule E to report rental income from pastureland that is based on a flat charge. Report this income in Part I of Schedule E. But report on line 10 of Schedule F pasture income received from taking care of someone else's livestock.

Schedule SE to pay self-employment tax on income from any trade or business.

Form 4562 to claim depreciation on assets placed in service in 1997, to claim amortization that began in 1997, 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 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 farm production or crop shares if you did not materially participate (for self-employment tax purposes) in the management or operation of the farm. This income is not subject to self-employment tax. See Pub. 225.

Form 8824 to report like-kind exchanges.

Heavy Vehicle Use Tax

If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. See **Form 2290** to find out if you owe this tax.

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, annuities, and

pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For more information, see the **Instructions for Forms 1099, 1098, 5498, and W-2G**.

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**.

Estimated Tax

If you had to make estimated tax payments in 1997 and you underpaid your estimated tax, you will not be charged a penalty if **both** of the following apply.

1. Your gross farming or fishing income for 1996 or 1997 is at least two-thirds of your gross income.

2. You file your 1997 tax return and pay the tax due by March 2, 1998.

For more details, see Pub. 225.

Specific Instructions

Filers of Forms 1041 and 1065

Do not complete the block labeled "Social security number (SSN)." Instead, enter your employer identification number (EIN) on line D.

Lines A and B

On line A, enter your principal crop or activity for the current year.

On line B, enter one of the 15 principal agricultural activity codes listed in Part IV on page 2 of Schedule F. Select the code that best describes the source of most of your income. **Field crop** includes the production of grains such as wheat, rice, feed corn, soybeans, barley, rye, and lentils; and nongrains such as cotton, tobacco, sugar, and Irish potatoes.

Line C

Under the **cash method**, include all income in the year you actually get it. Generally, deduct expenses when you pay them. If you use the cash method, check the box labeled "Cash." Complete Parts I and II of Schedule F.

Under the **accrual method**, include income in the year you earn it. It does not matter when you get it. Deduct expenses when you incur them. If you use the accrual method, check the box labeled "Accrual."

Complete Parts II, III, and line 11 of Schedule F.

Other rules apply that determine the timing of deductions based on economic performance. See **Pub. 538** for details.

Farming syndicates cannot use the cash method of accounting. A farming syndicate may be a partnership, any other noncorporate group, or an S corporation if:

1. The interests in the business have ever been for sale in a way that would require registration with any Federal or state agency, or

2. More than 35% of the loss during any tax year is shared by 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 does not take any active part in managing the business.

Line D

You need an employer identification number (EIN) only if you had a Keogh plan or were required to file an employment, excise, estate, trust, partnership, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**.

If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

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, on page C-1.

If you meet any of the material participation tests described in the line G instructions for Schedule C, 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 of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if the real property used for farming meets the estate tax rules for special valuation of farm property passed from a qualifying decedent, and the surviving spouse actively manages the farm.

Check the "No" box if you did not materially participate. If you checked "No" and you have a loss from this business, see **Limit on Losses** on page F-2. 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 Losses. If you checked the "No" box on line E 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, line 36. Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

For more details, see **Pub. 925**.

Part I. Farm Income—Cash Method

In Part I, show income received for items listed on lines 1 through 10. Count 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 is credited to your account or set aside for you to use.

If you ran the farm yourself and received rents based on farm production or crop shares, report these rents as income on line 4.

Sales of Livestock Because of Weather-Related Conditions

If you sold livestock because of a 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.

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. Include the Form 1099 or CCC-1099-G amounts with any other income reported on that line.

Information return	Where to report
Form 1099-PATR	Line 5a
Form 1099-A	Line 7b
Form 1099-MISC (for crop insurance)	Line 8a
Forms 1099-G or CCC-1099-G (for disaster payments)	Line 8a
Forms 1099-G or CCC-1099-G (for other agricultural program payments)	Line 6a

You may also 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 received a Form 1099-MISC for custom farming work, include this amount on line 9, "Custom hire (machine work) income."

Lines 1 and 2

On line 1, show amounts received from sales of livestock and other items bought for resale. On line 2, show the cost or other basis of the livestock and other items you actually sold.

Line 4

Show amounts received from sales of livestock, produce, grains, and other products you raised.

Lines 5a and 5b

If you received distributions from a cooperative in 1997, you should receive **Form 1099-PATR**. On line 5a, show your total distributions from cooperatives. This includes patronage dividends, nonpatronage distributions, per-unit retain allocations, and redemption of nonqualified notices and per-unit retain allocations.

Show patronage dividends (distributions) 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 certificate.

Do not include as income on line 5b patronage dividends from buying personal or family items, capital assets, or depreciable assets. Enter these amounts on line 5a only. If you do not 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 6a and 6b

Enter on line 6a the TOTAL of the following amounts. These are government payments you received, usually reported to you on **Form 1099-G**. You may also receive Form CCC-1099-G from the Department of Agriculture showing the amounts and types of payments made to you.

- Price support 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).

On line 6b, report only the taxable amount. For example, do not report the market gain shown on Form CCC-1099-G on line 6b if you elected to report CCC loan proceeds as

income in the year received (see lines 7a through 7c below). 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 did not report the CCC loan proceeds under the election, you must report the market gain on line 6b.

Lines 7a Through 7c

Commodity Credit Corporation Loans. Generally, you do not report CCC loan proceeds as income. However, if you pledge part or all of your production to secure a CCC loan, you may elect to report the loan proceeds as income in the year you receive them, instead of the year you sell the crop. If you make this election (or made the election in a prior year), report loan proceeds you received in 1997 on line 7a. Attach a statement to your return showing the details of the loan(s).

Forfeited CCC Loans. Include the full amount forfeited on line 7b, even if you reported the loan proceeds as income.

If you **did not** elect to report the loan proceeds as income, also include the forfeited amount on line 7c.

If you did elect to report the loan proceeds as income, you generally will not have an entry on line 7c. But if the amount forfeited is different from your basis in the commodity, you may have an entry on line 7c.

For more information on the tax consequences of electing to report CCC loan proceeds as income or forfeiting CCC loans, see **Pub. 225**.

Lines 8a Through 8d

In general, you must report crop insurance proceeds in the year you receive them. Federal crop disaster payments are treated as crop insurance proceeds. However, if 1997 was the year of damage, you may elect to include certain proceeds in income for 1998. To make this election, check the box on line 8c and attach a statement to your return. See **Pub. 225** for a description of the proceeds for which an election may be made and for what you must include in your statement.

Generally, if you elect to defer any eligible crop insurance proceeds, you must defer all such crop insurance proceeds (including Federal disaster payments).

Enter on line 8a the TOTAL crop insurance proceeds you received in 1997, even if you elect to include them in income for 1998.

Enter on line 8b the taxable amount of the proceeds you received in 1997. Do not include proceeds you elect to include in income for 1998.

Enter on line 8d the amount, if any, of crop insurance proceeds you received in 1996 and elected to include in income for 1997.

Line 9

Enter on this line the income you received for custom hire (machine work).

Line 10

Use this line to report income not shown on lines 1 through 9. For example, include the following income items on line 10:

- Illegal Federal irrigation subsidies. See Pub. 225.
- Bartering income.
- Income from discharge of indebtedness. Generally, 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 February 2, 1998, showing the amount of debt canceled in 1997. However, certain solvent farmers may exclude from income discharged qualified farm indebtedness. For information on whether you must include in income any discharge of indebtedness, see Pub. 225.
- State gasoline or fuel tax refund you got in 1997.
- The amount of credit for Federal tax paid on fuels claimed on your 1996 Form 1040.
- The amount of credit for alcohol used as a fuel that was entered on **Form 6478**.
- Any recapture of excess depreciation, including any section 179 expense deduction, if the business use percentage of any listed property decreased to 50% or less in 1997. Use **Form 4797** to figure the recapture. See the instructions for Schedule C (Form 1040), line 13, on page C-3 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 **Pub. 946** to figure the amount.
- Any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For details on how to figure recapture, see **Pub. 535**.
- 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 it in parentheses.

Caution: 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 that is being hedged.

Purchase or sales contracts are not 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, do not report the profit or loss on this line. Report it on **Form 6781**.

Part II. Farm Expenses

Do not deduct:

- Personal or living expenses (such as taxes, insurance, or repairs on your home) that do not 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, you must subtract the amount you were repaid from the deduction.

Capitalizing Costs of Property. If you produced real or tangible personal property or acquired property for resale, certain expenses must be included in inventory costs or capitalized. These expenses include the direct costs of the property and the share of any indirect costs allocable to that property. However, these rules generally do not apply to:

1. Expenses of raising animals,
2. Expenses of producing any plant that has a preproductive period of 2 years or less, or
3. Expenses of replanting certain crops if they were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty.

Note: *Exceptions 1 and 2 above do not apply to tax shelters, farm syndicates, or partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.*

But you may be able to deduct rather than capitalize the expenses of producing a plant with a preproductive period of more than 2 years. See **Election To Deduct Certain Preproductive Period Expenses** below.

Do not reduce your deductions on lines 12 through 34e by the preproductive period expenses you are required to capitalize. Instead, enter the total amount capitalized in parentheses on line 34f. See **Preproductive Period Expenses** on page F-5 for more details.

If you revoked an election made before 1989 to deduct preproductive period expenses for animals, you must continue to apply the alternative depreciation rules to property placed in service while your election was in effect. Also, the expenses you previously chose to deduct will have to be recaptured as ordinary income when you dispose of the animals.

Election To Deduct Certain Preproductive Period Expenses. If the preproductive period of any plant you produce is more than 2 years, you may choose to currently deduct the expenses rather than capitalize them. But you may not make this election for the costs of planting or growing citrus or almond groves that are incurred before the end of the 4th tax year beginning with the tax year you planted them in their permanent grove. By deducting the preproductive period expenses for which you may make this election, you are treated as having made the election.

Note: *In the case of a partnership or S corporation, the election must be made by the partner or shareholder. This election may not be made by tax shelters, farm syndicates, or partners in partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.*

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. Also, the alternative depreciation rules apply to property placed in service in any tax year your election is in effect. Unless you obtain the consent of the IRS, 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 may not revoke this election without the consent of the IRS.

For more information, see Pub. 225.

Prepaid Farm Supplies. Generally, 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 (a) capitalize the cost of poultry bought for use in your farm business and deduct it ratably over the lesser of 12 months or the useful life of the poultry and (b) 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 do not 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 exceptions and more details on these rules, see Pub. 225.

Line 12

You can deduct the actual expenses of running your car or truck, or take the standard mileage rate. You **must** use actual expenses if you did not own the vehicle or if you used more than one vehicle simultaneously in your business (such as in fleet operations).

If you deduct actual expenses, include on line 12 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc. Show depreciation on line 16 and rent or lease payments on line 26a.

If you choose to take the standard mileage rate, you **cannot** deduct depreciation or your actual operating expenses. To take the standard mileage rate, multiply the number of business miles by 31.5 cents a mile. Add to this amount your parking fees and tolls, and enter the total on line 12.

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

For more details, get **Pub. 463**.

Line 14

Deductible soil and water conservation expenses generally are those that are paid to conserve soil and water or to prevent erosion of land used for farming. These expenses include (but are not limited to) the cost of leveling, grading and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets and ponds, the eradication of brush, and the planting of windbreaks.

These expenses can be deducted only if they are consistent with a conservation plan approved by the Natural Resources Conservation Service (NRCS) of the Department of Agriculture 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 cannot deduct the expenses if they were paid or incurred for land used in farming in a foreign country.

Do not deduct expenses you pay or incur to drain or fill wetlands, to prepare land for center pivot irrigation systems, or to clear land.

The amount you deduct may not 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 may be carried forward and deducted in later tax years. However, the amount deductible for any 1 year may not exceed the 25% gross income limit for that year.

For more details, see Pub. 225.

Line 15

Enter amounts paid for custom hire or machine work (the machine operator furnished the equipment). Do not include amounts paid for rental or lease of equipment that you operated yourself. You should report those amounts on line 26a.

Line 16

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

Do not 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 may also choose under Internal Revenue Code section 179 to expense a portion of the cost of certain tangible property you bought in 1997 for use in your business.

For more details, including when you must complete and attach Form 4562, see the instructions for Schedule C (Form 1040), line 13, on page C-3.

Line 17

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 25. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 17 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 27, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents even if you do not itemize your deductions. See page 17 of the Form 1040 instructions for more details.

Line 18

Generally, you cannot currently deduct expenses for feed to be consumed by your livestock in a later tax year. See **Prepaid Farm Supplies** on page F-3.

Line 20

Do not 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, and deduct them when the livestock is sold.

Line 22

Deduct on this line premiums paid for farm business insurance. Deduct on line 17 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 are not deductible.

Lines 23a and 23b

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 is deducted on the correct line of your return and gets the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule F.

Generally, you allocate interest expense by tracing how the proceeds of the loan are used. See 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 Pub. 535 to figure the amount that is deductible on Schedule F.

If you have a mortgage on real property used in your farming business (other than your main home), enter on line 23a the interest you paid for 1997 to banks or other financial institutions for which you received a **Form 1098**.

If you did not receive a Form 1098 from the recipient, report your mortgage interest on line 23b.

If you paid more mortgage interest than is shown on Form 1098 or similar statement, see Pub. 535 to find out if you can deduct the additional interest. If you can, enter the amount on line 23a. Attach a statement to your return explaining the difference and write "See attached" in the left margin next to line 23a.

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 mort-

gage and the other person received the Form 1098, report your share of the interest on line 23b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the left margin next to line 23b, write "See attached."

On line 23b, enter the interest on other loans related to this farm. Do not deduct interest you prepaid in 1997 for later years; include only the part that applies to 1997.

Line 24

Enter the amounts you paid for farm labor. Do not include amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Work Opportunity Credit.
- **Form 8844**, Empowerment Zone Employment Credit.
- **Form 8845**, Indian Employment Credit.

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

Caution: If you provided taxable fringe benefits to your employees, such as personal use of a car, do not include in farm labor the amounts you depreciated or deducted elsewhere.

Line 25

Enter your deduction for contributions to employee pension, profit-sharing, or annuity plans. If the plan included you as a self-employed person, see the instructions for Schedule C (Form 1040), line 19, on page C-3.

Lines 26a and 26b

If you rented or leased vehicles, machinery, or equipment, enter on line 26a 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**. For details, see the instructions for Schedule C (Form 1040), line 20a, on page C-4.

Enter on line 26b amounts paid to rent or lease other property such as pasture or farm land.

Line 27

Enter amounts you paid for repairs and maintenance of farm buildings, machinery, and equipment. You can also include what you paid for tools of short life or minimal cost, such as shovels and rakes.

Do not deduct repairs or maintenance on your home.

Line 31

You may 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 and any Federal unemployment tax paid.
- Federal highway use tax.

Do not deduct on this line:

- Federal income taxes including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 26.
- 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 farm business. Instead, treat these taxes as part of the cost of the property.
- Other taxes not related to the farm business.

Line 32

Enter amounts you paid for gas, electricity, water, etc., for business use on the farm. Do not include personal utilities.

You cannot deduct the base rate (including taxes) of the first telephone line into your residence, even if you use it for business. See the instructions for Schedule C (Form 1040), line 25, on page C-4.

Lines 34a Through 34f

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

Amortization. You can amortize qualifying forestation and reforestation costs over an 84-month period. You can also amortize certain business startup costs over a period of at least 60 months. For more details, see Pub. 535. For amortization that begins in 1997, you must complete and attach Form 4562.

At-Risk Loss Deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 1997.

Bad Debts. See the instructions for Schedule C (Form 1040), line 9, on page C-3.

Business Use of Your Home. You may be able to deduct certain expenses for business use of your home, subject to limitations. Use the worksheet in **Pub. 587** to figure your allowable deduction. **Do not** use **Form 8829**.

Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property. You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See Pub. 535 for more details.

Legal and Professional Fees. You can deduct on this line fees for tax advice related to your farm business and for preparation of the tax forms related to your farm business.

Travel, Meals, and Entertainment. Generally, you can deduct expenses for farm business travel and 50% of your business meals and entertainment. But there are exceptions and limitations. See the instructions for Schedule C (Form 1040), lines 24a through 24c, on page C-4.

Preproductive Period Expenses. Enter in parentheses on line 34f, preproductive period expenses that are capitalized. If you had preproductive period expenses in 1997

and you decided to capitalize these expenses, you **MUST** enter the total of these expenses in parentheses on line 34f and write "263A" in the space to the left of the total.

If you entered an amount in parentheses on line 34f because you have preproductive period expenses you are capitalizing, subtract the amount on line 34f from the total of lines 12 through 34e. Enter the result on line 35.

For more information, see **Capitalizing Costs of Property** on page F-3 and Pub. 225.

Line 36

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to line 37 before entering your loss on line 36. If you answered "No" to Question E on Schedule F, also see the Instructions for Form 8582. Enter the net profit or **deductible** loss here and on Form 1040, line 18, and Schedule SE, line 1. Estates and trusts should enter the net profit or deductible loss here and on Form 1041, line 6. Partnerships should stop here and enter the profit or loss on this line and on Form 1065, line 5.

If you have a net profit on line 36, 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, lines 56a and 56b, on page 21 for more details.

Line 37

At-Risk Rules. Generally, if you have **(a)** a loss from a farming activity and **(b)** amounts in the activity for which you are **not at risk**, you will have to 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 37b** if you have amounts for which you are not at risk in this activity, such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire the activity that are not 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 Internal Revenue Code section 465(b)(3) to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 37a** and enter your loss on line 36. But if you answered "No" to Question E, you may need to complete Form 8582 to figure your allowable loss to enter on line 36.

See the Instructions for Form 8582 for more details.

If you checked **box 37b**, get Form 6198 to determine the amount of your deductible loss and enter that amount on line 36. But if you answered "No" to Question E, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 36. Be sure to attach Form 6198 to your return. If you checked box 37b and you fail to attach Form 6198, the processing of your tax return may be delayed.

Any loss from this activity not allowed for 1997 because of the at-risk rules is treated as a deduction allocable to the activity in 1998.

For more details, see Pub. 925. Also, see the Instructions for Form 6198.

Part III. Farm Income—Accrual Method

If you use the accrual method, report farm income when you earn it, not when you receive it. Generally, you must include animals and crops in your inventory if you use this method. See Pub. 538 for exceptions, inventory methods, how to change methods of accounting, and for rules that require certain costs to be capitalized or included in inventory.

Line 38

Enter the amount earned from the sale of livestock, produce, grains, and other products you raised.

Lines 39a Through 41c

See the instructions for lines 5a through 7c on page F-2.

Lines 43 and 44

See the instructions for lines 9 and 10 on pages F-2 and F-3.
