2001
Instructions for
Schedule F,
Profit or Loss
From Farming

General Instructions

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 J to figure your tax by averaging your farm income over the previous 3 years. Doing so may reduce your tax.

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

Form 4562 to claim depreciation on assets placed in service in 2001, to claim amortization that began in 2001, 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 Highway Vehicle Use Tax

If you use certain highway trucks, 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 buyer-sell, deposit-commission, or other similar basis for resale. For more information, see the 2001 General 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 2001 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 2000 or 2001 is at least two-thirds of your gross income.

2. You file your 2001 tax return and pay the tax due by March 1, 2002.

For details, see Pub. 225.

Specific Instructions

Filers of Forms 1041, 1065, and 1065-B

Do not complete the block labeled “Social security number (SSN).” Instead, enter your employer identification number (EIN) on line D.
Line D
You need an employer identification number (EIN) only if you had a qualified retirement 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, line G, on page C-2. 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 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 below. 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 details, see Pub. 925.

Part I. Farm Income—Cash Method
In Part I, show income received for items listed on lines 1 through 10. Generally, 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. However, farm production flexibility contract payments received under the Federal Agriculture Improvement and Reform Act of 1996 are required to be included in income only in the year of actual receipt.

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

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 three of the following apply.

1. Your main business is farming.
2. You can show that you sold the livestock only because of weather-related conditions.
3. 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 in the total amount reported on that line.

<table>
<thead>
<tr>
<th>Form</th>
<th>Where to report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1099-PATR</td>
<td>Line 5a</td>
</tr>
<tr>
<td>1099-G or CCC-1099-G (for disaster payments)</td>
<td>Line 8a</td>
</tr>
<tr>
<td>1099-G or CCC-1099-G (for other agricultural program payments)</td>
<td>Line 6a</td>
</tr>
</tbody>
</table>

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 2001, 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.

- 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).

These amounts 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 Ag-
riculture showing the amounts and types of payments made to you.

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 2001 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.

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

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 2001 was the year of damage, you may elect to include certain proceeds in income for 2002. 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 2001, even if you elect to include them in income for 2002.

Enter on line 8b the taxable amount of the proceeds you received in 2001. Do not include proceeds you elect to include in income for 2002.

Enter on line 8d the amount, if any, of crop insurance proceeds you received in 2000 and elected to include in income for 2001.

Line 10
Use this line to report income not shown on lines 1 through 9, such as the following:

- 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 January 31, 2002, showing the amount of debt canceled in 2001. However, certain solvent farmers may exclude discharged qualified farm indebtedness from income. To find out if you must include any discharge of indebtedness in income, see Pub. 225.
  - State gasoline or fuel tax refund you received in 2001.
  - The amount of credit for Federal tax paid on fuels claimed on your 2000 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 2001. Use Form 4797 to figure the recapture. See the instructions for Schedule C, 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.

Part II. Farm Expenses
Do not deduct the following:

- 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 producing any plant that has a preproductive period of 2 years or less,
2. Expenses of raising animals, 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 on page F-4.
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 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.
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 28, 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 the instructions for Form 1040, line 28, for 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-4.

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 receives 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 to include on lines 23a and 23b.

How To Report. 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 2001 to banks or other financial institutions for which you received a Form 1098 (or similar statements). If you did not receive a Form 1098, enter the interest on line 23b.

If you paid more mortgage interest than is shown on Form 1098, see Pub. 535 to find out if you can deduct the additional interest. If you can, include the amount on line 23a. Attach a statement to your return explaining the difference and enter “See attached” in the 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 mortgage and the other person received the Form 1098, include 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 margin next to line 23b, enter “See attached.”

Do not deduct interest you prepaid in 2001 for later years; include only the part that applies to 2001.

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, and
- Form 8861, Welfare-to-Work 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.

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, line 19, on page C-4.

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, lines 20a and 20b, 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 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 and any Federal unemployment tax paid.
- Federal highway use tax.

Do not deduct the following taxes 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 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 farm business. Instead, treat these taxes as part of the cost of the property.
- Other taxes not related to your 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, line 25, on page C-5.
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 84 months. You can also amortize certain business startup costs over a period of at least 60 months. For details, see Pub. 535. For amortization that begins in 2001, 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 2001.

Bad Debts. See the instructions for Schedule C, 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.


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, lines 24a through 24c, on page C-5.

Preproductive Period Expenses. If you had preproductive period expenses in 2001 and you decided to capitalize them, you must enter the total of these expenses in parentheses on line 34f and enter “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 details, 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 checked the “No” box on line 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 (or Form 1065-B, line 7).

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 61a and 61b, for details.

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 that begin on page F-2.

Line 44
See the instructions for line 10 on page F-3.