2007 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, 1065, or 1065-B.

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

General Instructions

Other Schedules and Forms You May Have To File

- Schedule E, Part I, to report rental income from pastureland that is based on a flat charge. Report on Schedule F, line 10, pasture income received from taking care of someone else’s livestock. Also, use Schedule E, 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 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 your farming activity. For more information, see Reportable Transaction Disclosure Statement.
- Form 4562 to claim depreciation on assets placed in service in 2007, to claim amortization that began in 2007, 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 are an individual who did not materially participate in the management or operation of a farm. This income is not subject to self-employment tax. See Pub. 225.
- Form 8824 to report like-kind exchanges.
- Form 8903 to take a deduction for income from domestic production activities.
- Form 8910 to claim a credit for placing a new alternative motor vehicle in service for business use.
- Form 8911 to claim a credit for placing qualified alternative fuel vehicle refueling property in service for business use.

Cat. No. 17152R

F-1
The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.

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 B

On line B, enter one of the 14 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.

Line C

If you use the cash method, check box 1, labeled "Cash." Complete Schedule F, Parts I and II. Generally, 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 asset having a useful life that extends substantially beyond the close of the year, it may not be deductible or may be deductible only in part for the year of the payment. See Pub. 225.

If you use an accrual method, check box 2, labeled "Accrual." Complete Schedule F, Parts II, III, and Part I, line 11. Generally, report income in the year in which you earned it and deduct expenses in the year you incurred them, even if you did not pay them in that year. Accrual basis taxpayers are put on a cash basis for deducting business expenses owing to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See Pub. 538.

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:

• 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 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 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, see the Instructions for Form SS-4. If you do not have an EIN, leave line D blank.

Material participation. For the definition of material participation for purposes of the passive activity rules, see the instructions for Schedule C, line G, that begin on page 3. 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 did not materially participate. If you checked "No" and you have a loss from this business, see Limit on passive 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 8852.

Limit on passive losses. If you checked the "No" box and you have a loss from this business, you may have to use Form 8852 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, 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 is credited to your account or set aside for you to use. However, direct payments or counter-cyclical payments received under the Farm Security and Rural Investment Act of 2002 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 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 Pub. 225 for details.

Chapter 11 bankruptcy. If you were a debtor in a chapter 11 bankruptcy case during 2007, see page 18 in the instructions for Form 1040 and page SE-2 of 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. 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-A</td>
<td>Line 7b</td>
</tr>
<tr>
<td>1099-MISC for crop insurance</td>
<td>Line 8a</td>
</tr>
<tr>
<td>1099-G or CCC-1099-G</td>
<td>Line 6a</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If 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 5a and 5b

If you received distributions from a cooperative in 2007, you should receive a Form 1099-PATR. On line 5a, 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 patronage dividends, report the amount of cash. If you received qualified per-unit retain certificates, show the stated dollar amount of the certificates.

Do not include as income on line 5b patronage dividends from buying personal or family items, capital items, assets, or depreciable assets. Enter these amounts on line 5a only. Because 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.
- Direct payments.
- Counter-cyclical payments.
- 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 and are 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.

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 (CCC) 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 can 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 2007 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. This amount may be reported to you on Form 1099-A.

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 2007 was the year of damage, you can elect to include certain proceeds in income for 2008. 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 can 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 crop disaster payments).

Enter on line 8a the total crop insurance proceeds you received in 2007, even if you elect to include them in income for 2008.

Enter on line 8b the taxable amount of the proceeds you received in 2007. Do not include proceeds you elect to include in income for 2008.

Enter on line 8d the amount, if any, of crop insurance proceeds you received in 2006 and elected to include in income for 2007.

**Line 10**
Use this line to report income not shown on lines 1 through 9, such as the following.
- Illegal federal irrigation subsidies. See Pub. 225.
- Bartering income.

- Income from cancellation of debt. 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, 2008, showing the amount of debt canceled in 2007. However, certain solvent farmers can exclude canceled qualified farm indebtedness from income. To find out if you must include any cancellation of debt in income, see Pub. 225.
- State gasoline or fuel tax refunds you received in 2007.
- The amount of credit for federal tax paid on fuels, if you deducted the total cost of the fuel on your 2006 Form 1040.
- The amount of credit for alcohol used as fuel that was claimed on Form 6478.
- The interest part of the credit or refund of the federal telephone excise tax paid for your farming business telephone lines if you deducted any telephone excise tax. Include the smaller of the amount deducted or the amount from Form 8813, line 15, column (e).
- The amount of credit or refund of the federal telephone excise tax paid for your farming business telephone lines if you deducted any telephone excise tax. Include the smaller of the amount deducted or the amount from Form 8913, line 15, column (d), except to the extent the deduction did not reduce federal income tax.
- The amount of credit for biodiesel and renewable diesel fuels that was claimed on Form 8804.
- 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 2007. Use Form 4797 to figure the recapture. See the instructions for Schedule C, line 13, on page C-4 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 and clean-fuel vehicle refueling property used in your farming business. For details on how to figure recapture, see Regulations sections 1.179A-1. 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 that is being hedged.

Purchase or sales contracts are not true hedges if they offset losses that already oc-
curred. 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.

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.**
- **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 expenses of:

1. Producing any plant that has a preproductive 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) do not apply to tax shelters, farming syndicates, partnerships, or corporations required to use the accrual method of accounting under section 447 or 448(a)(3).**

If you capitalize your expenses, do not reduce your deductions on lines 12 through 34c by the capitalized expenses. Instead, enter the total amount capitalized in parentheses on line 34f. See Preproductive period expenses on page F-6 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. See Election to deduct certain preproductive period expenses below.

**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 cannot make this election for the costs of planting or growing citrus or almonds that are incurred before the end of the 4th 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 below.

**In the case of a partnership or S corporation, the election must be made by the partner, shareholder, or member. This election cannot 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 cannot 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. Also, the alternative depreciation rules apply to property placed in service in any tax year your election is in effect.

For details, 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 supplies that do not exceed 50% used or consumed during the year. They also include the cost of property that would be allowable as a deduction in a later tax year if you were to (a) capitalize the cost of property bought for use in your farming business and deduct it ratably over the lesser of 12 months or the useful life of the property, 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 details and exceptions to these rules, see Pub. 225. Whether or not this 50% limit applies, your expenses for livestock feed paid during the year but consumed in the later year, may be subject to the rules explained later in the line 18 instructions.

**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 used your vehicle for hire or you used five or more vehicles simultaneously in your farming business (such as in fleet operations). You cannot 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 2007 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 were using the standard mileage rate for the entire lease period (except the period, if any, before 1998).**

If you take the standard mileage rate, multiply the number of business miles driven by 48.5 cents. Add to this amount your parking fees and tolls, and enter the total on line 12. Do not deduct depreciation, rent or lease payments, or your actual operating expenses.

If you deduct actual expenses:

- **Include on line 12 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and**
- **Show depreciation on line 16 and rent or lease payments on line 26a.**

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 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) 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.**

These expenses can be deducted only if they are consistent with a conservation plan approved by the Natural Resources Conservation Service 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 paid or incurred to drain or fill wetlands, to prepare land for center pivot irrigation systems, or to clear land.

F-4
Your deduction cannot 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 cannot exceed the 25% gross income limit for that year.

The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.

For 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. Instead, 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 can also elect under section 179 to expense a portion of the cost of certain property you bought in 2007 for use in your farming business. The section 179 election is made on Form 4562.

For information about depreciation and the section 179 deduction, see Pub. 946.

For details on the increased depreciation and section 179 deductions for qualified property in the GO Zone, see Pub. 502.

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

**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. 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 are not deductible on Schedule F. However, you may be able to deduct on Form 1040, line 29 (or on Form 1040NR, line 28), 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 29, or Form 1040NR, line 28, for details.

**Line 18**
If you use the cash method, you cannot deduct when 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 was not made merely to avoid tax.
- Deducting the prepayment will not 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 on page F-4. If all of the above do not apply, you can deduct the prepaid feed only in the year it is consumed.

**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 2007 to banks or other financial institutions for which you received a Form 1098 (or similar statement). 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 2007 for later years; include only the part that applies to 2007.

**Line 24**
Enter the amounts you paid for farm labor. Do not include amounts paid to yourself. Reduce your deduction by the amounts claimed on:

- Form 5884, Work Opportunity Credit, line 2;
- Form 8844, Empowerment Zone and Renewal Community Employment Credit, line 2;
- Form 8845, Indian Employment Credit, line 4; and
- Form 8861, Welfare-to-Work Credit, line 2.

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.
business travel and 50% of your business

Line 27
Enter amounts you paid for incidental re-

Line 31
You can deduct the following taxes on this

Line 32
Enter amounts you paid for gas, electricity,

Lines 26a and 26b
If you rented or leased vehicles, machinery, or
equipment, enter 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 deduc-
tion by an inclusion amount. See Leasing a Car in Pub. 463 to figure your inclusion
amount.

Do not deduct repairs or maintenance on your
home.

Do not deduct the following taxes on this
line.

Federal income taxes, including your
see the Instructions for Form 8582.

Estate and gift taxes.

• Federal 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.

Do not deduct the following taxes on this
line.

Federal income taxes, including your self-
employment tax. However, you can 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 farming business.

• Other taxes not related to your farm-

business.

• 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.

• Other taxes not related to your farm-

business.

Line 32
Enter amounts you paid for gas, electricity,

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.

Taxes assessed for improvements, such as paving and sewers.
loss here and on Form 1041, line 6. Partner-
ships—do not complete line 37; instead, stop here and enter the profit or loss on this
line and on Form 1065, line 5 (or Form
1065-B, line 7).

Community income. If you and your
spouse had community income and are fil-
ing separate returns, see page SE-2 of the
instructions for Schedule SE before figur-
ing self-employment tax.

Earned income credit. If you have a net
profit on line 36, this amount is earned in-
come and may qualify you for the earned
income credit if you meet certain condi-
tions. See the instructions for Form 1040,
lines 66a and 66b, for details.

Line 37
At-risk rules. Generally, if you have a loss
from a farming activity and amounts in-
vested in the activity for which you are not
at risk, you must complete Form 6198 to
figure your allowable loss. The at-risk rules
generally limit the amount of loss (includ-
ing 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 in-
vested in this activity for which you are not
at risk, such as the following:
- Nonrecourse loans used to finance the
activity, to acquire property used in the ac-
tivity, 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 nonre-
course financing borrowed by you in con-
nection with holding real property.
- Cash, property, or borrowed amounts
used in the activity (or contributed to the
activity) that are protected against loss by a guarantee,
stop-loss agreement, or other similar ar-
rangement (excluding casualty insurance
and insurance against tort liability).
- Amounts borrowed for use in the ac-
tivity 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 in-
terest.

Figuring your deductible loss. If all
amounts are at risk in this activity, check
box 37a. If you checked the “Yes” box on
line E, enter your loss on line 36. But if you
checked the “No” box on line E, you may
need to complete Form 8582 to figure your
allowable loss to enter on line 36. See the
Instructions for Form 8582.

If you checked box 37b, first complete
Form 6198 to determine the amount of your
deductible loss. If you checked the “Yes”
box on line E, enter that amount on line 36.
But if you checked the “No” box on line E,
your loss may be further limited. See the
Instructions for Form 8582. If your at-risk
amount is zero or less, enter -0- on line 36.
Be sure to attach Form 6198 to your return.
If you checked box 37b and you do not
attach Form 6198, the processing of your
tax return may be delayed.

Any loss from this activity not allowed
for 2007 only because of the at-risk rules is
treated as a deduction allocable to the activ-
ity in 2008.

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

Part III. Farm
Income—Accrual
Method
If you use an accrual method, report farm
income when you earn it, not when you
receive it. Generally, you must include ani-
mals and crops in your inventory if you use
this method. See Pub. 225 for exceptions,
inventory methods, how to change methods
of accounting, and for rules that require
certain costs to be capitalized or included in
inventory.

Chapter 11 bankruptcy. If you were a
debtor in a chapter 11 bankruptcy case dur-
ing 2007, see page 18 of the instructions for
Form 1040 and page SE-2 of the instruc-
tions for Schedule SE (Form 1040).

Lines 39a Through 41c
See the instructions for lines 5a through 7c
that begin on page F-2.