



Federal Income Tax

Schedule C or F

When you sell livestock, produce, grains, or other products, the entire amount you receive and the costs associated with its purchase and production should be reported on a **Schedule F** income tax form.

If your business activities were *non-agricultural*, they must be reported on a **Schedule C**. An example of non-agricultural business would be a produce retailer who purchased wholesale and sold retail and did not grow anything. If your farm has a sub-enterprise like a gift shop, restaurant, or bed & breakfast then the income and costs associated with that activity would have to be reported on a Schedule C.

It is generally advantageous to report farm income and expenses on a Schedule F because farms are allowed to use cash accounting and most other businesses are required to use accrual accounting. In cash accounting you report the income and expenses as they are actually received or paid and in accrual accounting you report the income and expenses at the time they occur.

Example: you spend \$5,000 in 2006 to fill the fuel tanks at your farm and at the end of the year the tanks still have \$3,000 of fuel in them. In cash accounting, you report a \$5,000 expense on your 2006 income tax return and in accrual accounting you can only report a \$2,000 expense. If you did not have the cash to pay the \$5,000 bill, you will not be able to report any expense on your tax return using the cash method but you would still be able to report a \$2,000 expense on your income taxes using the accrual method if you did not pay the bill.

For detailed information on filing Farm Income Taxes, get a copy of IRS Publication 225 Farmers Tax Guide - www.irs.gov/pub/irs-pdf/p225.pdf

Depreciation

Depreciation is the depleted value of an asset with an expected useful life of more than one year.

Example: you purchase a tractor for \$50,000. You cannot report a \$50,000 tractor expense on your tax return; you must spread that \$50,000 cost over 3-4 years.

The number of years that you must take to depreciate an asset and how you can claim in those years (e.g. straight line, accelerated, section 179, etc.) depends on the asset class of the property in question and the characteristics of the farm.

If the asset is not held for more than one year, it cannot be depreciated. Buildings *can* be depreciated but land *cannot*. The only instance when land can be depreciated is if it is logged or mined and it can be proven that the asset value has been depleted.

IRS Publication 225 *Farmers Tax Guide* (above) goes into detail on how to depreciate common farm property.

Capital Gains

When a business asset is sold, it should generally not be listed as farm income and should be listed as a capital gain. Most capital gains tax rates are lower than income tax rates.

Example: you purchase a tractor for \$50,000, depreciate it to a value of \$0 over 4 years, and sell it for \$20,000 in year 5. The \$20,000 received is considered a capital gain.

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Income Taxes

Guide to Farming in New York State

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New York State Income Tax

Farmers filing schedule F or C federal forms should transfer the information to NYS Form IT 201 if filing an individual return. Information from federal corporate tax returns should be transferred to the appropriate NY form. One NY Income Tax provision available to qualifying NY farm businesses is the Farmers' School Tax Credit that is explained below.

Farmers' School Tax Credit

The Farmers' School Tax Credit allows an eligible farmer to receive a tax credit on their State Income Tax equal to 100% of the school taxes paid on the first 250 acres of property and 50% of the school taxes paid on the amount of acres beyond 250.

Example: A qualified 250-acre farm owes \$2,000 in State income taxes and paid \$3,500 in school taxes for the farm. They would be able to take a credit of \$3,500, which is greater than the \$2,000 owed, so they would not owe any State income taxes this year.

Eligibility

To qualify, two-thirds of your eligible gross income must be profit from farming for the past three years.

You can take a 100% school tax credit on the first 250 acres of agricultural lands owned and a credit equal to 50% of school taxes paid on the remaining land.

Woodlands used for pasture, erosion control, or windbreaks may qualify for the credit.

You can apply for 100% of the credit if your taxable income is under \$100,000 and you can apply for a percentage of the credit if your taxable income is between \$100,000-\$150,000.

Farms held as a corporation or LLC can apply for the credit.

Unused credits cannot be redeemed for cash and cannot be applied to next year's taxes.

Form to use to Claim this Credit: IT 217-I for individual filers; CT 47 for corporations

Publications

New York Farm Bureau Farmers' School Tax Credit Fact Sheet

www.nyfb.org/images/Brochures/SchPropTaxCredit.pdf

New York State Department of Taxation and Finance Publication 51: Questions and Answers on New York State's Farmers' School Tax Credit www.tax.state.ny.us/pdf/publications/multi/pub51_1197.pdf

Or call 1-800-462-8100 with questions and for publications and forms.

