



Taxpayer Name: _____

Tax Year: _____

Principal crop or activity: _____ Accounting method: Cash Accrual EIN: _____

Did you materially participate in the operation of your farm activity?..... Yes No

Is the Farm activity being conducted for a profit? Yes No (see hobby loss rules; pg 2)

Did you pay anyone or any company \$600 or more during the year?..... Yes No

If yes, did you file required Forms 1099? Yes No (please provide copies)

Income

Sales of livestock (non-raised)	\$ _____	Cooperative distributions	\$ _____
Cost or other basis of livestock above:	\$ _____	(Form 1099-PATR)	
Sales of livestock, produce, grains (raised)		Agricultural program Form 1099-G	\$ _____
_____	\$ _____	Crop insurance proceeds	\$ _____
_____	\$ _____	(provide details and elections)	
_____	\$ _____	Custom hire income	
Off-Road Fuel Credit:	\$ _____		
Other: _____	\$ _____		\$ _____
_____	\$ _____		\$ _____

Expenses

Bank Charges:	\$ _____	Rent or Lease of Equipment:	\$ _____
Breeding & Veterinary Fees:	\$ _____	Rent or Lease of Buildings, etc.:	\$ _____
Chemicals: Dues & Subscriptions:	\$ _____	Repairs & Maintenance:	\$ _____
Feed:	\$ _____	Seeds & Plants:	\$ _____
Fertilizer & Lime:	\$ _____	Supplies:	\$ _____
Fuel & Oil: (equipment not vehicles)	\$ _____	Telephone:	\$ _____
Gross Wages (provide payroll reports)	\$ _____	Utilities:	\$ _____
Utilities:	\$ _____	Veterinary, breeding, and medicine	\$ _____
Insurance (Farm Only, not vehicle):	\$ _____	Taxes _____	\$ _____
Legal & Professional Fees:	\$ _____	_____	\$ _____
Licenses & Permits:	\$ _____	Other Expenses Not Listed Elsewhere:	
Custom Hire: _____	\$ _____	_____	\$ _____
Mortgage Interest (Paid to Banks):	\$ _____	_____	\$ _____
Other Interest:	\$ _____	_____	\$ _____
		_____	\$ _____

Off-Road Use of Fuel

Please provide the number of gallons of fuel used off-road for farming purposes during the tax year.

Gasoline: _____ gallons
Diesel Fuel: _____ gallons

* Please note that only the fuel purchased with tax included (i.e. at the pump) can be used for this credit*

New Assets and Major Improvements

Description:	Used?	Date in Service:	Cost:
_____		_____	\$ _____
_____		_____	\$ _____
_____		_____	\$ _____
_____		_____	\$ _____
_____		_____	\$ _____
_____		_____	\$ _____
_____		_____	\$ _____

Animals Purchased

Description:	Date Bought:	Purchase Price:
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____

Animals & Equipment Sold

Description:	Date Sold:	Selling Price:
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____

For Profit Farm versus Hobby Farm

Taxpayers must report income from both a business or a hobby. However how they are reported is quite different and will result in tax consequences. The IRS differentiates between the two by stating a business operates to make a profit where as, a hobby is carried on for sport or recreation, not to make a profit. Whether the activity is a business or a hobby will dictate the expenses allowed as a deduction on a tax return.

Trade or Business

A trade or business is generally an activity carried on for a livelihood or in a good faith to make a profit. The facts and circumstances of each case determine whether an activity is a trade or business. Some of the important facts and circumstances used to make this determination include:

1. regularity of the activities,
2. regularity of the transactions,
3. production of income, and
4. ongoing efforts to further the interest of your business.

Presumption of profit. An activity is presumed carried on for profit if it produced a profit in at least 3 of the last 5 tax years, including the current year. Equine activities that consist primarily of breeding, training, showing, or racing horses are presumed carried on for profit if they produced a profit in at least 2 of the last 7 tax years, including the current year. A profit is defined when the gross income from an activity exceeds the deductions.

In order to deduct expenses in excess of income for a given activity, (ie a loss) the taxpayer must be engaged in that activity for profit. If the IRS can prove that the taxpayer has no intent to make a profit or is attempting to generate tax losses to offset other taxable income, the activity is then assumed to be a hobby and all deductions in excess of income are disallowed. Once the business has failed to show a profit in three out of five years (or two out of seven years for certain equine activities), the IRS is permitted (but not required) to examine the business. Therefore it is important for the operator of an activity that is just getting started to do a good job of managing both business and income taxes to reduce the risk of being examined by the IRS.

FACTORS USED TO DETERMINE IF AN ACTIVITY IS ENGAGED IN FOR PROFIT

The IRS has established nine factors used when determining if an activity is a hobby or a business: No one factor alone is decisive. The IRS's actual determination of whether a business has been operated with a profit motive is based on all facts and circumstances about the business operation.

- (1) **Is the activity carried on in a businesslike manner?** Maintenance of complete and accurate records for the activity is a definite plus for a taxpayer, as is a business plan that formally lays out the taxpayer's goals and describes how the taxpayer realistically expects to meet those expectations.
- (2) **How much time and effort does the taxpayer spend on the activity?** The IRS looks favorably at substantial amounts of time spent in the activity, especially if the activity has no great recreational aspects. Full-time work in another activity is not always a detriment if a taxpayer can show the activity is regular; time spent by a qualified person hired by the taxpayer can also count in the taxpayer's favor.
- (3) **Does the taxpayer depend on the activity for a source of income?** This test is easiest to meet when a taxpayer has little income or capital from other sources (i.e., the taxpayer could not afford to have this operation fail).
- (4) **Are losses from the activity the result of sources beyond the taxpayer's control?** Losses from unforeseen circumstances like drought, disease, fire, etc., are legitimate reasons for not making a profit. The extent of losses in a start-up phase of a business also needs to be looked at in the context of the kind of activity involved.
- (5) **Has the taxpayer changed business methods in attempts to improve profitability?** Document efforts of the taxpayer to turn the activity into a profit-making venture.
- (6) **What is the taxpayer's expertise in the field?** Extensive study of this field's accepted business, economic, and scientific practices by the taxpayer before entrance into the activity is a good sign that profit intent exists.
- (7) **What success has the taxpayer had in similar operations?** Document how the taxpayer turned a similar operation to a profit-making venture in the past.
- (8) **What is the possibility of profit?** Even though losses might be shown for several years, the taxpayer should try to show that there is realistic hope of a good profit.
- (9) **Will there be a possibility of profit from asset appreciation?** Although profit may not be derived from current operations of an activity, asset appreciation could mean the activity will realize a large profit when assets are disposed of in the future. However, the appreciation argument may mean nothing without the taxpayer's positive action to make the activity profitable in the present.