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FARMER
TAX
\$CHOOL

The collage features several images: a close-up of a calculator and a checkbook with a pen; a stack of coins and blue pens; a calculator on top of tax forms; a person's hands using a calculator next to a laptop displaying a spreadsheet; and a stack of coins with small green plants growing from them. The central text "FARMER TAX \$CHOOL" is written in a large, bold, black font, with "CORNELL COOPERATIVE EXTENSION" in a smaller red font above it.

Farm Financial Records for Decision Making and Tax Management

Thursday, December 2nd, 2021

7pm – 8:30pm

Joan Petzen, Steve Hadcock, Dayton Maxwell

Cornell Cooperative Extension

CCE Farmer Tax School 3

Session Housekeeping



Cornell Cooperative Extension

CCE Farmer Tax School 4

Session Housekeeping

- Use the chat function (send a message to everyone or to just the hosts) to interact.



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- You are muted & without video.



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- Everyone received an email with tonight's materials. Paper mailings went out on Monday.



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- Please complete the post-course survey (link to be shared in the chat and via email).



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- Everyone received an email with tonight's materials. Paper mailings went out on Monday.
- Please complete the post-course survey (link to be shared in the chat and via email).
- We'll follow up with the recording via email.
- Sign up for our other two workshops at tinyurl.com/ccetaxschool



Disclaimer

This information is for educational and reference purposes only and is not a substitute for sound legal counsel and tax preparation. Cornell Cooperative Extension is dedicated to providing research-based information to our agricultural producers. Every effort has been made to provide correct, complete, and up-to-date recommendations. Changes occur constantly and human errors are possible.

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Business Advisor
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Jean Gallagher (Homer, NY Branch Manager)

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NY FarmNet

Covering all of NYS

Always free, always confidential – we offer services for NY farms including financial analysis, business planning, and personal well-being. FarmNet has a network of consultants, who work one-on-one with farm families to resolve financial and personal issues.

For assistance, call 1-800-547-3276

nyfarmnet.org

nyfarmnet@cornell.edu

Cornell Cooperative Extension



As you navigate through the presentation, think about how to best utilize the information for your business.





Cornell Cooperative Extension

FARMER \$TAX SCHOOL

The collage features several images: a close-up of a calculator and a tax form with handwritten numbers and a pen; a stack of coins with a pen and a calculator; a calculator on a tax form with a pen; a laptop displaying a spreadsheet with a calculator in the foreground; and a stack of tax forms with a calculator and a pen.

December 2, 2021 Hobby, Business, Schedule F, 4797

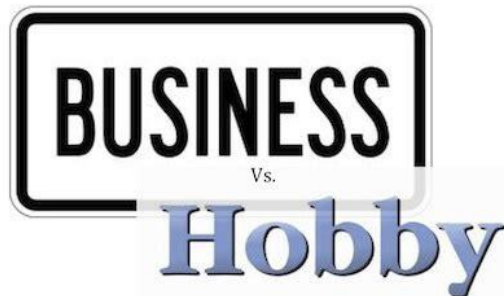
- Dayton Maxwell
- Capital Area Agriculture and Horticulture Program (CAAHP)
- Farm Business Management Educator



Cornell Cooperative Extension | Capital Area Agriculture and Horticulture Program

Business Verses Hobby What's the Difference?

- Operate a farm for profit
- Deduct all the ordinary and necessary expenses of carrying on the business of farming on Schedule F



Cornell Cooperative Extension | Capital Area Agriculture and Horticulture Program

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Business Verses Hobby What's the Difference?

- Do not operate the farming activity to make a profit
- Report the income from the activity on Schedule 1 form 1040
- No longer deduct expenses of carrying on the activity



Business Verses Hobby What's the Difference?

- In determining whether or not the farming activity is for profit, all the facts are taken into account



Business Verses Hobby What's the Difference?

- Operate farm in a businesslike manner
- Time and effort spent on farming indicate intention to make it profitable
- I.e. – separate records and bank accounts



Business Verses Hobby What's the Difference?

- Depend on income from farming as a livelihood
- Losses are due to circumstances beyond control or are normal in the start-up phase of farming



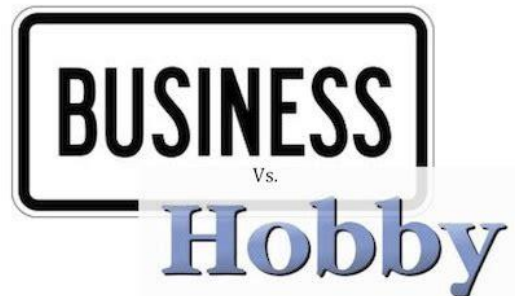
Business Verses Hobby What's the Difference?

- Change methods of operation in an attempt to improve profitability
- Advisors, have the knowledge needed to carry on the farming activity as a successful business
- Success in making a profit in similar activities in the past



Business Verses Hobby What's the Difference?

- Make a profit from farming in some years and based on the amount of profit made can expect to make a future profit from the appreciation of the assets used in the farming activity



Presumption of Profit

- Farming or other 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



Presumption of Profit

- 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



Business Verses Hobby What's the Difference?

- The activity must be substantially the same for each year within this period
- A profit is determined when the gross income from an activity is more than the deductions for it



Business Verses Hobby What's the Difference?

- If your business or investment activity passes this 3- (or 2-) years-of-profit test, presume it is carried on for profit



Business Verses Hobby What's the Difference?

- Fail the 3- (or 2-) years-of-profit test, may still be considered to operate a farm for profit by considering the factors listed earlier



Business Verses Hobby What's the Difference?

- Starting out in farming and don't have 3 (or 2) years showing a profit
- May take advantage of this presumption later, after 5 (or 7) years of experience allowed by the test



Business Verses Hobby What's the Difference?

- Must file Form 5213 within 3 years after the due date of your return for the year in which first carried on the activity
- Or, if earlier, within 60 days after receiving a written notice from the IRS proposing to disallow deductions attributable to the activity



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SCHEDULE F (Form 1040) **Profit or Loss From Farming** OMB No. 1545-0074

Department of the Treasury Internal Revenue Service (99) **2020** Attachments: Sequence No. 14

▶ Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065. ▶ Go to www.irs.gov/ScheduleF for instructions and the latest information.

Name of proprietor: _____ Social security number (SSN): _____

A Principal crop or activity: _____ **B** Enter code from Part IV: _____ **C** Accounting method: Cash Accrual **D** Employer ID number (EIN) (see instr.): _____

E Did you "materially participate" in the operation of this business during 2020? If "No," see instructions for limit on passive losses Yes No

F Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions Yes No

G If "Yes," did you or will you file required Form(s) 1099? Yes No

Part I Farm Income—Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a	
b	Cost or other basis of livestock or other items reported on line 1a	1b	
c	Subtract line 1b from line 1a	1c	
2	Sales of livestock, produce, grains, and other products you raised	2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3b	Taxable amount
4a	Agricultural program payments (see instructions)	4b	Taxable amount
5a	Commodity Credit Corporation (CCC) loans reported under election	5a	
b	CCC loans forfeited	5c	Taxable amount
6	Crop insurance proceeds and federal crop disaster payments (see instructions):		
a	Amount received in 2020	6a	Taxable amount
c	If election to defer to 2021 is attached, check here <input type="checkbox"/>	6d	Amount deferred from 2019
7	Custom hire (machine work) income	7	
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	8	
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions	9	

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.

10	Car and truck expenses (see instructions). Also attach Form 4562	10		23	Pension and profit-sharing plans	23	
11	Chemicals	11		24	Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment	24a	
				b	Other (land, animals, etc.)	24b	

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a Amount received in zuzu 6a taxable amount 6b

c If election to defer to 2021 is attached, check here 6d Amount deferred from 2019

7 Custom hire (machine work) income 7

8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) 8

9 **Gross income.** Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions 9

Part III Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.

10 Car and truck expenses (see instructions). Also attach Form 4562	10	23 Pension and profit-sharing plans	23
11 Chemicals	11	24 Rent or lease (see instructions):	
12 Conservation expenses (see instructions)	12	a Vehicles, machinery, equipment	24a
13 Custom hire (machine work)	13	b Other (land, animals, etc.)	24b
14 Depreciation and section 179 expense (see instructions)	14	25 Repairs and maintenance	25
15 Employee benefit programs other than on line 23	15	26 Seeds and plants	26
16 Feed	16	27 Storage and warehousing	27
17 Fertilizers and lime	17	28 Supplies	28
18 Freight and trucking	18	29 Taxes	29
19 Gasoline, fuel, and oil	19	30 Utilities	30
20 Insurance (other than health)	20	31 Veterinary, breeding, and medicine	31
21 Interest (see instructions):		32 Other expenses (specify):	
a Mortgage (paid to banks, etc.)	21a	a _____	32a
b Other	21b	b _____	32b
22 Labor hired (less employment credits)	22	c _____	32c
		d _____	32d
		e _____	32e
		f _____	32f
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions			33
34 Net farm profit or (loss). Subtract line 33 from line 9			34

If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.

35 Reserved for future use.

36 Check the box that describes your investment in this activity and see instructions for where to report your loss:

a All investment is at risk. b Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11346H Schedule F (Form 1040) 2020

2021 Farmer's Tax Guide.pdf

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Table 7-1. Farm Property Recovery Periods

Assets	Recovery Period in Years	
	GDS	ADS
Agricultural structures (single purpose)	10	15
Automobiles	5	5
Calculators and copiers	5	6
Cattle (dairy or breeding)	5	7
Communication equipment ¹	7	10
Computer and peripheral equipment	5	5
Drainage facilities	15	20
Farm buildings ²	20	25
New farm machinery and equipment ³	5	10
Used farm machinery and equipment	7	10
Fences (agricultural)	7	10
Goats and sheep (breeding)	5	5
Grain bin	7	10
Hogs (breeding)	3	3
Horses (age when placed in service)		
Breeding and working (12 years or less)	7	10
Breeding and working (more than 12 years)	3	10
Racing horses (more than 2 years)	3	12
Horticultural structures (single purpose)	10	15
Logging machinery and equipment ⁴	5	6
Nonresidential real property	39 ⁵	40
Office furniture, fixtures, and equipment (not calculators, copiers, or typewriters)	7	10
Paved lots	15	20
Residential rental property	27.5	40
Tractor units (over-the-road)	3	4
Trees or vines bearing fruits or nuts	10	20
Truck (heavy duty, unloaded weight 13,000 lbs. or more)	5	6
Truck (actual weight less than 13,000 lbs.)	5	5
Water wells	15	20

CAUTION If you are required to use ADS to depreciate your property, you cannot claim the special depreciation allowance.

Electing ADS. Although your property may qualify for GDS, you can elect to use ADS. The election must generally cover all property in the same property class you placed in service during the year. However, the election for residential rental property and nonresidential real property can be made on a property-by-property basis. Once you make this election, you can never revoke it.

You make the election by completing line 20 in Part III of Form 4562.

Note. See sections 4 and 5 of Revenue Procedure 2020-25, 2020-19 I.R.B. 785, available at www.irs.gov/irb/2020-19_IRB#REV-PROC-2020-25, for special rules for making a late election or withdrawing the election to use ADS for tax years ending in 2018, 2019, and 2020.

Which Property Class Applies Under GDS?

The following is a list of the nine property classes under GDS.

- 3-year property.
- 5-year property.

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Form 4797 Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

OMB No. 1545-0184 **2020** Attachment Sequence No. 27

Department of the Treasury Internal Revenue Service

► Attach to your tax return. ► Go to www.irs.gov/Form4797 for instructions and the latest information.

Name(s) shown on return _____ Identifying number _____

1 Enter the gross proceeds from sales or exchanges reported to you for 2020 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions 1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)

3 Gain, if any, from Form 4684, line 39 3
 4 Section 1231 gain from installment sales from Form 6252, line 26 or 37 4
 5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824 5
 6 Gain, if any, from line 32, from other than casualty or theft 6
 7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows 7

Partnerships and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120-S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you didn't have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

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Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you didn't have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years. See instructions 8

9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return. See instructions 9

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11 Loss, if any, from line 7 11

12 Gain, if any, from line 7 or amount from line 8, if applicable 12

13 Gain, if any, from line 31 13

14 Net gain or (loss) from Form 4684, lines 31 and 38a 14

15 Ordinary gain from installment sales from Form 6252, line 25 or 36 15

16 Ordinary gain or (loss) from like-kind exchanges from Form 8824 16

17 Combine lines 10 through 16 17

18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below.

a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the loss from income-producing property on Schedule A (Form 1040), line 16. (Do not include any loss on property used as an employee.) Identify as from "Form 4797, line 18a." See instructions 18a

b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Schedule 1 (Form 1040), Part I, line 4 18b

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13086I Form 4797 (2020)

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Questions



Farm Financial Records for Decision Making & Tax Management

Joan Sinclair Petzen

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585-786-2251, Ext. 122

Accounting Methods

- Cash
 - Record income received
 - Record expenses when paid

- Accrual
 - Sometimes called double entry bookkeeping
 - Record income when the sale occurs whether or not payment is received
 - Record expenses when incurred even if not paid for yet
 - Matches income and expenses to the production period

Bookkeeping or Accounting Systems

- Used to organize transaction records
- Over the visor, dashboard, console methods
- Shoebox method
- Spindle method
- Monthly folder method
- Ledger – a system of columns for recording income and expenses
- Computer based systems

SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065. ▶ Go to www.irs.gov/ScheduleF for instructions and the latest information.		2020 Attachment Sequence No. 14	
Name of proprietor			Social security number (SSN)		
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	
D Employer ID number (EIN) (see inst.)					
E Did you "materially participate" in the operation of this business during 2020? If "No," see instructions for limit on passive losses <input type="checkbox"/> Yes <input type="checkbox"/> No					
F Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No					
G If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No					
Part I Farm Income—Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)					
1a Sales of livestock and other resale items (see instructions)		1a		1a	
b Cost or other basis of livestock or other items reported on line 1a		1b		1b	
c Subtract line 1b from line 1a				1c	
2 Sales of livestock, produce, grains, and other products you raised				2	
3a Cooperative distributions (Form(s) 1099-PATR)		3a		3b Taxable amount	
4a Agricultural program payments (see instructions)		4a		4b Taxable amount	
5a Commodity Credit Corporation (CCC) loans reported under election		5a		5a Taxable amount	
b CCC loans forgiven		5b		5c Taxable amount	
e Crop insurance proceeds and federal crop disaster payments (see instructions)				6b Taxable amount	
a Amount received in 2020		6a		6b	
c If election to defer to 2021 is attached, check here				6d Amount deferred from 2019	
7 Custom hire (machine work) income				7	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)				8	
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part II, line 50. See instructions				9	
Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.					
10 Car and truck expenses (see instructions). Also attach Form 4562		10		23 Pension and profit-sharing plans	
11 Chemicals		11		24 Rent or lease (see instructions)	
12 Conservation expenses (see instructions)		12		a Vehicles, machinery, equipment	
13 Custom hire (machine work)		13		b Other (land, animals, etc.)	
14 Depreciation and section 179 expense (see instructions)		14		25 Repairs and maintenance	
15 Employee benefit programs other than on line 23		15		26 Seeds and plants	
16 Feed		16		27 Storage and warehousing	
17 Fertilizers and lime		17		28 Supplies	
18 Freight and trucking		18		29 Taxes	
19 Gasoline, fuel, and oil		19		30 Utilities	
20 Insurance (other than health)		20		31 Veterinary, breeding, and medicine	
21 Interest (see instructions):				32 Other expenses (specify):	
a Mortgage (paid to banks, etc.)		21a		a	
b Other		21b		b	
22 Labor hired (less employment credits)		22		c	
				d	
				e	
				f	
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions		33		32a	
34 Net farm profit or (loss). Subtract line 33 from line 9		34		32b	
				32c	
				32d	
				32e	
				32f	
35 Reserved for future use.					
36 Check the box that describes your investment in this activity and see instructions for where to report your loss:					
a <input type="checkbox"/> All investment is at risk. b <input type="checkbox"/> Some investment is not at risk.					

One write system – type of ledger system



Software

- Personal
 - Quicken
 - Mint
 - More...
- Business
 - Quickbooks
 - Centerpoint
 - Peachtree
 - More...

What do you want from your bookkeeping System?

- Do you sell wholesale in large lots with revenue coming in a few big chunks each year?
- Does your business have a retail focus with daily sales?