

IRS FARM INCOME SHEET

Ten Things You May Not Know About Farm Income And Deductions

If you are in the business of farming, here are some things you may want to know before filing your federal tax return.

1. **Crop Insurance Proceeds** You must include in income any crop insurance proceeds you receive as the result of crop damage. You generally include them in the year you receive them.
2. **Sales Caused by Weather-Related Condition** If you sell more livestock, including poultry, than you normally would in a year because of weather-related conditions, you may be able to choose to postpone reporting the gain from selling the additional animals until the next year.
3. **Farm Income Averaging** You may be able to average all or some of your current year's farm income and refiguring your tax over the three prior years. This may give you a lower tax if your current year income from farming is high, and your taxable income from one or more of the three prior years was low.
4. **Deductible Farm Expenses** The ordinary and necessary costs of operating a farm for profit are deductible business expenses. An ordinary expense is an expense that is common and accepted in the business. A necessary expense is one that is appropriate for the business.
5. **Employees** You can deduct reasonable wages paid for labor hired to perform your farming operations.
6. **Items Purchased for Resale** You may be able to deduct the cost of livestock and other items purchased for resale in the year of sale. This cost includes freight charges for transporting the livestock to the farm.
7. **Net Operating Losses** If your deductible loss from operating your farm is more than your other income for the year, you may have a net operating loss. If you have a net operating loss this year, you can carry it to other years and deduct it. You may be able to get a refund of all or part of the income tax you paid for past years, or you may be able to reduce your tax in future years.
8. **Repayment of Loans** You cannot deduct the repayment of a loan. However, if you use the proceeds of a loan for farm business expenses, you can deduct the interest you pay on the loan.
9. **Fuel and Road Use** You may be eligible to claim a credit or refund of excise taxes on fuel used on a farm for farming purposes.
10. **Farmers Tax Guide** More information about farm income and deductions can be found in IRS Publication 225, Farmer's Tax Guide, which can be obtained online at [IRS.gov](https://www.irs.gov) or by calling the IRS at 800-TAX-FORM (800-829-3676).