



Tax Considerations for Agritourism Operations

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Rural Tax Education

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- Website hosted by Utah State University
- Material created by the **National Farm Income Tax Committee**
- Informational Material on Ag, Timber, and Rural Tax topics include but not limited to:
 - Farm Losses and Hobby Rules
 - Self-Employment Taxes
 - Estate and Gift Taxes
 - Depreciation
 - Tax planning
 - Etc...



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RURAL TAX EDUCATION

As Administered by the National Farm Income Tax Extension Committee



Considering the Residual Fertility Deduction

In recent months, there have been many questions from farmers and their advisors about the so-called "residual fertility" deduction. Read more about the law and concerns regarding this deduction. [Read the article here.](#)

Farmers, ranchers and other agricultural producers and Extension educators will find resources for agriculturally related income and self-employment tax information that is both current and easy to understand.

Tax issues are important for agricultural operations because income and self-employment taxes are a major cost and also because more and more USDA programs are being linked to a producer's federal income tax return.

For more great information and resources, check out <https://www.farmers.gov/working-with-us/taxes> and <https://agtax.org/>

Tax Topics

Explore essential tax topics tailored for agricultural producers, including managing income taxes, disaster-related tax relief, and more to help maximize your farm's financial health.

- All Tax Topics
- Disaster Tax Information
- New Farmer Tax Information
- Tribal Tax Information
- Grants and Government Payments Tax Information
- Tax Management Info

Webinars

Free Upcoming Webinar:
Tax Code Defenders of Farmer
April 24, 2025 1:00 PM ET

[View Past Webinars](#)

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Rural Tax Resources



Contact Us

Email: info@ruraltax.org

In your email, please provide us with detailed information about your inquiry and which state/region you are contacting us from so that we can connect you with the correct contact.



Small Farm Tax Guide

Tax management is an integral part of farm management. Tax considerations may have a major effect on the bottom line of income and



Farm Income Tax Estimator Tool

This tool can help estimate your tax liability. It is for informational and educational purposes only.

Agenda

Challenges of an Agritourism Business: Separating the farm and non-farm portions

- Definition of Agritourism and importance of proper classification
- What is farm for tax purposes?
- What is a non-farm commercial activity?
- Overview/reporting for tax purposes
- Why separation matters?
- Tax and legal risks of improper separation
- Best practices
- Case Studies/examples

Definition of Agritourism

Activities that combine traditional farming with tourism, such as farm stays, corn mazes, U-pick operations, farm-to-table events, and educational tours.



Importance of Proper Classification

Tax, legal, and operational implications of distinguishing between farm and non-farm activities.



What is a Farm for Tax Purposes?

IRS and Treasury Definitions

- A farm includes livestock, dairy, poultry, fish, fruit, and truck farms, as well as plantations, ranches, ranges, orchards, and groves.
- Activities must involve the cultivation, operation, or management of a farm for profit, either as owner or tenant.

Farming Activities

- Farming activities are reported of **Form 1040 Schedule F**

Farm Income

- Cultivation and sale of: livestock, produce, grain, horticulture crops
- Crop insurance proceeds
- Most agricultural program payments (1099-G)
- Patronage dividends
- Some custom work
- Sale of crop shares (if you materially participate)

What is a Farm for Tax Purposes?

Exclusions

- Activities such as merely buying and reselling agricultural products, or operating a roadside stand that sells products grown by others, are not considered farming.
- Processing beyond the unmanufactured state (e.g., making wine from grapes) is not farming.

Farming Activities

- Where it gets more complex...
- Farm sells **farm-grown** products while customers visit
 - U-pick: Berries, pumpkins, etc.*
 - Vegetables*
 - Corn stalks*
 - Hay*

Farming Activities

- Schedule F Form
- Instructions for Schedule F (12 pages)
- IRS Pub. 225 – Farmers Tax Guide
- <https://www.calt.iastate.edu/interactive-schedule-f-profit-or-loss-farming>
- Ends up on line 6 of Schedule 1 of Form 1040

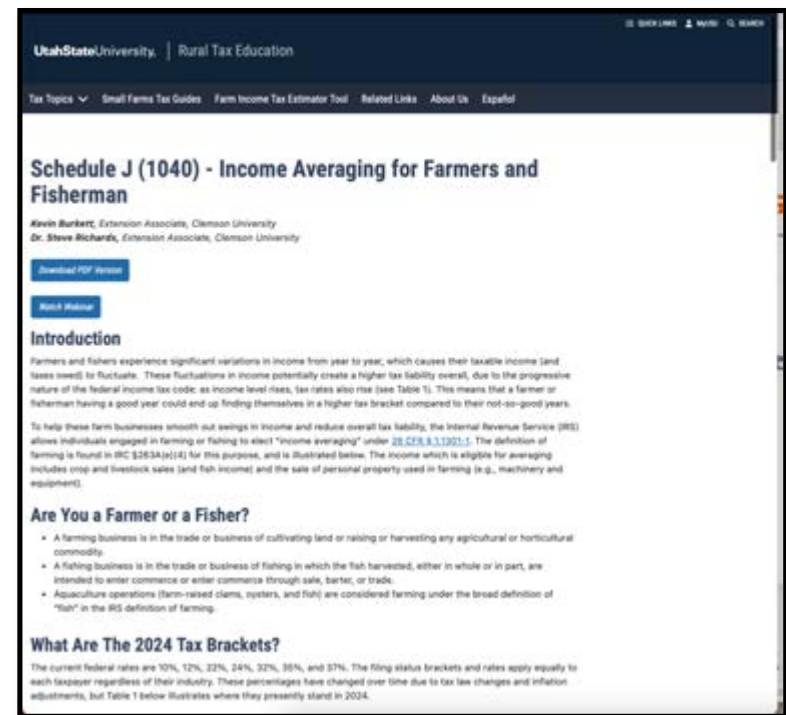
Why are they separate?

- Certain tax provisions only available to agriculture
- Further calculations and statistical analysis based on Schedule F (farm production)
- Items such as:
 - FSA Loans / Programs*
 - USDA Programs*
 - Insurance*
 - North American Industry Classification System (NAICS)*

Schedule J Income Averaging

Available only for commercial farming and fishing operations

Rural Tax Article & Webinar:



What is a Non-Farm (Commercial) Activity?

Examples in Agritourism

- Gift shops, restaurants, event hosting, amusement rides, and other entertainment activities.

IRS Treatment

- These activities are generally not considered farming and are subject to different tax rules and reporting requirements.

Agritourism Activities

- Generally, reported on **Form 1040 Schedule C** (sole proprietor)
- You are selling a(n):
 - Experience*
 - Service*
 - Ticket*
 - Value-added product*
 - Crafts*



Why Separation Matters

Tax Reporting and Compliance

- Farm income is reported on Schedule F (Form 1040); non-farm business income is reported on Schedule C or E, or on a separate entity return.
- Different rules for deductibility of expenses, capitalization, and eligibility for special tax provisions (e.g., income averaging, self-employment tax calculation, conservation expense deduction).

Why Separation Matters

Employment Tax Implications

- Farm labor and non-farm labor are subject to different employment tax rules, including thresholds for Social Security, Medicare, and FUTA taxes.

State and Local Tax Issues

- Property tax and sales tax exemptions may apply only to farm activities, not to commercial or entertainment activities.

Practical Challenges in Separation

Recordkeeping

- Need for separate books and records for farm and non-farm activities.
- Allocation of shared expenses (utilities, insurance, depreciation, etc.).

Physical Separation

- Zoning and land use regulations may require clear boundaries between farm and commercial areas.

Practical Challenges in Separation

Staffing and Payroll

- Distinguishing between farm and non-farm employees for payroll and benefits purposes.

Marketing and Branding

- Maintaining a clear message to customers about which activities are part of the farm and which are commercial additions.

Tax and Legal Risks of Improper Separation

Loss of Farm Tax Benefits

- Risk of losing eligibility for farm-specific tax provisions if non-farm activities are not properly separated.

IRS and State Audits

- Increased scrutiny and potential penalties for misclassification of income or expenses.

Employment Law Violations

- Misapplication of employment tax rules can result in back taxes and penalties.

Best Practices for Agritourism Businesses

Establish Separate Legal Entities (if appropriate)

- Consider forming a separate LLC or corporation for non-farm activities.

Maintain Separate Financial Records

- Use distinct bank accounts and accounting systems for farm and non-farm operations.

Best Practices for Agritourism Businesses

Clear Contracts and Agreements

- Define the scope of each activity and the responsible entity.

Consult with Tax and Legal Professionals

- Regularly review business structure and operations for compliance.

Agritourism Activities

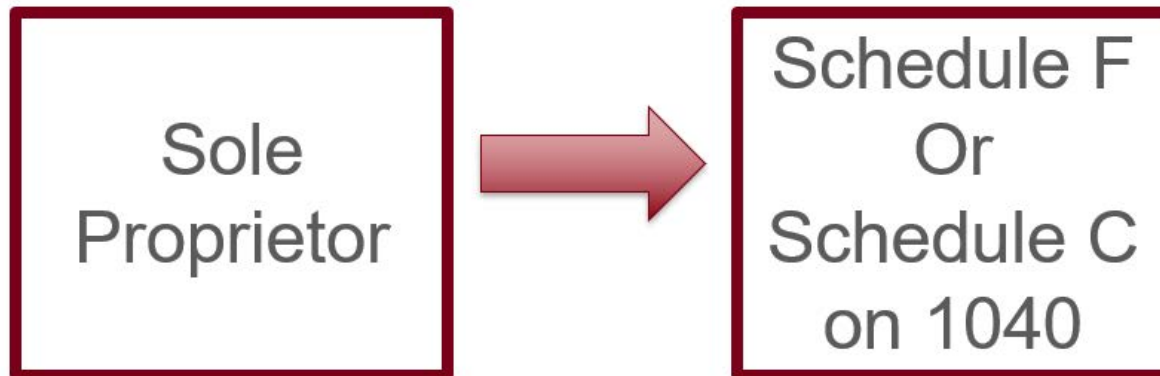
- Generally, reported on **Form 1040 Schedule C** (sole proprietor)
- You are selling a(n):
 - Experience*
 - Service*
 - Ticket*
 - Value-added product*
 - Crafts*

IRS.gov

- Instructions for Schedule C (20 pages)
- IRS Pub. 334 – Tax Guide for Small Business
- Small Business Tax Workshop - <https://www.irsvideos.gov/Business/SBTW>
- Ends up on line 3 of Schedule 1 of Form 1040

The image shows the front page of the IRS Schedule C (Form 1040) for the year 2024. The title is "SCHEDULE C (Form 1040) Profit or Loss From Business". It includes the IRS logo and the text "Department of the Treasury Internal Revenue Service". The form is for "Sole Proprietorship" and "Partnerships must generally file Form 1065". It includes a "OMB No. 1545-0047" and "Attachment Sequence No. 09". The form is divided into several sections: "Name of proprietor", "Principal business or profession", "Business name", "Business address", "Accounting method", "Did you materially participate?", "Did you start or acquire this business during 2024?", "Did you make any payments in 2024 that would require you to file Form(s) 1099?", "Part I Income", and "Part II Expenses". The "Part I Income" section includes lines for "Gross receipts or sales", "Returns and allowances", "Subtract line 2 from line 1", "Cost of goods sold", "Gross profit", and "Other income". The "Part II Expenses" section includes lines for "Advertising", "Car and truck expenses", "Commissions and fees", "Contract labor", "Depreciation", "Depreciation and section 179 expense deduction", "Employee benefit programs", "Insurance", "Interest", "Mortgage", "Other", "Supplies and professional services", "Office expenses", "Rent or lease", "Vehicles, machinery, and equipment", "Other business property", "Repairs and maintenance", "Supplies", "Travel and meals", "Travel", "Deductible meals", "Utilities", "Wages", "Other expenses", "Energy efficient commercial building deduction", and "Other expenses".

Sole Proprietorship



- Sole Proprietor reports business income on his/her personal tax return

Other Entity Types

- If you are an owner of a partnership (1065) or S-Corp (1120S), you will receive a Form K-1 to report your activities

The image displays two tax forms side-by-side. The left form is the 'U.S. Return of Partnership Income' (Form 1065) for the year 2024. It includes sections for 'Income', 'Deductions', and 'Tax and Payment'. The right form is 'Schedule K-1 (Form 1065)' for the year 2024, titled 'Partner's Share of Current Year Income, Deductions, Credits, and Other Items'. It includes sections for 'Information About the Partnership', 'Information About the Partner', and 'Partner's Share of Income, Deductions, Credits, and Other Items'.

Other Entity Types

- If you are an owner of a partnership (1065) or S-Corp (1120S), you will receive a Form K-1 to report your activities
- This ends up summarized on Schedule E of your return
- Reported on Schedule E and line 5 of Form 1040 Schedule 1

SCHEDULE 1
(Form 1040)

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-ES.
Go to www.irs.gov/Form1040 for instructions and the latest information.

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss.

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099K.

Part I Additional Income

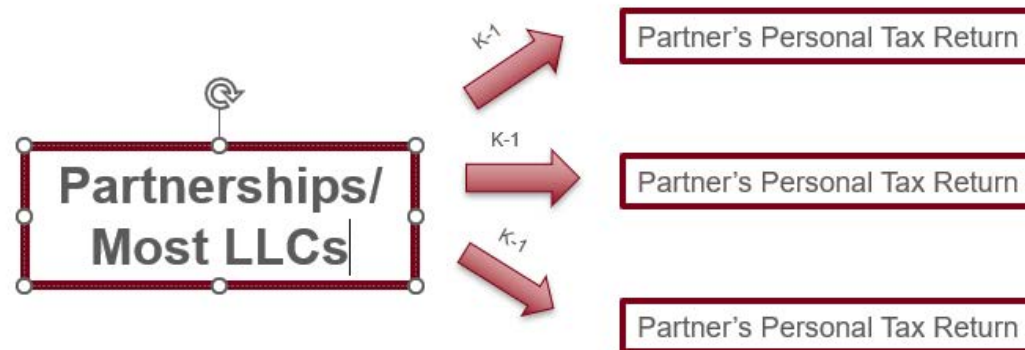
1	Taxable refunds, credits, or offsets of state and local income taxes	1
2a	Alimony received	2a
3	Business income or loss. Attach Schedule C.	3
4	Other gains or (losses). Attach Form 4797.	4
5	Rental real estate, royalties, partnerships, S-corporations, trusts, etc. Attach Schedule E.	5
6	Farm income or loss. Attach Schedule F.	6
7	Unemployment compensation	7
8	Other income:	
a	Net operating loss	8a
b	Capital loss	8b
c	Cancellation of debt	8c
d	Foreign earned income exclusion from Form 2555	8d
e	Income from Form 8883	8e
f	Income from Form 8880	8f
g	Alaska Permanent Fund dividends	8g
h	Jury duty pay	8h
i	Prizes and awards	8i
j	Activity not engaged in for profit income	8j
k	Stock returns	8k
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m
n	Section 917(a) inclusion (see instructions)	8n
o	Section 917(b) inclusion (see instructions)	8o
p	Section 401(b) excess business loss adjustment	8p
q	Taxable distributions from an ABLE account (see instructions)	8q
r	Scholarship and fellowship grants not reported on Form W-2	8r
s	Nonrefundable amount of Medicaid-related payments included on Form 1040, line 1a or 1b	8s
t	Pension or annuity from a nonqualified deferred compensation plan or a nonenvironmental section 407 plan	8t
u	Wages earned while incarcerated	8u
v	Digital assets received as ordinary income not reported elsewhere. See instructions.	8v
w	Other income. List type and amount.	8w
9	Total other income. Add lines 8a through 8w.	9
10	Combine lines 1 through 7 and 9. This is your additional income. Enter here and on Form 1040, 1040-SR, or 1040-ES, line 5.	10

For Paperwork Reduction Act Notice, see your 1040 return instructions.

OMB No. 1545-0047

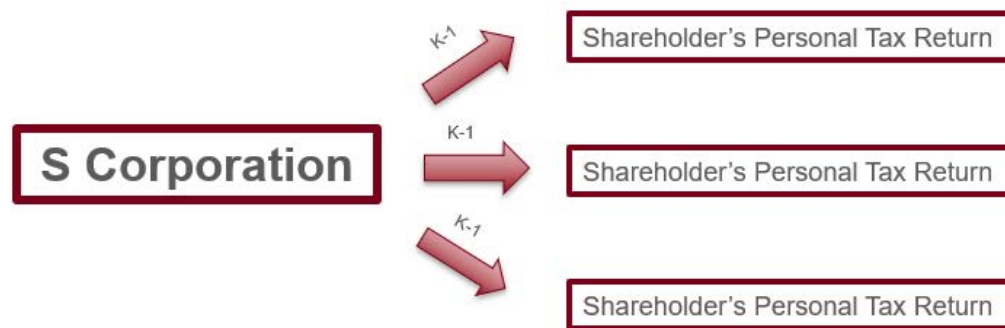
Schedule 1 (Form 1040) 2024

Partnership/LLC



- Partner's share of profits (loss) passes from a partnership to the individuals' return(s)
- No income tax is paid at the partnership level
- All business income subject to self employment tax

S Corporation



- Earnings from LLC subject to Self-Employment Tax
- S Corp must pay shareholders a salary.
 - IRS does have some resources for determining appropriate salary
 - IRS Reasonable Compensation Job Aid for IRS Valuation Professionals (October 29, 2014)

Case Studies / Examples

- Example 1: U-Pick Operation with Farm Store
- Example 2: Farm with Event Venue and Restaurant
- Example 3: Farm with Seasonal Amusement Activities

Why keep good business records?

- Monitor the progress of your business
- Determine profitability/Analyze the business
- Prepare financial statements
- Track receipts and expenses
- Prepare tax returns
- Support tax return
- Third party requests



Separate Business Bank Account

- First step to good financial records
- Typically, easy to set up



Separate Business Bank Account

- All financial transactions are run through this account (*Including family members, co-owners*)
- Keep personal and business separate
- Keep business and business separate

Components of a farm records system

- Farm Income
- Farm Expense
- Capital Assets Purchased and Sold
- Money Borrowed and Debt Paid
- Personal Income and Expense



Separate Business Bank Account

- Will keep a tally of money for the business
- Most small businesses are cash-basis
- Transactions are then input into a ledger

Tax Management



Agritourism / Farming is one part of an overall federal income tax return



Summarized on Schedule 1 of Form 1040 (lines 3 and 6)



Taxpayers have other items affecting their taxable income

Other businesses, off-the-farm income, investments, rental income

Tax Management

- Goal is to maximize **after-tax** income
What is your effective tax rate each year
- Total Tax (Line 24) / Taxable Income (Line 15) = Effective Tax Rate
- Self-employment (Schedule SE) can play a big role

Self-Employment Tax (SE)

Per IRS:

If you are in business (farm or nonfarm) for yourself, you are self-employed.

You must pay SE tax if you had net earnings of \$400 or more as a self-employed person.

The amount on **line 4c** of **Schedule SE** is \$400 or more.

$$15.3\% / 2 = 7.65\%$$

You can combine total self-employment earnings ***BUT*** if both spouses have self-employment income, each must file a separate Schedule SE. (SE-3 Instructions)

Self-Employment Tax (SE)

- Schedule SE Form
- Instructions for Schedule SE (6 pages)
 - Income & Losses Included In Net Earnings*
 - Income & Losses Not Included In Net Earnings*
- Small Business Tax Workshop -
<https://www.irsvideos.gov/Business/SBTW>
- Income from Schedule C / F, 1120S K-1, and Partnership K-1s, QJV

Self-Employment Tax (SE)

Per IRS:

- You can combine total self-employment earnings **BUT** if both spouses have self-employment income, each must file a separate Schedule SE. (SE-3 Instructions)
- You are allowed a deduction for half of the self-employment tax that was paid
- Deduction on Line 15 of Schedule 1 of Form 1040

The image shows the 2024 Schedule SE (Form 1040) Self-Employment Tax form. The form is titled "SCHEDULE SE (Form 1040) Self-Employment Tax" and includes the IRS logo and the year "2024". It is a form for reporting self-employment income and calculating self-employment tax. The form is divided into several sections, including "Part I Self-Employment Tax" and "Part II Deduction for Self-Employment Tax". The form includes instructions for how to report income, how to calculate self-employment tax, and how to claim a deduction for self-employment tax. The form is a standard IRS form used for reporting self-employment income and calculating self-employment tax.

SE Tax – Optional Method

- Optional methods available to pay self-employment tax even if little income or loss
Farm & Nonfarm (SE-6)
- Retirement:
40 quarters of coverage
- Disability:
20 quarters of coverage
- Survivor:
Varies

State Income Tax

- Often calculated based on what you file for federal purposes
- Schedules like C, D, E, F are used for state income tax and included on the state return

https://www.irs.gov/businesses/small-businesses-self-employed/state-government-websites

An official website of the United States Government

IRS

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State government websites

Individuals

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What's available here?

Visit the state websites below and find information on doing business in the state, taxation, links for employers, and more.

- [Alabama](#)
- [Alaska](#)
- [Arizona](#)
- [Arkansas](#)
- [California](#)
- [Colorado](#)
- [Connecticut](#)
- [Delaware](#)
- [District of Columbia](#)
- [Florida](#)
- [Georgia](#)
- [Hawaii](#)
- [Idaho](#)

Business Licenses

- A state / county / town / municipality may require a business license to operate – effectively a tax to operate
- Check with your local government
- Often each activity will need a separate license – renewed annually

Sales Tax

- Not all states have sales tax
- Often *agricultural production* will have a sales tax exemption
- Schedule C sales often subject to sales tax (tickets, value-added products, prepared foods)

Property Tax

- Many states offer a lower property tax rate on agricultural property
- For economic viability, maintain agricultural production, protect environmental assets, based on current use value
- Schedule C activities often not eligible for agricultural property tax rates
- Agritourism often allowed as 'accessory use'

nationalaglawcenter.org

The National Agricultural Law Center
The Nation's Leading Source of Agricultural and Food Law Research and Information

Check out... [The Ag & Food Law Update >](#)

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- EQUINE ACTIVITY
- FARM ANIMAL CONFINEMENT
- FENCE LAW
- GRAIN GRADING
- HEIRS' PROPERTY STATE SURVEY
- MEAT PROCESSING
- NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM (NPDES)
- NOXIOUS WEEDS
- OWNERSHIP OF AG LAND
- PARTITION LAWS
- RECREATIONAL USE
- REGULATION OF GRAIN SALES & STORAGE
- RIGHT-TO-FARM

A National AgLaw Center Research Publication

Differential Tax Assessment of Agricultural Lands

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Property taxes are a fact of life for virtually all landowners in the United States, including farmers and ranchers. However, all states have laws that tax agricultural land differently than other lands to lower the amount of property taxes farmers and ranchers pay. The purposes of these "differential tax assessment" laws for farmland are varied, and can be to maintain the economic viability of farming, remove incentives to develop agricultural land, protect environmental benefits of farmland, and tax agricultural land according to its cost of community services. Generally, differential tax assessment discounts the value of the land to reflect its use for agricultural purposes rather than for residential, commercial, or industrial development. But no two state laws are exactly alike in the specifics of what land qualifies for the assessment, how to calculate the agricultural value of land, and penalties for removing land from agricultural use. This compilation presents each state's provisions for differential tax assessment of agricultural land. Using the map below, click on a state to view its differential tax assessment laws.

This compilation is the result of a collaborative effort between the National Agricultural Law Center and The Ohio State University Agricultural & Resource Law Program. Further, it is based upon work supported by the National Agricultural Library, Agricultural Research Service, U.S. Department of Agriculture. Last updated January 2019.

USDA

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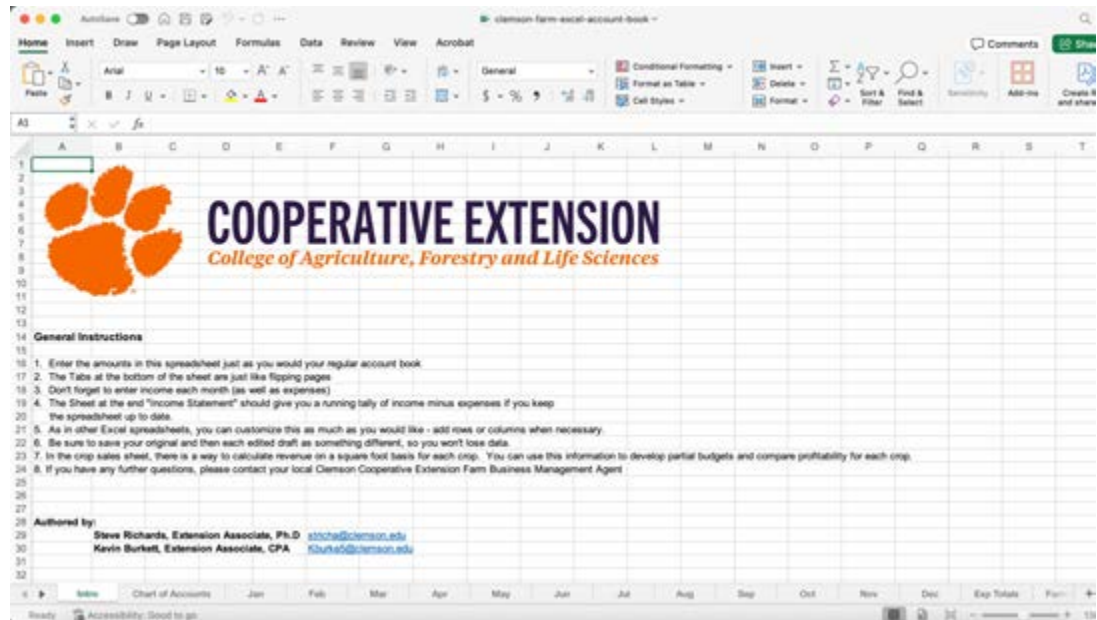
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Recordkeeping

Manual account book

Excel Spreadsheet
Google Sheets

(templates)



Recordkeeping



Paid bookkeeping service



Questions



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