



Tax Definitions (Safe Harbors) of Farmer

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Rural Tax Education

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 - Disaster/Weather Losses
 - Treatment of Government Payments
 - Farm Losses and Hobby Rules
 - Self-Employment Taxes
 - Estate and Gift Taxes
 - Like Kind Exchanges
 - Depreciation
 - Etc...



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Today's Program Agenda



- Defining Farm and Farming: quick baseline
- Defining Farmer/Rancher: quick baseline
- Internal Revenue Code (IRC) definitions or safe harbors for farmers
- Examples to help illustrate

Tax Definitions of
Farmer
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Farm

- *A business with a profit motive.*
- *“A farm includes livestock, dairy, poultry, fish, fur, fruit and truck farms. It also includes plantations, ranches, ranges, and orchards and groves.”*
 - Crop farms
 - Cattle ranches
 - I.R.C. § 2032A(e)(4)





Farming

- The conduct or activities of an agricultural enterprise is referred to as “farming” or “ranching” [I.R.C. § 2032A(e)(4)]
 - Cultivating the soil or raising and harvesting agricultural or horticultural commodities; this includes raising, shearing, caring, training, and management of animals.
 - Handling, drying, packing, grading, or storing on a farm any agricultural or horticultural commodity in its unmanufactured (natural) state.
 - Planting, cultivating, caring for, or cutting of trees or preparing trees for market.

Farmer or rancher

- IRS Publication 225, The Farmer's Tax Guide, defines a farmer or rancher as an individual *"...in the business of farming if you cultivate, operate, or manage a farm for profit, either as an owner or tenant."*
- This definition also applies to:
 - Partnerships
 - Corporations
 - Estates, and
 - Trusts



Farming is not ...



- Custom harvesting as a service business
- Trucking of farm commodities to market as a service business
- Custom farming as a service business
- Processing of farm commodities into value added products, e.g.,
 - Cheese
 - Meat
 - Wine

Farming examples

- Roger operates a multiple-enterprise farm which has a long-term gross receipts of \$750,000. Roger is a farmer
- Maria has two specially constructed greenhouses in which she raises mushrooms. Maria generates \$25,000 in gross receipts and earns \$10,000 in net profits. Maria is a farmer. Implicit is Maria's profit motive, thus, scale (as compared to Roger) is not a factor.
- Amal raises tilapia in ponds. The fish are harvested and go to market as live fish (shipped in special tanker trucks), fresh, and frozen. For IRS purposes, Amal files Schedule F to report her income and expenses from her fish farming business.
- Rick rents all the land upon which he raises row crops. Rick is engaged in the business of farming even though he does not own any land. Rick uses Schedule F to report his income and expenses.

IRS Reporting of Farm Businesses

- Sole proprietor farming businesses use IRS Schedule F, Profit or Loss from Farming to report income and expenses of the farming business.
- Schedule F can be used by partnerships, Corporations, Trusts and Estates to report farming activities.

SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, 1041, or 1065. Go to www.irs.gov/ScheduleF for instructions and the latest information.		2024 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 instr.)
E Did you "materially participate" in the operation of this business during 2024? If "No," see instructions for limit on passive losses <input type="checkbox"/> Yes <input type="checkbox"/> No				
F Did you make any payments in 2024 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 purchased livestock and other resale items (see instructions)		1a		
b Cost or other basis of purchased 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)	3a	3b Taxable amount	3b	
4a Agricultural program payments (see instructions)	4a	4b Taxable amount	4b	
5a Commodity Credit Corporation (CCC) loans reported under election		5a	5a	
b CCC loans forfeited	5b	5c Taxable amount	5c	
6 Crop insurance proceeds and federal crop disaster payments (see instructions):				
a Amount received in 2024	6a	6b Taxable amount	6b	
c If election to defer to 2025 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2023	6d	
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	
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 line 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 <input type="checkbox"/> All investment is at risk. b <input type="checkbox"/> Some investment is not at risk.				
For Paperwork Reduction Act Notice, see the separate instructions.				
Cat. No. 11346H Schedule F (Form 1040) 2024				

Definitions are perhaps illusive

- When reading the Internal Revenue Code, the terms “*farm*”, “*farmer*” and “*business of farming*” are generally consistent throughout various tax provisions. Unfortunately, there is not one all-inclusive definition. Thus, usage of the terms could be interpreted in different ways for the purpose of applying different income tax provisions.
- Several definitions hinge on the term “*gross income from farming*” and, as such, create safe harbors for qualifying taxpayers.
- Examples which follow illustrate some nuances

Unique definitions/safe harbors regarding farmers and filing tax returns

- Different income thresholds to consider
 - Estimated Tax Penalty
 - Soil and Water Conservations Expense Deductions
 - Qualified Conservation Donations
- Income thresholds not considered
 - Income Averaging
 - Deduction of Fertilizer
- Others

Exception to Estimated Tax Penalty

- Must be a farmer as defined for this purpose by having 66 2/3rds income from farming. [IRC § 6654(i)(2)]
- Sources of farm income see list to the right which comes from IRS Publication 225 (October 2024)
 - *Farmer's Tax Guide*

Gross income from farming is the total of the following amounts from your tax return.

- Gross farm income from Schedule F (Form 1040).
- Gross farm rental income from Form 4835.
- Gross farm income from Schedule E (Form 1040), Parts II and III.
- Gains from the sale of livestock used for draft, breeding, sport, or dairy purposes reported on Form 4797.
- Gains from the sale of depreciable farm equipment reported on Form 4797.

Line 9: Gross Income from Farming

- Line 9 is the total of Lines 1-8
- If 2/3rds of total gross income is farm income, filing date is March 1, no estimated tax payments need to be made.
- Or, if you must pay estimated tax, make a single estimate by Jan 15.

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Name of proprietor			Social security number (SSN)		
Betsy			Betsy's SSN		
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	
Soybeans, Corn and cattle					
E Did you "materially participate" in the operation of this business during 2024? If "No," see instructions for limit on passive losses			<input type="checkbox"/> Yes <input type="checkbox"/> No		
F Did you make any payments in 2024 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 purchased livestock and other resale items (see instructions)		1a			
b Cost or other basis of purchased 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		250,000	
3a Cooperative distributions (Form(s) 1099-PATR)		3a		1,500	
3b Taxable amount		3b		1,200	
4a Agricultural program payments (see instructions)		4a		55,000	
4b Taxable amount		4b		55,000	
5a Commodity Credit Corporation (CCC) loans reported under election		5a			
b CCC loans forfeited		5b			
5c Taxable amount		5c			
6 Crop insurance proceeds and federal crop disaster payments (see instructions):					
a Amount received in 2024		6a			
6b Taxable amount		6b			
c If election to defer to 2025 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2023		12,000	
7 Custom hire (machine work) income		7		1,000	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		8		10,000	
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		329,200	

Soil and Water Conservation Expense

- Limited to 25% of Gross Farm Income (generally Line 9, Schedule F. [IRC § 175(b)]
 - Active material farmers filing Schedule F [IRC § 175(c)(2)]
 - Active share-crop landlords filing Form 4835 [IRC § 175(c)(2)]
- Betsy, in the following slide has \$329,200 of Gross Farm Income
 - Therefore, she is limited to \$82,300 in the allowable deductions.
 - If she spent more, the excess is carried over to the subsequent year, again, subject to the 25% limitation.

Line 9: Gross Income from Farming

- Line 9 is the total of Lines 1-8
- Conservation expenses are limited to 25% of Line 9, in Betsy's case \$82,300 this year.

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Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, 1041, or 1065. Go to www.irs.gov/ScheduleF for instructions and the latest information.		2024 Attachment Sequence No. 14	
Name of proprietor			Social security number (SSN)		
Betsy			Betsy's SSN		
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	
Soybeans, Corn and cattle					
E Did you "materially participate" in the operation of this business during 2024? If "No," see instructions for limit on passive losses			<input type="checkbox"/> Yes <input type="checkbox"/> No		
F Did you make any payments in 2024 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 purchased livestock and other resale items (see instructions)		1a			
b Cost or other basis of purchased 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		250,000	
3a Cooperative distributions (Form(s) 1099-PATR)		3a		1,500	
3b Taxable amount		3b		1,200	
4a Agricultural program payments (see instructions)		4a		55,000	
4b Taxable amount		4b		55,000	
5a Commodity Credit Corporation (CCC) loans reported under election		5a			
b CCC loans forfeited		5b			
5c Taxable amount		5c			
6 Crop insurance proceeds and federal crop disaster payments (see instructions):		6			
a Amount received in 2024		6a			
6b Taxable amount		6b			
c If election to defer to 2025 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2023		12,000	
7 Custom hire (machine work) income		7		1,000	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		8		10,000	
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		329,200	

Conservation Contribution Deduction

- For farmers and their families who are motivated to preserve farm/open land, section 1206(a)(1) of the 2006 Pension Protection Act made an amendment to section IRC § 170(b)(1)(E)(iv)(I) allowing farmers and ranchers to deduct the value of these charitable contributions to the extent these contributions do not exceed 100% of their contribution base (which is generally their AGI). All other taxpayers are limited to 50% of contribution base (AGI).
- For this purpose, a qualifying farmer is one whose gross income from a farming/ranching trade or business is greater than 50% of gross income from all sources for the year of contribution.
- Additionally, for this purpose, farming is defined with reference to IRC § 2032A...which we saw earlier, includes timber.

Example: Conservation Contribution

- Total Gross Income: \$221,000
- Total Gross Farm Income: \$135,000
- Percentage:
 $135,000 / \$221,000 = 61.11\%$
- Qualified?
 - For Conservation Contribution, **YES**
 - For Estimated Tax Rules, **NO**

Income Item	Tax Return Income	Total Gross Income	Gross Inc from Farm
Wages	\$30,000	\$30,000	
Interest Income	\$1,000	\$1,000	
Farm Income (net)	\$65,000	\$65,000	\$65,000
Sale of Non-farm Equipment	\$55,000	\$55,000	
Sale of Timber	\$70,000	\$70,000	\$70,000

Farm Income Averaging

- Interestingly, for Farm Income Averaging, there is not an income threshold which defines a “farmer”.
- However, under Treas. Reg. § 1.1301-1(a), only electable farm income is eligible.
- Under the rules, elected farm income is carried back equally to three prior years to use the unused base year’s lower tax brackets.
- Electable farm income includes: Net Schedule F, gains from the sale of breeding, dairy, draft livestock and equipment sales. For this purpose, timber and land sale gains are excluded.
- If the taxpayer is a shareholder in a farming S-corporation, wages can be attributed to the farming business as farming income.

Example Farm Income Averaging

- Total Tax Return: \$196,000
- Gross Income: \$199,000
- Electable Farm Income: \$154,500, note capital loss offsets breeding gain
- Moved into 3 base years, \$51,500/yr

Income Item	Tax Return Income	Gross Income	Electable Farm Income
Salary	\$40,000	\$40,000	
Int/Dividend Income	\$1,500	\$1,500	
Capital Loss	(\$3,000)		
Net Farm Income	\$150,000	\$150,000	\$150,000
Gain on breeding animals	\$5,000	\$5,000	\$2,000
Gain on sale of equip	\$2,500	\$2,500	\$2,500
Total	\$196,000	\$199,000	\$154,500

Fertilizer and Soil Amendments

- Under IRC § 180 the method to deduct fertilizers and soil amendments is provided; additionally, an election is made available to qualifying individuals.
 - Taxpayers who are engaged “in the business of farming” (farmers) may elect to deduct what generally is to be capitalized (because it has a useful life of more than one year).
 - The land must be used in “farming”, either in the prior year or current year by the landowner or tenant.
 - The election is made by taking the deduction on the return.

Reporting/making the fertilizer deduction

- Farmer John deducts \$15,000 of fertilizer by making the entry on Line 17, Schedule F. The election to deduct and not amortize is made in this manner.

13	Custom hire (machine work)	13	
14	Depreciation and section 179 expense (see instructions)	14	
15	Employee benefit programs other than on line 23	15	
16	Feed	16	
17	Fertilizers and lime	17	15,000
18	Freight and trucking	18	
19	Gasoline, fuel, and oil	19	
20	Insurance (other than health) . .	20	
21	Interest (see instructions):		
a	Mortgage (paid to banks, etc.) . .	21a	

Exemption from Inventories

- Treas. Reg. § 1.471-6
 - (a) *A farmer may make his return upon an inventory method instead of the cash receipts and disbursements method. It is optional with the taxpayer which of these methods of accounting is used but, having elected one method, the option so exercised will be binding upon the taxpayer for the year for which the option is exercised and for subsequent years unless another method is authorized by the Commissioner as provided in paragraph (e) of § 1.446-1.*
- Also, for small businesses with Gross Receipts less than \$31 million (2025) under IRC § 448 may use cash accounting.

Solvent farmer exception for CODI

- Under IRC § 108(a)(1)(C) qualifying taxpayers who are farmers may exclude Cancellation of Debt Income (CODI) from tax calculations if the debt was qualifying farm indebtedness.
 - Qualified farm indebtedness is the amount of indebtedness incurred directly in connection with the ***trade or business of farming***.
 - In addition, 50% or more of your aggregate gross receipts must be from the trade or business of farming for the 3 tax years immediately preceding the tax year that the indebtedness was discharged.
 - Secondly, the discharge must have been made by a qualified person. Generally, a qualified person is an individual, organization, etc. who is actively and regularly engaged in the business of lending money. A qualified person also includes any federal, state, or local government or agency or instrumentality thereof.

Exemption of FICA taxes on noncash wages

- Farmers often pay labor from noncash sources such as in commodities. Payment for labor in such a manner is exempt from FICA under IRC § 3121(a)(8)(A).
 - *...remuneration paid in any medium other than cash for agricultural labor;*
 - Note that the reference in this code section is for **agricultural labor**, thus it is presumed that a “farmer” is paying.

Example:

- Rosa pays her hired labor \$20,000 per year in cash, additionally, she pays ~\$10,000 in commodity wages. FICA is paid on the \$20,000 per the usual rules. The commodity wages are exempt from FICA, thus, neither party is subject to 7.65% withholdings.

Farming C Corporations can use Cash Accounting

- Similar to the previous slide discussion of inventories, IRC § 448(b)(1) allows farming corporations to use the cash method of accounting.

“(a) General rule

Except as otherwise provided in this section, in the case of a—

(1) C corporation,

(2) partnership which has a C corporation as a partner, or

(3) tax shelter, taxable income shall not be computed under the cash receipts and disbursements method of accounting.

(b) Exceptions

(1) Farming business Paragraphs (1) and (2) of subsection (a) shall not apply to any farming business.”

Excise tax on gasoline

- Farmers and ranchers have motorized equipment which uses gasoline, e.g., four-wheelers, tractors, pickups, aircraft, etc.
- IRC § 6420 allows for a tax credit which is calculated by multiplying the number of gallons of gasoline used and the federal fuel excise tax paid (18.3 cents/gal).
- There are definitions for farm and farming purposes which are similar to those discussed previously in this webinar.
 - See IRC § 6420(c) Meaning of Terms for more detail.

Fuel Excise tax example

- The benefit of the Fuel Excise tax credit is a two-step, two-tax year exercise.
- Example: Jim operates a ranch. In 2024 he consumed 1,000 gallons of gasoline on the ranch in documented non-highway use. Jim's tax professional calculated his Fuel Excise Tax Credit to be \$183 (1,000 x \$0.183). This was a 2024 credit of tax paid reported on Line 25c Form 1040, flowing from Line 12, Schedule 3.
- Line 25c, Form 1040

24		Add lines 22 and 23. This is your total tax		
Payments	25	Federal income tax withheld from:		
	a	Form(s) W-2	25a	
	b	Form(s) 1099	25b	
	c	Other forms (see instructions)	25c	183

- Line 12, Schedule 3, Form 1040

Part II		Other Payments and Refundable Credits		
9	Net premium tax credit. Attach Form 8962	9		
10	Amount paid with request for extension to file (see instructions)	10		
11	Excess social security and tier 1 RRTA tax withheld	11		
12	Credit for federal tax on fuels. Attach Form 4136	12	183	

Fuel Excise tax example 2025

- The benefit of the Fuel Excise tax credit is a two-step, two-tax year exercise.
- Since Jim received the 2024 calculated fuel tax credit of \$183 during the income tax filing season in 2025, he must add the \$183 of the credit to his 2025 farm income by making a “book entry” in his farm records. The credit is reported on Line 8, Other Income, of his 2025 Schedule F.

<input checked="" type="checkbox"/> If election to defer to 2025 is attached, check here	<input type="checkbox"/> Amount deferred from 2025		
7 Custom hire (machine work) income	7		
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	8		183
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		

Summary

- An all-inclusive definition of Farm, Farmer, or Farming is not found in the Internal Revenue Code.
- Farmers and ranchers should be aware of nuanced definitions for specific tax benefits which may accrue based on specific fact patterns.
- Tax professionals should also be aware of these definitions and tax benefits which may be of help to farm and ranch clients.

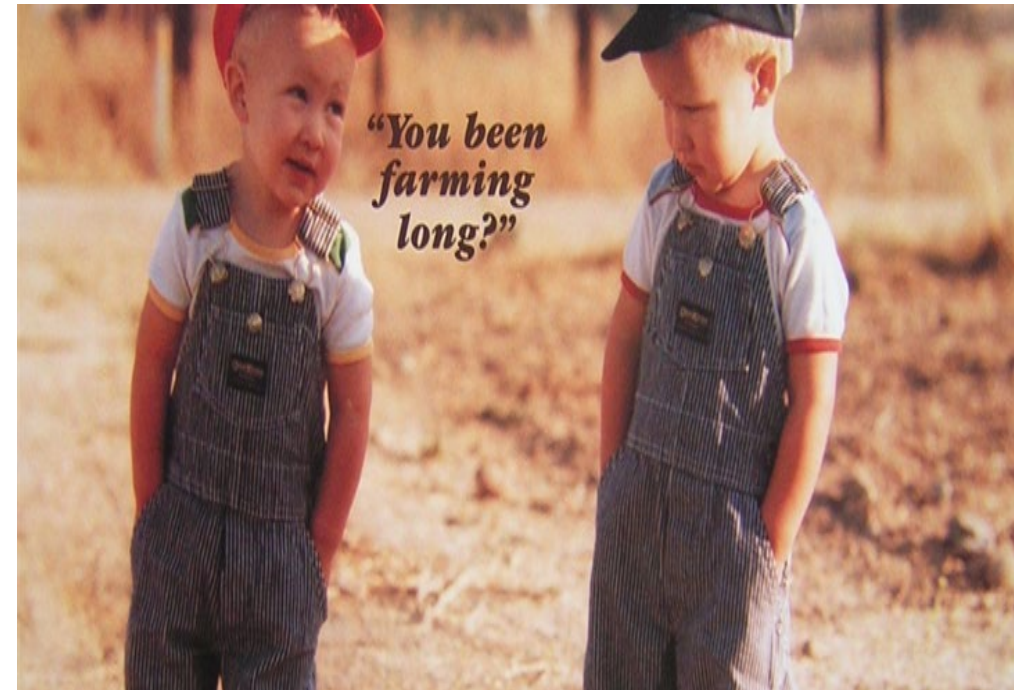


Photo credit: Deni Overton, mother of the twins (Matt and Chris), photo taken in 1978.

References and email

- RuralTax.org has resources which may be helpful
 - <https://extension.usu.edu/ruraltax/tax-topics/farm-farming-whos-a-farmer>
- IRS Farmer's Tax Guide
 - <https://www.irs.gov/pub/irs-pdf/p225.pdf>
- For any follow-up questions, please contact:
 - info@ruraltax.org

What
Questions
Might You
Have?

