

CLIENT REPORT:

Farming: Farm Business Expenses

Dear Client:

Farmers, as in any other type of business, may deduct ordinary and necessary business expenses. However, farming is a capital-intensive industry with a low ratio of income to investment. It is subject to risks such as weather conditions and widely fluctuating prices for its products that other businesses do not encounter. In addition, many types of farm income and expenses are unique to farming and are not incurred by other businesses. Therefore, there are a number of tax provisions and considerations that apply only to the business of farming.

For instance, qualified farmers can use the cash method of accounting for tax purposes. Deductions for a cash-basis taxpayer are generally allowed in the year paid. Exceptions to the general criteria for deducting expenses of cash basis taxpayers include the accounting for prepaid farm supplies, and the required capitalization of certain preproductive costs. In addition, there are special rules for the treatment of soil and water conservation expenditures; depreciation; terracing and leveling land; feed and other costs of raising livestock; labor; fertilizer, lime and other materials for soil improvement; and vehicles.

Given the variety of special tax considerations unique to farming, it is important to review your various expenditures and their substantiation and recordkeeping requirements. Please give our office a call to arrange an appointment to discuss taking full advantage of farm tax provisions and making the proper elections.

Sincerely yours,

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