But first, a little background...
California FarmLink works to...

Facilitate Farm Transfers

California farmers 65 and older outnumber farmers under 35 by 9:1

Farm operators under age 35 declined 34% between 1992 & 2002

Conserve Farmland

In California, about 50,000 acres of good farmland are paved over annually—most for residential development

Help New Farmers Get Started

New farmers face significant barriers to entering agriculture: insecure land tenure and poor access to financing
California FarmLink provides services for farmers and ranchers...

Access to Land

- Online land listings
  - Farm lease, partnerships and/or purchase opportunities
- Negotiating and composing agreements
- Manage expectations

Access to Capital

- FarmLink Loan Program
- Exploring options, preparing for financing, loan packaging
FarmLink Loans: Details

- Loan amount: up to $250,000
- Loan type: loans – no lines of credit
- Loan use: production/operating OR equipment/infrastructure
- Terms: production = 1 year, equipment = 1-7 years
- Interest rate: 7% fixed
- Loan fees: 2%
Got Land? Need Land?

- Visit www.cafarmlink.org
- Fill out a “Landseeker (or Landowner)Form”
- Peruse listings on the website (self-service)
- Meet landowner(s) by phone or in person
- FarmLink Regional Coordinator will help facilitate or negotiate lease or tenure agreement
Introduction to Income Taxes

Presented by Poppy Davis
Introduction to Income Taxes

- This is an overview of the key elements of the personal income tax return.

- At the end we will talk about resources for getting organized and getting help filing your taxes.
Introduction to Income Taxes

- This presentation covers Federal Income Taxes.

- Once you have the federal information you should be able to file state tax returns as well.
  - (California and most other states also have State Income Tax filing requirements, but state tax returns use the same information as federal returns.)
If you have net self-employment income of $400 or more you are required to file.

If you receive any forms 1099 you should file, regardless of other factors, because otherwise you will likely receive an inquiry from the IRS.

Generally individuals use a calendar year and file by April 15\textsuperscript{th}. Some farmers elect to file by March 1\textsuperscript{st} to take advantage of special rules regarding estimated tax payments.
Introduction to Income Taxes

- Just because you file does not mean you owe!
Introduction to Income Taxes

- IRS Form 1040 is a summary of all tax activity for an individual or family.
- Farming activity is one number on the 1040.
- Schedule F is attached to the 1040 with the detail of the farm income and expense.
Federal Form 1040 – Page One

- Personal Information
- Filing Status
  - Single, Married, MFS, Head of Household
- Dependents
Wages
Investment and Retirement Income
Self Employment
  - Schedule C - OR
  - Schedule F for FARM
Subtract Special Adjustments
  - Retirement, Health Insurance, etc.
Adjusted Gross Income
Federal Form 1040 – Page Two

- Itemized Deductions (Schedule A)
- OR Standard Deduction amounts vary based on filing status: Single, Married, or Head of Household
- Income Tax
- Self Employment Tax
- Tax Credits
- Amounts already paid
- Amount due or refund due
The Earned Income Tax Credit (EITC)
- goes up as income goes up, up to about $14,000
- then goes down as income goes up, and is gone at $35,000
So sometimes more income will give you a bigger EITC
And sometimes less income will give you a bigger EITC
Other Uses of Income Tax Returns

• Help you to participate in:
  • food and nutrition programs
  • housing programs
  • USDA programs to help you farm
• Help you to get a loan for home or business
• Help your children get scholarship money for college
Schedule F - Farm Income

- Sales of Products Purchased
- Sales of Products Raised
- Other Income
Farm Expenses

- Cultivation
- Harvest
- Marketing
- Administration
Vehicle Expense

- There are two methods to choose from: “Actual” and “Mileage”
- Can not switch back and forth
- Actual means keep all receipts
- Mileage means take an IRS set amount for each mile
- Both methods require you to keep a record of your business miles
Farm Assets (other than vehicles)

- Draw a map and take pictures!
- Major Asset Categories:
  - Land
  - Land Improvements (irrigation, trees, roads)
  - Buildings and Structures (single purpose ag structure vs. other)
  - Farming Equipment (generally 7 year)
  - Office Equipment (also generally 7 year)
  - Computers and software (5 years, 36 months)
Shared Use of Farm and Personal Assets

- Draw a Map and take pictures!
- Allocate based on appraisal
  - determine value of property
  - determine value of components: house, barn, road, septic, prime land, marginal land, permanent crops (trees, vines.)
  - determine the value of farm components and personal components and the total percentage of each
  - use the percentage to allocate shared expenses such as mortgage interest, property taxes, utilities.
**Per Appraisal page 1**

<table>
<thead>
<tr>
<th>Description</th>
<th>Personal</th>
<th>Farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Value of House</td>
<td>155,000</td>
<td>155,000</td>
</tr>
<tr>
<td><strong>Value of Barn</strong></td>
<td><strong>20,000</strong></td>
<td><strong>20,000</strong></td>
</tr>
<tr>
<td>Value of Ag Well and Improvements</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Value of Apple Trees</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Value of Land</td>
<td>110,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>300,000</strong></td>
<td>equals purchase price</td>
</tr>
</tbody>
</table>

**Breakdown of Land per below:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Personal</th>
<th>Farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Prime Ag land</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Value of marginal farmland</td>
<td>21,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Value of Homesite</td>
<td>11,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Value of access and unfarmable</td>
<td>3,000</td>
<td>(2/25 = .08 = personal) 240 2,760</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110,000</strong></td>
<td>agrees with above</td>
</tr>
<tr>
<td><strong>Allocation Data Per appraisal page 3-4</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Personal</th>
<th>Farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Acres</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Acres of prime farmland</td>
<td>15</td>
<td>Value per acre 5,000</td>
</tr>
<tr>
<td>Acres of marginal farmland</td>
<td>7</td>
<td>Value per acre 3,000</td>
</tr>
<tr>
<td>Acres of Homesite</td>
<td>2</td>
<td>Value per acre 5,500</td>
</tr>
<tr>
<td>Acres of access and unfarmable</td>
<td>1</td>
<td>Value per acre 3,000</td>
</tr>
</tbody>
</table>
How to use allocation

- Farm assets (well, trees, etc.)
- Allocation percentages for
  - Mortgage interest
  - Property Taxes
  - Utilities if no separate meter
- What about an office in the home?
  - Will require more detail on allocation sheet.
Asset information for Tax Depreciation Schedule

- Maintain a list of assets
  - description
  - purchase date
  - purchase amount
  - depreciation taken to date (accumulated depreciation)
  - major repairs that extend life are additions to the original asset (i.e. a rebuilt engine)
Other Farm Expenses

• Promotion – this is part of sales!
  • Business gifts – must document business purpose
  • Business Entertainment – subject to 50% limitation, includes entertainment in your home (i.e. a dinner party)
• Document in your calendar, and include the business purpose of the relationship.
  • (who, what, why, when, and where)
Other Farm Expenses

- Education related to your business – this is a necessary business expense!
  - magazines, newspapers, books
  - classes, including travel and lodging
  - cultivation related
  - business and marketing related
**Other Farm Expenses**

- **Per Diems**
  - Away from tax home for a period substantially longer than a regular workday - reasonably requiring an additional stop to eat and rest (i.e., a dinner break in addition to a normal breaks and lunch.)
  - When you travel to a distant farmer’s market or to take a class you may claim a per diem deduction for your meals instead of keeping receipts.
  - You usually get over $30 a day!
Other Farm Expenses

• Per Diems (Still subject to 50% limitation)
  • CONUS per diem rates are in IRS pub 1542
    • In California, you always come out ahead using
      the “Maximum” rather than the “High /Low”
  • International per diems at
    http://www.state.gov/m/a/als/prdm/
Tax return input

- Forms for a farm do not include a line for meals and entertainment.
- Be sure to enter clearly “Meals and Entertainment – AT 50%”
- (Or if you give to a tax preparer enter at 100% with a note saying that you have used the per diem rates.)
Retirement

- IRA – Reduces taxable income by the amount saved. Contributions are limited by your earned income. You pay taxes when you use the money.
- Roth IRA – as above, but no deduction now and no taxes when you withdraw the money.
- SEP (Net self-employment earnings times 13.0435%)
- See Pub 560 for more information on retirement plans for small business
- If you contribute to a retirement plan, you may also qualify for a “Saver’s Credit.” See Pub 590
- Total tax savings may equal close to half of what you put away!
Value Added is not Farming

- Requires a separate schedule C.
- Go back to allocation worksheet and set up additional allocations.
- You will have inventory.
- The cost of the raw goods will come from the Schedule F as a percentage of your net.
- You will need to do additional research.
- At the least you should get a professional consultation before you try to do it on your own.
Permanent Crops & Self Constructed Assets

- Be very careful! The rules are complex.
- Generally, you must capitalize the costs associated with establishing permanent crops (planting vines, bushes are trees that will bear crops in future years.)
- Likewise you must capitalize costs associated with creating other assets – like a new building
There are exceptions to the rule that you must capitalize your costs – but the exception is complicated too.

Please seek professional assistance if you plant permanent crops.
How to get more information

- IRS web site has information in English and Spanish. IRS Pub 225, The Farmer’s Tax Guide is an excellent resource
- RuralTax.org is also excellent
- Turbo Tax program is good if you take your time to read and answer all of the questions very carefully.
- Local tax preparers??? Maybe, maybe not.
- A CPA is worth the extra money – IF they know farm taxes – or are willing to learn.
How to get organized

- The Farm and Ranch Income Tax Organizer is a tool to help you get organized.
- It is designed to help you get the most out of tax preparation software or working with a tax preparer.
- It also guides you to more information on the IRS website.
Next Steps

Download our Farm and Ranch Income Tax Organizer, and get started today:
Thank You!

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