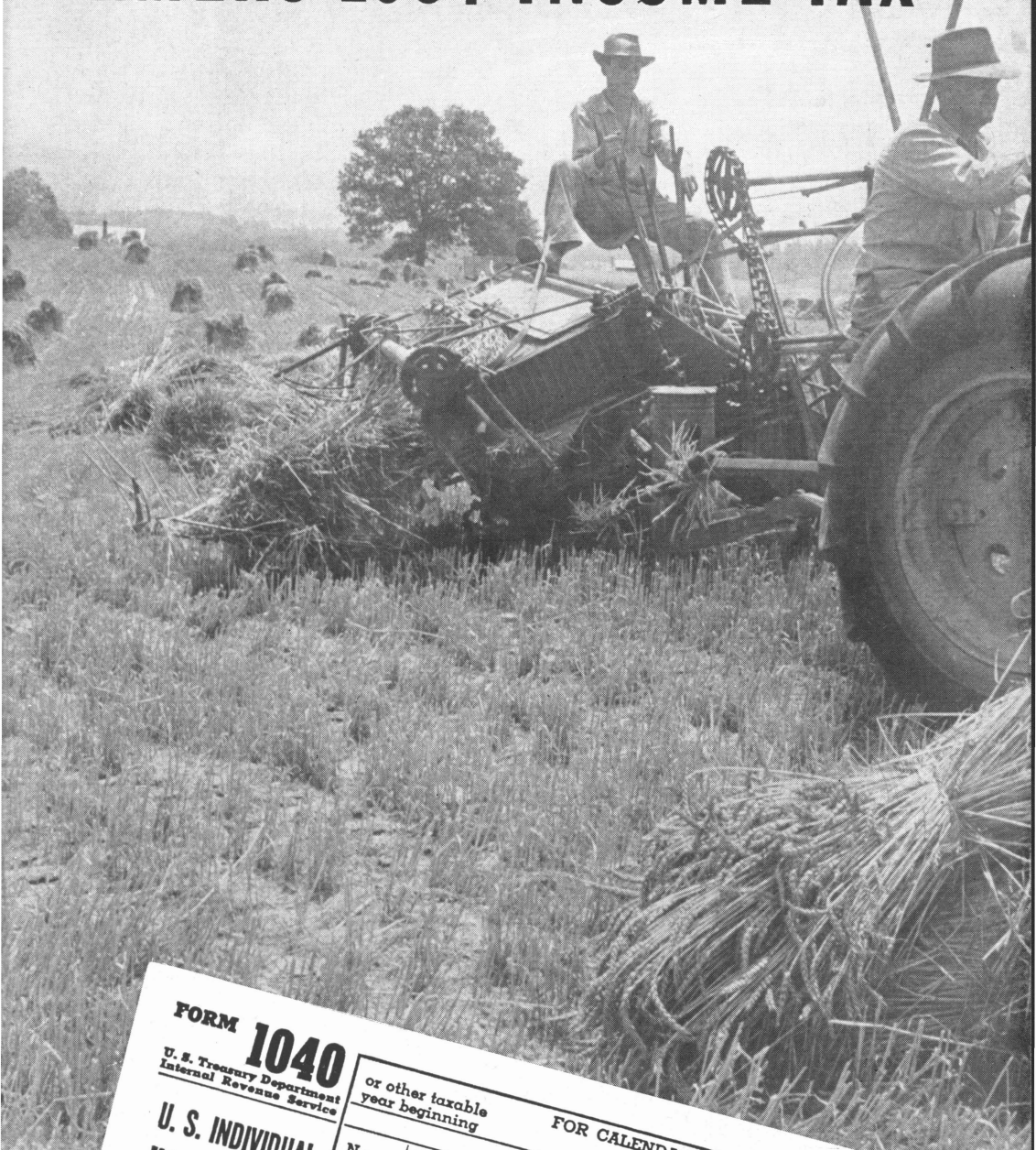


FARMERS 1954 INCOME TAX



FORM 1040
 U. S. Treasury Department
 Internal Revenue Service

U. S. INDIVIDUAL
 INCOME TAX
 RETURN

or other taxable
 year beginning

FOR CALENDAR YEAR 1954
 PLEASE TYPE _____, 1954, and _____

Name	If this is a joint return
Home Address	Street R. City, JO
Your Social Security Number	

FORM 1040 F
 U. S. Treasury Department
 Internal Revenue Service

SCHEDULE OF FARM INCOME
 For Calendar Year

Or other taxable year beginning _____, 1954,

Name _____
 Address _____

1. List your name, If your income or if this is a joint name:
A. John Farmer
B. Jane Farmer
 (Your wife's name)

Your exemptions

Important Changes in the Tax Law

Tax rates for the calendar year 1954 are approximately 10 percent lower than for 1953. This is an effect of the Revenue Act of 1951, which imposed rate increases, but prescribed automatic reduction to the lower rates after 1953.

During 1954 Congress made a major revision of the internal revenue laws. This revision resulted in an entirely new "Internal Revenue Code of 1954." Whenever section numbers appear in this publication, they refer to section in the new code. In addition to rearrangement of the provisions to give a more logical sequence and to delete obsolete material, the code includes a considerable number of important new provisions. Several of these are of particular interest to farmers, and are discussed in this publication on the pages indicated:

Who must file a return, page 3.

Date return is due, page 3.

Figuring depreciation, pages 5-8 and 10.

Computing gains and losses, pages 8-9 and 11-12.

Non-recognition of gain from disposition of diseased livestock, page 12.

Sales of Christmas trees, page 13.

Soil and water conservation expenditures, pages 13-19.

Net operating loss deduction, pages 9 and 30.

In addition, there are many other changes that affect individuals of all occupations. These are explained in the instruction pamphlet that comes with Form 1040. Some of these provisions are listed below, followed by references to the pages in the instruction pamphlet where they are discussed.

1. Credit for retirement income, including rents, dividends, interest, annuities, and pensions, page 15.
2. Credit for income from certain corporation dividends, page 15.
3. Medical, dental and similar expenses, page 13.
4. Head of family, page 4.
5. Dependents, page 5.
6. Child-care expenses, page 13.
7. Charitable and similar contributions, page 12.
8. Sale of residence, page 9.

"Your Federal Income Tax," for sale by the Superintendent of Documents, Washington 25, D. C., at 25c, explains these and other changes in more detail.

Prepared by: W. L. Turner, N. C. (Chmn.); Eugene Gambill, Tenn.; E. P. Callahan, Ext. Ser., USDA.

B-193, (Revised)

The Texas Agricultural Extension Service, G. G. Gibson, Director, College Station, Texas.

Cooperative Extension Work in Agriculture and Home Economics, The Texas A. & M. College System and The United States Department of Agriculture Cooperating. Distributed in furtherance of the Acts of Congress of May 8, 1914 (as amended by Act of June 26, 1953) and June 30, 1914.

5M-10-54-Revised

Approved by the Internal Revenue Service, Washington, D. C.

Farmers 1954 Income Tax

Who Must File a Federal Income Tax Return?

Every person whose gross income during the year is \$600 or more MUST file a return even though no tax is due. (except that any individual who has attained the age of 65 before the close of his taxable year shall be required to make a return only if he has for the taxable year a gross income of \$1,200 or more) Gross income is total income (subject to tax) before any expenses are deducted.

Date Return is Due

If at least two-thirds of your gross income is from farming and your business year starts January 1, you have two choices:

- (a) File your return and pay the tax on or before January 31, 1955*; or
- (b) File an estimate of your tax and pay this amount by January 15, 1955, then file your return and pay any balance due by April 15, 1955.

If your business year does not start January 1, you may file your return and pay the tax on or before the last of the first month* of the succeeding taxable year; or you may file an estimate within 15 days and a return within $3\frac{1}{2}$ months after the end of your business year.

Forms Used by Farmers

Obtain from the District Director of Internal Revenue, local post office or bank, two copies of each of the forms needed. One copy is for your own records. It is good business to keep a copy of all returns filed.

- (a) Form 1040 F. To summarize the farm income and expenses and to compute the net farm profit or loss.
- (b) Schedule D. To show gains and losses from sales of property used in the business, such as dairy cows and farm equipment.
- (c) Form 1040 and instruction pamphlet. To list the farm profit from Form 1040 F; to list other items of income and personal deductions; and to figure the tax due. The official pamphlet on how to prepare your U. S. income tax return accompanying Form 1040, should be carefully read. This publication is designed to supplement the instruction pamphlet and not duplicate it.
- (d) Form 1040 ES. To declare an estimate of your tax. This form is not needed if you file your return and pay the tax on or before the last day of the first month* of the succeeding taxable year.
- (e) Forms 1099 and 1096 for use in reporting the payment of \$600 or more in wages to individual workers. These two forms should be filled out and forwarded to the Commissioner of Internal Revenue,

* February 15, 1956, is the date for 1955 calendar-year returns. The 15th day of the second month of the succeeding taxable year is the date for years beginning after December 31, 1954. (See sections 6015 (f) and (i) and 6073 (b). The Internal Revenue Service is investigating to see if administrative action to extend the date for 1954 calendar-year returns of farmers to February 15, 1955, is a possibility.

Processing Division, Kansas City, Mo., by February 28. A copy of Form 1099 should be sent to each worker.

- (f) Form 1065 for use in filing partnership reports.
- (g) Form 843 for filing a claim for refund.

Reporting on Cash or Accrual Basis

Farmers may keep their records and report on either the "Cash Receipts and Disbursements Basis," or "Accrual Basis." Those who have never filed a return before have the option of using either method, provided adequate records have been kept. However, they should carefully weigh the advantages and disadvantages of each method of reporting. Those who have filed before have established a basis for filing and cannot change to the other without written consent of the Commissioner of Internal Revenue. To secure such permission, an application to change the method and basis of the return must be filed with the Commissioner within the first 90 days of the taxable year to be covered by the return.

Over a period of years, the accrual basis of accounting usually results in a more uniform taxable income than the cash basis. Livestock feeders, grain farmers and growers of fruits, tobacco, vegetables, and other cash-type crops who store their crops and sell them in the next year may find it desirable to use the accrual basis of reporting. Otherwise they face the possibility of having to pay tax on income from the sale of 2 years' production in 1 year.

Livestock farmers who produce their own replacements of breeding, dairy, or draft animals find the cash basis of reporting to their advantage under a provision in Section 1231, dealing with the sale of such animals. (See page 11).

A record of all farm business receipts and expenditures, together with a list of all depreciable items and a record of annual depreciation, is essential for tax reporting on either basis. The value and the cash cost of producing items consumed by the family should be excluded.

Gains from the sale of breeding, draft, or dairy livestock, machinery, or other items that can be treated as the sales of capital assets *are not* to be reported as a part of the *farm income*, in either system of accounting, and should *not* be entered on Form 1040 F. Such gains, however, are taxable and should be entered in "Schedule D."

Cash Receipts and Disbursements Basis

When the *cash basis* is used farm income includes all cash or value of merchandise or other property received during the taxable year. It does not include value of products sold or services performed for which payment was not received during the taxable year. It includes (1) receipts from the sale of all items produced on the farm, and (2) profits from the sales of livestock and other items which have been purchased, exclusive of profits from sales treated as capital assets. It is important to keep records of purchases of animals, machinery and other similar items made in years past. Never charge as a current expense on page 2 of Form 1040 F the cost of livestock purchased. Such amount should be reported as the cost

of the livestock in section 4, page 1, of Form 1040 F, in year of sale. Allowable deductions include those business expenses that were *paid* during the year regardless of when they were incurred. Other allowable deductions include depreciation on depreciable items. When filing returns on the cash basis, the use of Form 1040 F is required in computing net farm profits.

Accrual Basis

When the *accrual basis* is used, farm income includes all income earned during the taxable year from the sales made during that year regardless of when payment is received. In addition, it includes increases of inventory values of livestock, crops, feeds, produce, etc., at the end of the year as compared with the beginning of the year. Allowable *business expenses* include all *operating costs incurred during the taxable year, whether paid or not, plus any decrease in inventory values of livestock, crops, feeds, produce, etc.*, at the end of the year as compared with the beginning of the year. Complete inventories of livestock, crops, produce, feed, and supplies are required for reporting on the accrual basis. Inventories are not required for the cash basis of accounting.

Figuring Depreciation

Depreciation is an estimated operating expense covering wear, tear, exhaustion and obsolescence of property used in your farm business. Annual depreciation allowances represent that portion of the cost or other basis of the item when acquired which the owner estimates was used up during the current tax year. The first step in figuring depreciation is to determine the useful life of each item on which depreciation is claimed. There are no "official" or average life expectancies which are recognized as applicable to all farms. It is, therefore, necessary for each taxpayer to estimate the total expected life for each item on which depreciation is to be claimed. Guides for estimating useful life of various items of farm property are published by the Internal Revenue Service in its "Bulletin F". Depreciation for the current year only may be deducted. Depreciation which was allowable but not taken in prior years cannot be deducted from income of the current year. Depreciation not previously claimed must, however, be subtracted from the original basis in determining the gain or loss from the sale or exchange of depreciable property.

When the estimated life of any depreciable item is either shortened or lengthened by increasing or decreasing its use or by making major improvements, it will be necessary to establish a new number of "years of life" and include the cost of such improvements in the depreciation schedule for the year in which the improvements were made. (See "Example of Record Needed for Figuring Depreciation," p. 10.)

Depreciation may be taken on tile, fence, machinery, equipment, and all farm buildings except the dwelling that is owned and occupied by the taxpayer until the total cost (less salvage value) has been recovered. (See section on "Development Costs" for additional details.) Depreciation should not be claimed on the dwelling of the owner-operator or his partners. (Nor should repairs, taxes, or insurance be charged on these dwellings

or their contents on Form 1040F. However, such costs are allowable on a tenant house and all other farm buildings.)

Those who file returns on the cash basis may also take depreciation on dairy cattle, breeding, and work stock *which were purchased by the taxpayer. No depreciation is allowed or allowable on any livestock raised by the taxpayer who files on the cash receipts and disbursement basis, since all costs of raising have been deducted as operating expenses.* Those using the cash basis should list each building, each piece of machinery, and each animal on which depreciation is to be computed in the depreciation schedule. Such items as cows and small implements may be grouped on Form 1040 F, but such groupings should be made from the totaling of a detailed individual list kept current in a permanent farm record book.

Depreciation claimed should not exceed original costs less salvage value. Depreciation should not be based on replacement cost.

Special Note: See provision for "write off" of new grain storage page 27.

Methods of Figuring Depreciation

For depreciable property acquired or constructed before December 31, 1953: You should continue to use the same methods as you are now using to figure depreciation on this property unless you have permission to change to another method. It is important that you be consistent from year to year in the method used to compute depreciation and in the amount claimed on each item. Every change in the amount of depreciation claimed should be explained at the bottom of the depreciation schedule on Form 1040F.

The most common method used by farmers for figuring depreciation is the *straight-line method*. Under this method, the amount to be deducted as depreciation each year on any item is determined by dividing its cost or other basis when acquired, less its estimated salvage value, by the total number of years you estimate the item would last if you were to keep it throughout its useful life. An example of the straight-line method is shown on pages 7 and 10.

On new property acquired after December 31, 1953 and property constructed, reconstructed, or erected after December 31, 1953, section 167 allows farmers to use more liberal methods of figuring depreciation. Any of the following methods may be applied to such new depreciable property: (1) The straight-line method described above; (2) the declining balance method, using a rate not exceeding twice the straight-line rate; (3) the sum of the years' digits method; and (4) any other consistent method, provided the total deductions during the first two-thirds of the useful life do not exceed those allowable under the declining balance method.

Methods (2), (3) and (4) may not be used if the useful life of the property is less than 3 years. They may not be applied to the cost of used property that you have purchased or otherwise acquired. If construction, reconstruction or erection was begun in 1953 or earlier, these methods may be applied only to that portion of the cost (or other basis) that is properly attributable to construction, reconstruction, or erection after December 31, 1953.

The declining balance method, using double the straight-line rate, will permit the depreciation of approximately two-thirds of the cost of the depreciable item during the first half of its life. On the other hand, it will result in smaller amounts of depreciation during the latter part of the useful life of the property as compared with the straight-line method. This method leaves an unrecovered cost of some 10 to 13 percent of original cost at the end of the useful life of the property. To allow a taxpayer who used this method to recover through depreciation the full cost of the item, less salvage value, the code permits him to change to the straight-line method at any time during the useful life of the property (in the absence of any written agreement with the Internal Revenue Service to the contrary).

Example of Declining Balance Method With Double Percentage Rate. If the original cost of a tractor was \$2,000, and it has a useful life of 10 years, the amount of depreciation the first year is \$400 (20 percent of \$2,000). ($2 \times 1/10 = 20\%$). The amount of depreciation for the second year would be \$320 (20 percent of \$1,600, the remaining balance). Etc.

Example of Sum of the Years' Digits Method. Under this method the tractor described above would be depreciated \$363.64 in the first year. This is $10/55$ of the original cost. The numerator, 10, represents the 10 years of useful life, and the denominator, 55, is the sum of the numbers 1 through 10. The rate of depreciation the second year would be $9/55$ of the cost; the third year $8/55$, and so on.

DEPRECIATION METHODS COMPARED (Tractor costing \$2,000 with useful life of 10 years)

Year	ANNUAL DEPRECIATION CHARGE		
	Straight-line 10%	20% Declining Balance (Nearest Dollar)	Sum of the Years- Digits (Nearest Dollar)
1	\$200	\$400	\$364
2	200	320	327
3	200	256	291
4	200	205	255
5	200	164	218
6	200	131	182
7	200	105	145
8	200	84	109
9	200	67	73
10	200	54	36
Total	\$2,000	\$1,786	\$2,000

Improvements and Overhauling

When improvements to existing buildings (new roof, new foundation, etc.) are made, or when equipment is overhauled to extend its useful life, the costs of such improvements should not be deducted as current operating expenses. Such expenditures are classified as investments in capital items and can only be recovered by depreciation throughout the years of their useful life.

The new cost of reconditioned buildings and rebuilt equipment may be determined by adding the unrecovered cost of the item, before the improvement was made, to the cash paid out for materials, parts, and labor used in making the improvement. After establishing a new life expectancy on improved structures and equipment, annual depreciation allowances are computed by dividing the new cost by the number of years of remaining life. Although this method of handling such investments is quite satisfactory, many farmers find it easier to list improvements on old buildings and major overhaul jobs on equipment as separate items on the depreciation schedule, and leave values, life expectancies, and depreciation allowances on the original buildings and equipment unchanged. When this method of handling improvements is used, the taxpayer establishes a life expectancy and computes the depreciation for each improvement as a separate item. For examples, see method of handling new barn roof, new tractor tires, and overhaul on tractor in the "Example of Record Needed for Figuring Depreciation" on page 10.

Computing Capital Gains and Losses

In either system of accounting, the cost of improvements, machinery, and equipment cannot be deducted as operating expenses. Such costs are treated as capital investments and are recovered by depreciation over a period of years representing the estimated useful life of such items.

In case such items are sold, only the gains and losses realized are taken into consideration for income tax reporting. The gain or loss on the sale of such items is determined by computing the difference between the unrecovered cost and the selling price. The unrecovered cost of an item represents the original purchase price (or original basis) plus the cost of any permanent improvements thereto, less the depreciation up to date of sale.

Section 1231 (117j of the 1939 Code) is of special interest to farmers because it specifies the treatment of gains and losses from disposition of property used in the taxpayer's business and held for longer than 6 months (12 months or more in case of livestock). Such gains and losses occur frequently in the course of most farm businesses. The main provisions of section 1231 are outlined very briefly in the instructions on the back of Schedule D. Close study of these instructions is suggested. You will note that one of the items covered by section 1231 is recognized gains from "involuntary conversion" of certain livestock. This term includes orders by governmental authorities to sell or destroy such livestock because of disease. (But see "Non-recognition of Gain From Disposition of Diseased Livestock", page 12.)

If the sum of all your gains from items covered by section 1231 exceeds the sum of all of your losses from such items, all such gains and losses are treated as long-term capital gains and losses and are reported on Schedule D in the section headed "Long-term capital gains and losses—assets held for more than 6 months." If the sum of the gains does not exceed the sum of the losses, all of the gains and losses are treated as not involving capital assets. In other words, each gain is fully taxable; each loss, if allow-

able at all, is deductible in full. If the gains from the section 1231 items do not exceed the losses, these items are reported in Schedule D in the section headed "(1) Property Other than Capital Assets" or on page 3 of Form 1040 in the schedule for itemized deductions in the section for "Losses from fire, storm, or other casualty, or theft," depending on the nature of the item.

Involuntary conversion of a non-business capital asset, such as storm damage to your residence, would go on page 3 of Form 1040.

You may have items not covered by page 3 of section 1231 which give rise to capital gains or losses—such as sales of securities. These are reported on Schedule D.

All capital gains and losses are classified as either "short-term" or "long-term." Long-term gains or losses arise from disposition of property held longer than 6 months (12 months or more in case of livestock, as discussed on pages 11-13.

Any net long-term capital gain is only half taxable, unless offset by a net short-term capital loss. Short-term capital gains are fully taxable. In general, any net loss sustained on the sale of a farm business, or of farm business assets of a character subject to depreciation, shall be treated as part of a net operating loss for the year of the sale. If your net loss on the sale of such property is greater than your net farm profit, it may be used to offset your net farm profit, resulting in a "net operating loss deduction." However, you may have other items that must be taken into account in computing your "net operating loss deduction." (Section 172).

Purchase and Sale of Machinery and Equipment

(Not Trade-ins). The costs of purchased machinery and equipment cannot be deducted as current operating expenses but are recovered through depreciation over a period of years representing their estimated useful life.

In case machinery or equipment items are sold, only the gain or loss realized is taken into consideration for income tax reporting. The gain or loss on the sale of such an item is determined by computing the difference between the unrecovered cost and the selling price. Any net gain is computed and reported under "Long-term Gains and Losses" in section II of Schedule D if the item was owned for longer than 6 months. Any net loss, or if the item was owned for 6 months or less, any net gain or loss, is computed and reported in section 4, page 1, of Form 1040 F or in section 1 of Schedule D.

(Trade-ins). When one machine is traded for another, the cost basis of the new machine is the cash difference paid on the new machine plus the unrecovered cost of the machine, or machines, traded in. This method holds true whether or not a machine is traded for a like machine or for a different machine. Neither the retail price of the new machine nor the trade-in allowance for the old machine would enter into the computation. Example: A farmer has a corn picker, the book value (unrecovered cost) of which is \$320, and trades it for a new one, paying \$700 difference. The cost basis of the new corn picker would be \$700 paid plus \$320 (the un-

recovered cost of the machine traded in), or \$1,020. For the method of handling this trade-in, see "Example of Record Needed for Figuring Depreciation" page 10.

Another farmer has a tractor, the book value (unrecovered cost) of which is \$400. He trades this tractor for another tractor which has a price tag of \$2,000. The dealer allows him \$900 for the old tractor on a trade for the new one. This means that he delivers the old tractor and \$1,100 cash difference for the new one. Since the book value of the old tractor is \$400, the cost basis for the new machine would be \$400 plus \$1,100 (cash to boot), or \$1,500. If the old tractor had been sold outright for \$900 rather than traded in and a new one purchased for \$2,000, the cost basis of the new tractor would be \$2,000 because no trade-in would be involved. However, there would be a profit of \$500 (\$900 sale price less \$400 book value) on the old tractor. This \$500 should be reported on Schedule D (Form 1040). This type of accounting causes the farmer to show \$500 profit the year of the transaction for the privilege of charging a little more depreciation on the new tractor each year over a period of years.

EXAMPLE OF RECORD NEEDED FOR FIGURING DEPRECIATION

Item to be depreciated	Date purchased or acquired	Purchase price or value when acquired	Estimated total years of life	Remaining portion of cost at beginning of this year	New item or improvement purchased this year	Depreciation allowable this year	Remaining portion of cost at end of this year
Tractor No. 1 ¹	1-10-51	\$1,800	10	\$1,260 ¹	....	\$180	\$1,080
Corn picker ¹	1- 3-50	\$ 960	6	\$ 320 (traded)	....	....	....
²	1-12-54	\$1,020 ⁴	6	....	\$700	\$340	\$ 680
Barn No. 1 ¹	1- 2-34	\$3,200	40	\$1,600	....	\$ 80	\$1,520
Tractor overhaul ³	1-10-54	\$ 450	5	....	\$450	\$150	\$ 300
New roof on							
Barn No. 1 ¹	9- 4-54	\$ 600	20	....	\$600	\$ 10	\$ 590
Tires for tractor ²	1954 ⁵	\$ 150	5	....	\$150	\$ 30	\$ 120

¹ Straight-line method.

² Declining balance method.

³ Sum of the years'—digits method.

⁴ List price of new picker, \$1,200; trade-in allowance for old picker, \$500; leaving cash difference paid, \$700. Cost of new corn picker—\$700 cash paid plus \$320 unrecovered cost of old picker at time traded off, or a total of \$1,020.

⁵ These tires were bought on four different dates. Rather than using actual purchase dates for depreciation purposes it is permissible to group small items in this manner. For such a grouping, when day and month in year of acquisition are not given only one-half the allowable depreciation should be claimed for the full year. When day and month are shown, depreciation is prorated on a monthly basis. One-third of the year's depreciation was claimed for the new roof on the barn because the record showed that it was installed September 4, 1954. The tractor overhaul and new tires are items that may be treated as repairs or as new improvements depending upon the individual farm. To treat these items as repairs the taxpayer must be able to show that the expenditure did not change the estimated life of the machine. The farmer in this example treated these items as an improvement because they affected the estimated life of the tractor.

Purchase and Sale of Livestock

In the cash method the cost of feeder lambs, cattle, and hogs purchased for feeding cannot be deducted until the year in which they are sold. The profit from the sale is computed by deducting the cost from the sale price. The profit only is taxable income as shown in the feeder cattle example in section 4, page 1 of Form 1040 F on page 14.

In the accrual method the cost of livestock purchased is entered in a column headed "Purchased during year" and enters into the computation of net farm profit in the year of purchase. If the purchased livestock are on hand at the end of the year, their value at that time is entered in the closing inventory as shown in the beef cattle example on page 3 of Form 1040 F on page 16.

Income from livestock raised primarily for sale is considered as ordinary income and 100 percent of it is taken into account in computing net farm profit.

To determine the gain or loss on sale of purchased breeding, draft, or dairy stock, the unrecovered cost is deducted from the selling price. When raised breeding, draft, or dairy animals are sold by the taxpayer reporting on the cash basis the full sale price is the gain, but for the accrual basis taxpayer the gain is the excess of the sales price over the inventory or depreciated value of the livestock.

In many cases, sales of breeding, draft, or dairy animals are treated as sales of capital assets, in which cases only half of the gain is taxable unless offset by capital losses. The conditions under which such sales are so treated are outlined below. These conditions apply in either cash or accrual method of reporting. In all other cases such sales must be treated as ordinary sales and the gains are fully taxable.

When Sales of Breeding, Draft, and Dairy Animals Are Treated as Sales of Capital Assets

Section 1231 prescribes treatment of gains and losses from sale, exchange, or involuntary conversion of certain property used in the taxpayer's trade or business as capital gain and losses under certain conditions. This section specifically defines certain livestock as "property used in the taxpayer's trade or business." The treatment prescribed by section 1231 applies to gains and losses from such disposition of livestock if both of the following requirements are met:

1. The livestock must have been owned for 12 months or more.
2. The livestock must have been held for draft, breeding, or dairy purposes, and not primarily for sale in the ordinary course of the farm business.

Gains and losses from such disposition of livestock so owned and held are reported on Schedule D, rather than on Form 1040 F. (But see "Non-recognition of Gain From Disposition," page 12.)

The term livestock is given a broad interpretation and includes cattle, hogs, horses, mules, donkeys, sheep, goats, fur-bearing animals, and other mammals. It does not include chickens, turkeys, pigeons, geese, other birds, fish, frogs, reptiles, etc.

The determination whether or not livestock are held for draft, breeding or dairy purposes depends upon all the facts and circumstances in each particular case. The purpose for which the animal is held is ordinarily shown by the taxpayer's actual use of the animal. An animal is not held by the taxpayer for draft, breeding, or dairy purposes merely because it is

suitable for such purpose or because it is held by the taxpayer for sale to other persons for use by them for such purpose.

These principles may be illustrated by the following examples:

Example 1: An animal intended by the taxpayer for use by him for breeding purposes is discovered to be sterile, and is disposed of within a reasonable time thereafter. This animal was held for breeding purposes.

Example 2: The taxpayer retires from the breeding or dairy business and sells his entire herd, including young animals which would have been used by him for breeding or dairy purposes if he had remained in business. These young animals were held for breeding or dairy purposes.

Example 3: A taxpayer in the business of raising hogs for slaughter customarily breeds sows to obtain a single litter to be raised by him for sale, and sells these brood sows within a reasonable time after obtaining the litter. Even though these brood sows are held for ultimate sale to customers in the ordinary course of the taxpayer's business, they are considered to be held for breeding purposes.

Example 4: The taxpayer is in the business of raising registered cattle for sale to others for use by them as breeding cattle. It is the business practice for the cattle to be bred, prior to sale, in order to establish their fitness for sale as registered breeding cattle. In such cases, those cattle used by the taxpayer to produce calves which are added to the taxpayer's herd are considered to be held for breeding purposes; the taxpayer's use of the other young cattle for breeding purposes is an ordinary or necessary incident for the purpose of selling them as registered breeding cattle, and such use does not demonstrate that the taxpayer is holding the cattle for breeding purposes. The same applies to hog and sheep breeders.

Example 5: A taxpayer engaged in the business of buying cattle and fattening them for slaughter, purchased cows with calf. The calves were born while the cows were held by the taxpayer. These cows were not held for breeding purposes.

Non-Recognition of Gain from Disposition of Diseased Livestock

Section 1033 provides that destruction or sale or exchange of livestock by or on account of disease may be treated as an "involuntary conversion." Gain realized on the sale (or from the condemnation award or other remuneration) may, at your election, be not recognized if you purchase other livestock to replace them. Such purchase must be made not earlier than the date of the destruction or sale or the earliest date of the threat or imminence of condemnation, and not later than one year after the year in which the gain is realized.

If you make this election, the gain will be recognized only if the replacements cost less than you realized from the livestock destroyed or sold, and then only to the extent that the amount realized exceeds the cost of the replacements. The cost basis, if any, of the animals so destroyed or sold will be transferred to the replacement animals. If you report on the cash basis and if you raised the animals disposed of, this basis is zero.

Sale of Timber

Under certain conditions the cutting of timber, and under most conditions a sale of *standing* timber, may be treated as the sale of a capital asset—so may sales of Christmas trees more than 6 months old. (Section 631). In such cases, provided the timber has been held for more than 6 months, you may be taxed at a substantially lower rate than that applying to your ordinary income. For further information see your District Director of Internal Revenue, or see Agricultural Handbook No. 52, for sale by the Superintendent of Documents, Washington 25, D. C., at 20 cents.

If you usually sell only small amounts, you may prefer to treat receipts from sale of timber as ordinary income. Receipts would then be listed, together with other farm income, on page 1 or 3 of Form 1040 F, and you would include with your farm expenses on page 2 of Form 1040 F not only the expenses of the timber operations, but also an allowance (depletion) for a return of your original capital investment in the timber cut. For example, if, when you bought the farm, you estimated the timber was worth \$1,500 and this year you cut and sold one-fifth of the timber, you may deduct \$300 (one-fifth of \$1,500) as depletion (a return of capital). The cost basis of the farm is reduced by \$300. The profit on the timber becomes a part of your net farm profit and is taxed as ordinary income.

Soil and Water Conservation Expenditure

Under section 175, farmers may elect to treat certain expenditures paid or incurred for soil and water conservation or the prevention of erosion *on land used in farming* as ordinary expenses, rather than capitalize them as was required under prior law. "Land used in farming" means any land used by the taxpayer or his tenant, either before or at the same time the expenditures for soil and water conservation are made, for the production of crops, fruits, or other agricultural products or for the sustenance of livestock.

These costs are not deductible in excess of 25 percent of the gross income from farming during the taxable year. The remaining cost over the 25-percent figure will, however, be deductible in succeeding years subject always to the 25-percent of gross income from farming limitation in any later taxable year. The amounts so carried over may be continued without limit of time until used up. Gross income from farming means all income from agricultural products and livestock including such income from a farm other than the one on which the expenditures for soil and water conservation were made.

Expenditures for soil and water conservation are those for treatment or moving of earth, including (a) leveling, grading and terracing, and contour furrowing; (b) the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets, and ponds; (c) the eradication of brush; and (d) the planting of windbreaks. Also included are amounts paid to satisfy any part of an assessment levied

by a soil or water conservation or drainage district to defray such expenses paid by the district.

Expenditures for the purchase, construction, installation, or improvement of structures, appliances, or facilities which are of a character sub-

FARM EXPENSES FOR TAXABLE YEAR (See Instructions)

(Do not include personal or living expenses or expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling)

1. Items	2. Amount	3. Items (Continued)	4. Amount (Continued)
Labor hired	\$ 195	Rent of farm, part of farm, or pasturage	\$
Feed purchased	1,360	Freight, yardage, express, and trucking	
Seed and plants purchased	150	Automobile upkeep (farm share)	135
Machine hire	25	Amortization of grain storage facilities (attach statement)	
Supplies purchased	175	Soil and water conservation expenses (attach statement showing computation)	200*
Cost of repairs and maintenance		Other farm expenses (specify):	
Breeding fees	96	Building and fence repair	250
Fertilizers and lime	329	Machinery repair	215
Veterinary and medicine for livestock	75	Tractor expense, gas, oil	360
Gasoline, other fuel and oil for farm business		Truck expense, gas, oil	235
Storage and warehousing		Cropper labor (1/2 sale value of the cotton crop, \$1,125, less cropper's 1/2 of expenses, \$150)	975
Taxes	340	(Expenses are from account book)	
Insurance on property (except your dwelling)			
Interest on farm notes and mortgages	120		
Water rent, electricity, and telephone	160		
TOTAL OF COLUMNS 2 AND 4 (enter on line 6 of summary on page 1 (cash method) or line 7, page 3 (accrual method))			\$ 5,395

DEPRECIATION (See Instructions)

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years)	7. Depreciation for this year
Barn No. 1	1-5-39	\$ 2,400	\$ 900	Straight-line	40 years	\$ 60
Silo	"	500	300	"	25 "	20
Crib and shed	"	600	360	"	25 "	24
Hen house	"	300	150	"	30 "	10
Barn No. 2	"	750	375	"	30 "	25
Milking bldg.	1-14-49	1,600	320	"	25 "	64
Tractor	1-10-52	1,500	300	"	10 "	150
Auto (farm share)	1-15-51	400	240	"	5 "	80
**Other Machinery	Various	4,000	1,200	"	Various	380
***3 dairy cows	1-5-54	525	-	Sum of the years-digits	6 years	150
****3 " "	1-5-51	600	300	Straight-line	6 "	100
* Paid \$200 for hire of equipment to dig drainage ditch and build terraces in crop fields. We elect to treat soil and water conservation expenditures as expenses.						
** All machinery is listed on a detailed depreciation schedule in the farm account book.						
*** Purchased as bred heifers on date shown. Original use commenced in our herd shortly after.						
**** Sold 12-19-54. See Schedule D.						
TOTAL (enter on line 7 of summary on page 1 (cash method) or line 8, page 3 (accrual method))						\$ 1,063

ject to the allowance for depreciation may not be deducted as ordinary expenses. These items would include costs of masonry, concrete, tile,

FARM INVENTORY FOR INCOME COMPUTED ON AN ACCRUAL METHOD
 (Do not include certain livestock held for draft, breeding, or dairy purposes. See Instructions on Schedule D (Form 1040).)

Description (Kind of livestock, crops, or other products)	On Hand at Beginning of Year		Purchased During Year		Raised During Year		Consumed or Lost During Year		Sold During Year		On Hand at End of Year	
	Quan- tity	Inventory value	Quan- tity	Amount paid	Quan- tity	Inventory value	Quan- tity	Inventory value	Quan- tity	Amount received	Quan- tity	Inventory value
Cows *	11	\$ 2,275	3	\$ 525	2						16	\$ 3,200
"	5	800							5	885		
2-yr. heifers	4	600			4						6	950
1-yr. heifers	4	400			4						4	400
Calves	4	200			12				10	240	2	100
Hens	100	100					30		60	60	100	100
Chicks			220	40			50		80	64		
Sows	5	300									5	300
Boar	1	100									1	100
Pigs	30	600			62		2		60	2,270	30	600
Beef cattle	30	3,500	30	2,775					30	4,500	30	3,500
Eggs										292		
Milk										4,208		
Potatoes	10	20			25		10		15	25	10	20
Hay	50	1,000			55		85				20	500
Corn	1200	1,800			1800		1600				1400	1,750
Oats	600	660			1000		900				700	560
Silage	45	270			90		85				50	300
Straw	10	100			15		15				10	100
Grain sorghum					25		15				10	150
Mill feeds	2	180									2	160
Cotton										2,250**		
<p>The values circled are not added in. These appear on Schedule D. *In this example dairy, breeding, and work stock are included in the inventory and not in the depreciation schedule on page 2, Form 1040F. **Includes the value of cropper's share of cotton.</p>												
TOTALS		\$12,105 (Enter on line 4)		\$ 3,340 (Enter on line 5)						\$15,909 (Enter on line 2)		\$12,790 (Enter on line 1)

Accrual method

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON AN ACCRUAL METHOD

1. Inventory of livestock, crops, and products at end of year	\$12,790	7. Expenses (from page 2)	\$ 5,395
2. Sales of livestock, crops, and products during year	13,909	8. Depreciation (from page 2)	813
2a. Other miscellaneous receipts (specify):		9. Other deductions (specify):	
Machine work \$25; ACP \$60	85		
Gas tax refund \$18; Patronage ref. \$15	33		
Feed bags \$12; Fence posts \$25	37		
3. TOTAL	\$26,854		
4. Inventory of livestock, crops, and products at beginning of year	\$12,105		
5. Cost of livestock and products purchased during year	3,340	15,445	
6. Gross profits (line 3 minus the sum of lines 4 and 5)	\$11,409	10. TOTAL DEDUCTIONS	\$ 6,208
11. Net farm profit (or loss) (line 6 minus line 10) to be reported in Schedule C Summary, Form 1040			\$ 5,201

metal, or wood for tanks, reservoirs, pipes, conduits, canals, dams, wells, and pumps.

You may adopt and use this method in your return for 1954 (or your first taxable year that begins after December 31, 1953, in which you pay

FARM EXPENSES FOR TAXABLE YEAR (See Instructions)

(Do not include personal or living expenses or expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling)

1. Items	2. Amount	3. Items (Continued)	4. Amount (Continued)
Labor hired	\$ 195	Rent of farm, part of farm, or pasturage	\$
Feed purchased	1,360	Freight, yardage, express, and trucking	
Seed and plants purchased	150	Automobile upkeep (farm share)	135
Machine hire	25	Amortization of grain storage facilities (attach statement)	
Supplies purchased	175	Soil and water conservation expenses (attach statement showing computation)	200*
Cost of repairs and maintenance		Other farm expenses (specify):	
Breeding fees	96	Building and fence repair	250
Fertilizers and lime	329	Machinery repair	215
Veterinary and medicine for livestock	75	Tractor expense, gas, oil	360
Gasoline, other fuel and oil for farm business		Truck expense, gas, oil	235
Storage and warehousing		Cropper labor (1/2 of sale value of the cotton crop \$1,125, less cropper's 1/2 of expenses, \$150)	975
Taxes	340	(Expenses are from account book)	
Insurance on property (except your dwelling)			
Interest on farm notes and mortgages	120		
Water rent, electricity, and telephone	160		
TOTAL OF COLUMNS 2 AND 4 (enter on line 6 of summary on page 1 (cash method) or line 7, page 3 (accrual method))			\$ 5,395

DEPRECIATION (See Instructions)

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years)	7. Depreciation for this year
Barn No. 1	1-5-39	\$ 2,400	\$ 900	Straight-line	40 years	\$ 60
Silo	"	500	500	"	25 "	20
Crib and shed	"	600	360	"	25 "	24
Hen house	"	300	150	"	30 "	10
Barn No. 2	"	750	375	"	30 "	25
Milking bldg.	1-14-49	1,600	320	"	25 "	64
Tractor	1-10-52	1,500	300	"	10 "	150
Auto (farm share)	1-15-51	400	240	"	5 "	80
*Other machinery	Various	4,000	1,200	"	Various	360
* Paid \$200 for hire of equipment to dig drainage ditch and build terraces in crop fields. We elect to treat soil and water conservation expenditures as expenses.						
** All machinery is listed on a detailed depreciation schedule in the farm account book.						
TOTAL (enter on line 7 of summary on page 1 (cash method) or line 8, page 3 (accrual method))						\$ 813

or incur such expenditures) without permission. If you do adopt and use this method you must continue to use it each year thereafter unless you obtain permission to change. Otherwise you may adopt the method later only with the consent of the District Director of Internal Revenue.

FORM 1040

U. S. Treasury Department
Internal Revenue Service

or other taxable FOR CALENDAR YEAR 1954
year beginning , 1954, and ending , 1955

1954

Do not write in these spaces

Serial No.

(Cashier's Stamp)

**U. S. INDIVIDUAL
INCOME TAX
RETURN**

PLEASE TYPE OR PRINT PLAINLY

Name: If this is a joint return of husband and wife, use first names of both
John and Jane Farmer

Street and number or rural route
R. F. D. 1

Home Address: City, town, or post office; Postal zone number; State
Jonesville, State

Your Social Security No. and Occupation: **Farmer**

Wife's (Husband's) S. S. No. and Occupation: **Homemaker**

● ATTACH TAX RETURN COPIES OF FORMS W-2 HERE ●

Your exemptions

1. List your name. If your wife (or husband) had no income or if this is a joint return, list also her (or his) name:

A. John Farmer

B. Jane Farmer

(Your wife's name—do not list if she is filing a separate return or if she had income not included in this return)

C. List names of your children who qualify as dependents; give address if different from yours.
Calvin Farmer
Betty Farmer

D. Enter number of exemptions claimed for other individuals listed in Schedule I on page 2.

E. Enter total number of exemptions claimed in A to D above

Check below if at the end of your taxable year you or your wife were—
65 or over Blind
65 or over Blind

On lines A and B below—
If neither 65 nor blind write the figure 1
If either 65 or blind write the figure 2
If both 65 and blind write the figure 3

Number of exemptions for you **1**

Number of her (or his) exemptions **1**

Enter number of children listed **2**

4

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1954, before payroll deductions. Persons claiming traveling, transportation, or reimbursed expenses, and Outside Salesmen, see instructions.

A. Employer's Name **B. Where Employed (City and State)** **C. Total Wages, Etc.** **D. Income Tax Withheld**

3. Less excludable portion received under wage continuation plans for sickness or injury. **Enter totals here**

4. Balance (item 2 less item 3)

5. If you received dividends, interest, or any other income (or loss), give details on page 2. **Enter total here**

6. **Adjusted Gross Income (sum of items 4 and 5) Enter total here**

\$ 5,524 50

\$ 5,524 50

How to figure the tax

(Unmarried or legally separated persons qualifying as "Head of Household," check here . See instructions.)
(Surviving widows and widowers who qualify for special tax computation, check here . See instructions.)
IF YOUR INCOME WAS LESS THAN \$5,000—Use Tax Table unless you itemize deductions. This table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.
IF YOUR INCOME WAS \$5,000 OR MORE—Compute tax on page 3. Itemize or use standard deduction, whichever is to your advantage.

Tax due or refund

7. Enter your tax from the Tax Table, or from line 13, page 3. \$ 514 42

8. Less: **A.** Dividends received credit (line 8 of Schedule J) \$ **B.** Retirement income credit (line 10 of Schedule K)

9. Balance (item 7 less the sum of items 8A and 8B) \$ 514 42

10. Enter your self-employment tax from line 36, separate Schedule C \$

11. Add amounts shown in items 9 and 10. \$ 514 42

12. Credits for amounts paid on your 1954 income tax:
A. Tax withheld (in item 2, Column D above). Attach Forms W-2 \$ **B.** Payments on 1954 Declaration of Estimated Tax. Indicate District Director's office where paid. \$

13. If your tax (item 11) is larger than payments (item 12), the balance must be paid in full with return. **Enter such balance here** \$ 514 42

14. If your payments (item 12) are larger than your tax (item 11) **Enter the overpayment here** \$

Enter amount of item 14 you want: Credited on 1955 estimated tax \$ Refunded \$

● Make check or money order payable to District Director, I. R. S., for amount, if any, shown in item 13.

Do you owe any other Federal tax? Yes No. If "Yes," to which District Director's office and what kind of tax.

Is your wife (or husband) making a separate return for 1954? Yes No. If "Yes," write her (or his) name.

Did you pay anyone for assistance in the preparation of your return? Yes No. If "Yes," enter his name and address.
John Doe, Jonesville, State

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

(S) **John Farmer** **Jan 11, 1955** **Jane Farmer** **Jan 11, 1955**

(Signature of taxpayer) (Date) (Signature of taxpayer's wife or husband if this is a joint return) (Date)

● To assure split-income benefits, husband and wife must include all their income and, even though only one has income, BOTH MUST SIGN. 16-70997-1

Development Costs

Sometimes expenditures are made to fit land for the production of crops, fruits, or other agricultural products, or for grazing. If the ex-

Schedule A.—INCOME FROM DIVIDENDS (First see Schedule J)

1. Enter amount of dividends reported on line 6 of Schedule J..... \$.....
 2. Enter total of all other dividends; itemize below, listing name of corporation and amount. Enter total here→ \$.....

Schedule B.—INCOME FROM INTEREST

Name of payor	Amount	Name of payor	Amount
	\$.....		\$.....
Enter total here→			

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS, FARMING, AND PARTNERSHIP

1. Business profit (or loss) from separate Schedule(s) C, line(s) 24..... \$.....
 2. Farm profit (or loss) from separate schedule, Form 1040F *Cash method*..... 4,691
 3. Partnership, etc., profit (or loss) from Form 1065, Schedule K.....
 Partnership name and address.....
 4. Total of lines 1, 2, and 3..... \$..... 4,691
 5. Less: Net operating loss deduction (Attach statement).....
 6. Net profit (or loss) (line 4 less line 5)..... 4,691

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

1. From sale or exchange of property other than capital assets (from separate Schedule D).....
 2. From sale or exchange of capital assets (from separate Schedule D)..... *Cash method*..... 633 50

Schedule E.—INCOME FROM PENSIONS OR ANNUITIES (See instructions)

Part I.—General Rule

1. Investment in contract..... \$.....
 2. Expected return..... \$.....
 3. Percentage of income to be excluded (line 1 divided by line 2)..... %
 4. Amount received this year..... \$.....
 5. Amount excludable (line 4 multiplied by line 3)..... \$.....
 6. Taxable portion (excess of line 4 over line 5).....

Part II.—Where your cost will be recovered within three years and your employer has contributed part of the cost

1. Cost of annuity (amounts paid in)..... \$.....
 2. Cost received tax-free in past years..... \$.....
 3. Remainder of cost (line 1 less line 2)..... \$.....
 4. Amount received this year..... \$.....
 5. Taxable income (excess of line 4 over line 3).....

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation (explain in Schedule H) or depletion	4. Repairs (attach itemized list)	5. Other expenses (attach itemized list)
	\$.....	\$.....	\$.....	\$.....
1. Totals.....	\$.....	\$.....	\$.....	\$.....
2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5).....				

Schedule G.—INCOME FROM OTHER SOURCES INCLUDING ESTATES AND TRUSTS

1. Estate or trust (Name and address).....
 2. Other sources (state nature).....
 TOTAL INCOME (OR LOSS) FROM ABOVE SOURCES (Enter here and as item 5, page 1)..... \$..... 5,524 50

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULE F

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years)	7. Depreciation for this year
		\$.....	\$.....			\$.....

Sch. I.—EXEMPTIONS FOR INDIVIDUALS WITH GROSS INCOME OF LESS THAN \$600, OTHER THAN WIFE AND CHILDREN

1. Name of individual. Also give address if different from yours	2. Relationship	3. Did individual have gross income of \$600 or more in 1954?	4. If answer to 3 is "No" enter amount spent for individual's support in 1954 by— You (and your wife if this is a joint return). If 100% write "all" Others, and by individual from own funds
			\$.....

Enter here and as item 1D, page 1, the number of individuals claimed above.....
 NOTE.—If exemption is based on your being designated as the one to claim a dependent, the necessary multiple support agreement must be attached.

penditures are made before the taxpayer or his tenant has used the land for any such purposes, the "development cost" rules apply, even to expenditures for soil and water conservation.

ITEMIZED DEDUCTIONS—FOR PERSONS NOT USING TAX TABLE OR STANDARD DEDUCTION.

If Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize.

Describe deductions and state to whom paid. If more space is needed, attach additional sheets			
Contributions		\$	
	Total Contributions (not to exceed 20 percent of item 6, page 1, except where contributions to churches, schools, and hospitals are included). (See instructions)		
Interest		\$	
	Total Interest		
Taxes		\$	
	Total Taxes		
Medical and dental expense <i>(If over 65, see instructions)</i>	Do not enter any expense compensated by insurance or otherwise	A. Medicine and Drugs	B. Other
	1. Net Expenses (Attach itemized list)	\$	\$
	2. Enter in Column A, 1 percent of item 6, page 1		
	3. Enter in Column B, excess of Column A, line 1 over line 2		
	4. Total of Column B, lines 1 and 3		\$
	5. Enter 3 percent of item 6, page 1		
6. Allowable amount (excess of line 4 over line 5). (See instructions for limitations)			
Child Care	Expenses for care of children and certain other dependents (see instructions). Not to exceed \$600. (Attach statement)		
Losses from fire, storm, or other casualty, or theft		\$	
	Total Allowable Losses (not compensated by insurance or otherwise)		
Miscellaneous		\$	
	Total Miscellaneous Deductions		
TOTAL DEDUCTIONS (Enter on line 2 of Tax Computation, below)		\$	

TAX COMPUTATION

1. Enter Adjusted Gross Income as shown in item 6, page 1	\$	5,524	50
2. If deductions are itemized above, enter total of such deductions. If deductions are not itemized and line 1, above, is \$5,000 or more: (a) married persons filing separately enter \$500; (b) all others enter 10 percent of line 1, but not more than \$1,000		552	45
3. Subtract line 2 from line 1. Enter the difference here	\$	4,972	05
4. Multiply \$600 by total number of exemptions claimed in item 1E, page 1. Enter result here	\$	2,400	00
5. Subtract line 4 from line 3. Enter the difference here. This is your Taxable Income	\$	2,572	05
6. If you are a single person, a married person filing separately, or a head of household— Single persons and married persons filing separately use Tax Rate Schedule I in the instructions to figure tax on amount on line 5; heads of household use Tax Rate Schedule II.	\$		
7. If this is a joint return, or if you qualify to file as a surviving widow or widower— (a) Enter one-half of amount on line 5	\$	1,286.03	
(b) Use Tax Rate Schedule I in the instructions to figure tax on amount on line 7 (a)	\$	257.21	
(c) Multiply amount on line 7 (b) by 2	\$	514	42
8. If alternative tax is applicable, enter the tax from separate Schedule D	\$		
Disregard lines 9 through 12, and copy on line 13 the same figure you entered on line 6, 7 (c), or 8, unless you used itemized deductions.	\$		
9. Enter here income tax payments to a foreign country or U.S. possession (Attach Form 1116)	\$		
10. Enter here any income tax paid at source on tax-free covenant bond interest	\$		
11. Enter here credit for partially tax-exempt interest (See instructions for limitation)	\$		
12. Add the figures on lines 9, 10, and 11. Enter the total here	\$		
13. Subtract line 12 from line 6, 7 (c), or 8, whichever is applicable. Enter difference here and as item 7, page 1.	\$	514	42

In such a situation, all expenditures of a capital nature must be treated as capital investments, some of which are depreciable and some of which must be added to the cost or other basis of the land. None of them may be deducted as current expense.

SCHEDULE D

For use with
Forms 1040, 1041,
and 1065

U. S. Treasury Department—Internal Revenue Service
GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY
USE WITH INDIVIDUAL, FIDUCIARY, OR PARTNERSHIP RETURNS

1954

For Calendar Year 1954, or other taxable year beginning _____, 1954, and ending _____, 1954

Name and Address
John and Jane Farmer, Jonesville, State

Check type of return filed:
 Form 1040 Form 1041 Form 1065

(I) PROPERTY OTHER THAN CAPITAL ASSETS

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price (contract price)	e. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	f. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	g. Expense of sale	h. Gain or loss (column d plus column e less sum of columns f and g)
1. _____			\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
2. Net gain (or loss). Enter here and on line 1, Schedule D, Form 1040, or as item 8 (a), page 1, Form 1041, or as item 11, page 1, Form 1065.							\$ _____

(II) CAPITAL ASSETS

Short-Term Capital Gains and Losses—Assets Held Not More Than 6 Months

3. _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
<i>Cash method accounting</i>						
4. Enter your share of net short-term gain (or loss) from partnerships and fiduciaries.						
5. Enter unused capital loss carryover from 5 preceding taxable years (Attach statement).						
6. Net short-term gain (or loss) from lines 3, 4, and 5. Enter here and in Schedule D, Form 1041, or as item 26, page 1, Form 1065.						

Long-Term Capital Gains and Losses—Assets Held More Than 6 Months

7. 2 dairy cows	raised 1-8-54	\$ 425	\$ 0	\$ 0	\$ 0	\$ 425
3 dairy cows	1-5-51 12-19-51	460	400	600	0	260
Silage cutter	1-14-46 1-5-54	40	232	290	0	-18
Stumpage	1-5-39 6-11-54	1,200	0	200*	0	1,000
8. Enter the full amount of your share of net long-term gain (or loss) from partnerships and fiduciaries.						0
9. Net long-term gain (or loss) from lines 7 and 8. Enter here and in Schedule D, Form 1041, or as item 27, page 1, Form 1065.						\$ 1,667

● LINES 10 THROUGH 25 NOT APPLICABLE TO FIDUCIARIES AND PARTNERSHIPS

Gain or Loss To Be Taken Into Account

	a. Gain	b. Loss
10. Enter net short-term gain (or loss) from line 6.	\$ _____	\$ _____
11. Enter net long-term gain (or loss) from line 9.	\$ 1,667	\$ _____
Use lines 12 through 15 only if gains exceed losses in lines 10 and 11.		
12. Enter short-term gain (line 10, col. a) reduced by any long-term loss (line 11, col. b).	\$ _____	
13. Enter long-term gain (line 11, col. a) reduced by any short-term loss (line 10, col. b).	\$ 1,667	
14. Enter 50 percent of line 13.	\$ 833.50	
15. Enter here and on line 2, Schedule D, Form 1040, the sum of lines 12 and 14.	\$ 833.50	

Long-Term Capital Gains and Losses—Assets Held More Than 6 Months

7. 2 dairy cows	raised 1-8-54	\$ 425	\$ --	\$ 800 **	\$ --	\$ 85
3 dairy cows	1-5-51 12-19-51	460	--	0	--	
Silage cutter	1-14-46 1-5-54	40	232	290	0	-18
Stumpage	1-5-39 6-11-54	1,200	0	200 *	0	1,000
8. Enter the full amount of your share of net long-term gain (or loss) from partnerships and fiduciaries.						0
9. Net long-term gain (or loss) from lines 7 and 8. Enter here and in Schedule D, Form 1041, or as item 27, page 1, Form 1065.						\$ 1,067

*This is the estimated value of the trees (sold this year for \$1,200) when they were acquired in 1939 as a part of the farm. This \$200 is subtracted from the cost of the land in arriving at the basis for computing profit or loss on sale of the farm if it is sold later.

**Inventory value January 1, 1954.

Some typical development costs which must be added to the cost of the land in such a situation, and may not be depreciated, are those for clearing land and for earthen improvements such as levelling, terracing, earthen dams for farm ponds, earthen ditches for irrigation and drainage, diversion ditches, and straightening creek beds.

Some typical development costs that are depreciable are tiling, concrete spillways and outlets, and fruit trees.

Sometimes an orchard, or grove, is developed on land the taxpayer or his tenant has used for the production of crops or for grazing. In that case any of the development costs that are for treatment or moving of earth for soil and water conservation must be treated according to the election the taxpayer has made as to such expenditures under the provisions of section 175, as described under the heading "Soil and Water Conservation Expenditures." The "development cost" rules apply to other capital investments such as tiling, concrete spillways, and fruit trees. During the development period when no income is being produced, the taxpayer may elect to treat operating expenses, such as those for upkeep of grove or orchard property, taxes, water for irrigation, cultivating and spraying of trees as either capital investments in the orchard or grove, or as current expenses.

Examples of Capital Gain and Loss Computations

On page 21 of this publication, there is an example demonstrating the computation of capital gains and losses in cash basis accounting.

John Farmer (in this example) sold five dairy cows, some standing trees as stumpage, and an old silage cutter. These transactions are entered in section (11) of Schedule D because the gains from these items - the only items in this return that are covered by section 1231 of the Code - exceed the losses.

Two of the cows had been raised by John Farmer, and all the allowable costs for those two cows had been deducted as farm expenses on previous tax returns. Therefore, the entire \$425 received for them is considered as a gain. The other three cows had been purchased for \$600 and sold for \$460. Depreciation while they were owned was \$400. The gain realized was: Sale price \$460 plus depreciation \$400 less cost \$600 = \$260. The trees, which were estimated to have cost \$200, were sold standing for \$1,200, resulting in a gain of \$1,000. The silage cutter was purchased for \$290 and sold for \$40. Depreciation while owned was \$232; thus the sale price \$40 plus depreciation \$232 less cost \$290 equals a loss of \$18.

The net taxable gain of \$833.50 as figured on Schedule D is carried over to page 2, Schedule D, line 2, of Form 1040 where it is combined with the income from farm operations.

If the total gains had not been greater than the total losses, the entries would have been made at the top of Schedule D, in section (1), "Property Other Than Capital Assets." Assume instead, for example, that the timber had not been sold during the taxable year; that all five of the cows had

been purchased late in 1952 for \$1,200 and sold in early January 1954; and that \$200 had been recovered through depreciation. Let us assume further that the silage cutter was sold for \$90. In this instance the cow sales would have resulted in a loss of \$115. Sale price \$885 plus depreciation \$200 less cost \$1,200 = a loss of \$115. The profit on the sale of the silage cutter for \$90 would have been \$32. In this situation the gain (\$32) would not have been greater than the loss (\$115). Therefore, the gains and losses would have been entered in full and a net loss of \$83 would have been carried to page 2 of Form 1040. These transactions would have been reported on Schedule D as follows:

SCHEDULE D		U. S. Treasury Department—Internal Revenue Service					1954	
For use with Forms 1040, 1041, and 1065		GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY						
		USE WITH INDIVIDUAL, FIDUCIARY, OR PARTNERSHIP RETURNS						
For Calendar Year 1954, or other taxable year beginning		, 1954, and ending					, 195	
Name and Address		Check type of return filed.						
John and Jane Farmer, Jonesville, State		<input checked="" type="checkbox"/> Form 1040 <input type="checkbox"/> Form 1041 <input type="checkbox"/> Form 1065						
(I) PROPERTY OTHER THAN CAPITAL ASSETS								
a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price (contract price)	e. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	f. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	g. Expense of sale	h. Gain or loss (column d plus column e less sum of columns f and g)	
<i>(Cash method accounting)</i>								
1. 5 dairy cows	12-19-52	1-8-54	885	200	1,200	0	\$ -115	
Silage cutter	1-14-46	1-5-54	90	232	290	0	\$ 32	
2. Net gain (or loss). Enter here and on line 1, Schedule D, Form 1040, or as item 8 (a), page 1, Form 1041, or as item 11, page 1, Form 1065.							\$ - 83	

Sale of a Farm

The income tax law provides for reporting gains and losses from the sale of farm real estate, and in certain cases unharvested crops, in the same manner that gains and losses from the sale of other capital items are reported.

All gains and losses resulting from the sale of farms are computed in the following manner:

1. Add the cost of all improvements that were made during the period of ownership to the original purchase price paid for the farm. (However, if the farm was acquired prior to March 1, 1913, or if it was not acquired by purchase, special rules may apply. These special rules are covered in the instructions on the back of Schedule D.)
2. Subtract from this sum the total of all depreciation during the period of ownership.
3. From the selling price of the farm and unharvested crops, subtract the sum of (1) the amount computed in step 2, and (2) the cash cost of producing the unharvested crop.
4. Subtract from the amount computed in step 3 the cost of selling the farm (commission, abstracting, recording fees, etc.). The remainder will be the gain or loss—which is to be reported in Schedule D, and filed with Form 1040.

If the seller had owned the farm for only 6 months or less, all the gain from its sale must be reported as ordinary income. If the seller has owned the farm for more than 6 months the gain or loss will be treated as explained on pages 8 and 9.

Installment Sales

Under certain conditions a taxpayer may elect to use a special method of figuring his taxable gain from the sale of a farm. This special method is known as the "installment sales" method. The "installment sales" method, when a farm is sold, can be used when there are no initial payments or such payments do not exceed 30 percent of the selling price. Initial payments include any down payment and all other cash or property (other than notes of the purchaser) received in the year of sale. Many farmers sell their farms and receive a small initial payment. This is frequently true when a sale is made to a son. The installment method gives the taxpayer relief from the burden of paying tax on income which has not been collected until it is collected.

There are certain terms that must be understood when a taxpayer sells his farm on the "installment sales" method. They are:

1. *Initial Payments* received in the year of the sale include not only down payment but also all other cash payments and property other than notes received in the year of sale.
2. *Selling price* is the entire cost of the farm to the purchaser. It includes the cash, and evidence of indebtedness received from the buyer in addition to any mortgage on the property assumed by the buyer.
3. *Contract Price*: When no mortgages are involved, the selling price is also "contract price." If the selling price is payable partly in cash and partly on time, secured by a purchase money mortgage from the buyer to the seller, the selling price is likewise the contract price. It often occurs that the seller has a mortgage on the farm, and when he sells the farm, he arranges that the obligation to repay the loan or mortgage shall be assumed by the buyer. When the mortgage assumed by the buyer does not exceed the seller's cost or other basis of the farm, the contract price is equal to the sale price less the amount of the mortgage. When the amount of the mortgage exceeds the cost or other basis, the amount in excess is included both in the contract price and in the initial payments.
4. *Percentage of Gross Profits*: Gross profit is the selling price minus the cost or other basis of the farm sold. The percentage of gross profit is the ratio between the gross profit and the contract price. The total amount collected during the taxable year, multiplied by the percentage of gross profit, results in the amount of income realized during the year.

EXAMPLE OF SALE OF FARM ON "INSTALLMENT SALES" METHOD

A farmer on January 2, 1954, sold his farm. The *selling price* was as follows:

To be paid in cash (down payment and monthly payments)	\$30,000.00
Mortgage assumed by buyer	12,292.50
Selling price	\$42,292.50

The *initial payments* were:

Down payment	\$ 4,500.00
Monthly payments \$100 per month, paid in 1954	1,200.00
Initial payments	\$ 5,700.00

The *gross profit* on sale of the farm was:

Selling price	\$42,292.50
Seller's basis (figured on Schedule D)	22,785.05
Gross profit	\$19,507.45

The *contract price* is:

Selling price	\$42,292.50
Less: Mortgage assumed by buyer	12,292.50
Contract price	\$30,000.00

Percentage of Gross Profit:

$$\frac{\text{Profit to be realized} = \$19,507.45}{\text{Contract price} = \$30,000.00} = 65\%$$

The profit realized on the 1954 receipts is 65 percent of \$5,700, or \$3,705.

In the sale of a farm which was held for more than 6 months any gain is treated as a long-term capital gain of which only 50 percent (in this case \$1852.50) is taxed unless offset by capital losses.

Each year, until total profit from sale of farm is liquidated, the seller should figure and report profits realized during the year, based on the amount of payments received. He is taxed on only half of this amount unless all or part of it is offset by capital loss. Interest received with annual payments should be reported as ordinary income. When the seller dies, his estate (or heirs entitled by bequest, devise, or inheritance to receive the payments) reports and pays income tax on the outstanding profits as the payments are received. If the estate or heirs transfer ownership of the installment obligation to someone else, the income tax based on the amount of profit still outstanding must be paid with the return for the year of the transfer.

As the sale of a farm may increase the seller's tax liability by several hundred dollars, it is always advisable for the seller of such property to obtain the services of an internal revenue official or some other competent tax authority in executing Schedule D and in making his income tax return.

Sale of Farm Residence

When the sale of a farm includes the taxpayer's principal residence and he buys property, within 1 year after (or before the sale, which he uses as his new residence, the gain from the sale of the old residence may be

excluded from gross income if the cost of the new residence equals or exceeds the sale price of the old one. The same applies if he starts construction of a new residence within the period specified above and moves into it within 18 months after the sale of the old residence.

In using this provision, the portions of the sale and purchase prices which are allocable to the residences involved must be determined.

Following is an example:

	Farm Including Residence	Residence Only (Estimated)	Farm, Not Including Residence
Sale Price	\$41,000	\$9,000	\$32,000
Cost (or other basis)	20,000	5,000	15,000
Gain	\$21,000	\$4,000	\$17,000

Gain recognized: If no other residence is purchased, \$21,000*.

If another residence is purchased or built for \$9,000 or more (as part of another farm, or a town residence), \$17,000*. In the latter instance, however, the basis of the new residence would be cost less \$4,000 unrecognized gains on the sale of the old residence.

* This is only 50 percent taxable (if held for longer than 6 months) unless offset by capital losses.

Election as to Commodity Credit Loans

When a farmer obtains a loan from the Commodity Credit Corporation and pledges his crops as security, the proceeds of the loan would not ordinarily be considered as income when received. Income would not be realized until the pledged crops are sold. If they are sold in a later year, the production expenses incurred in the previous year could not be deducted to reduce that income.

To provide relief, the income tax law permits the farmer to choose to include the amount of the loan in his income *in the year in which it is received*, instead of in the year when the commodity is finally sold. If he once makes such an election, then he must follow this method in succeeding years, including in his gross income all amounts received in those years as loans from the Commodity Credit Corporation, unless he gets the permission of the Commissioner of Internal Revenue to change to a different method of treatment.

To obtain such permission, an application to change the method and the basis of the return must be filed with the Commissioner within the first 90 days of the taxable year to be covered by the return.

Commodity Credit Corporation loans are usually settled in one of two ways. The crop is either delivered in payment of the loan or the loan is paid off and the crop sold on the market. At the time the Commodity Credit Corporation loan is settled, if more is realized from the commodity than the amount of the loan, the difference is included as gross income the year the crop is sold. This procedure applies when the Commodity Credit Corporation loan has been included as gross income.

Losses From Storms and Other Casualties

A farmer, like any other individual, may deduct for loss or damage to property, resulting from fire, theft, storm, flood, or other sudden, unexpected, external destructive force.

The amount of the loss, in the case of farm business property, is the unrecovered cost of the property (see page 8) reduced by its salvage value and any compensation received from insurance or otherwise. In the case of non-business property, the loss is the difference between the market value immediately before the destructive event and its value immediately afterward (but not exceeding the cost or other basis of the property) reduced by any insurance or other compensation. In case of damage to shrubs and ornamental trees the amount of the loss is not limited to the investment in the trees or shrubs but is measured by the difference in the value of the realty before and after the casualty. In no case is the repair or restoration cost to be considered in arriving at the amount of the loss.

Casualty losses are reported on Schedule D, on page 3 of Form 1040, or on Form 1040 F, depending on the nature of the loss. Non-business casualty losses (such as storm damage to your residence) are reported on Schedule D only if gains under section 1231 (see the back of Schedule D) exceed the losses. Some losses are not reported at all, since they are automatically reflected in reduced income. For proper places to report losses, see pages 8, 9 and 32 of this publication and the instructions for Schedule D and Forms 1040 and 1040 F.

New Grain Storage Facilities

The taxpayer may elect to "write off" the cost of constructing, reconstructing or erecting a grain storage facility (if built or erected in the calendar years 1953-56 inclusive) over a 60-month period, instead of taking the ordinary deduction for depreciation based on the estimated useful life of the facility. The 60-month period may begin with the month following completion, or with the succeeding taxable year.

If a taxpayer elects to "write-off" the cost over a 60-month period, he must include, in his Federal income tax return for the first year in which it is taken, a statement that he is making this election. Likewise, a taxpayer may elect to discontinue the 60-month "write-off" as of the beginning of any month specified in a notice filed with the Secretary of the Treasury before the beginning of such month. He will thereafter be entitled to use a normal rate of depreciation on the remaining cost of the grain storage facility.

A grain storage facility includes any corn crib, grain bin, or similar structure suitable primarily for the storage of grain, which is intended by the farmer to be used for the storage of grain produced by him. Altering or adapting another structure for grain storage or enlarging an existing grain storage facility is considered as construction of a grain storage facility.

QUESTIONS AND ANSWERS

How Do Partnerships Report?

A partnership does not pay any income tax, but it must file an information return on Form 1065. This form, which may be supported by details on Form 1040 F, shows the amount of income of the partnership and how this income is distributed among the partners. Each individual partner then includes in his income on Form 1040 his share of the partnership income. The ordinary landlord-tenant relationship does not constitute a partnership. Therefore, *each* party to the *landlord-tenant* contract should file his tax return as an individual, reporting only his individual income and expenses.

How Are Croppers' Shares Treated?

Economically speaking, a cropper is essentially a laborer who is paid a share of a crop (or the money value thereof) for the labor of producing it. He may or may not pay a share of certain production costs such as seeds, fertilizers, insecticides, ginning, etc., depending on the terms of the contract existing between him and the farm operator.

There are two common methods whereby farm operators and croppers keep their records and make settlement:

1. The sale value of the entire crop and the total production costs are included in the operator's transactions and records. Settlement is made between the two parties after the undivided crop is marketed. The operator should enter as *labor cost* in his accounts and income tax reports the value of the cropper's share of the crop less any production costs paid by the cropper as shown in the final settlement.
2. The cropper pays his own share of production costs (if any) and receives his share of the actual crop. In this case, neither the cropper's share of production costs nor the cropper's share of the crop is included in the operator's transactions, records, or income tax reports.

It is the cropper's responsibility to file his own income tax return if he earns \$600 or more (\$1200 or more if he is 65 years of age or older).

How Do You Report Patronage Refunds From Cooperatives?

Patronage refunds received as cash, or in the form of stock certificates, "letters of advice", etc. from farm cooperatives, generally should be included in farm income on Form 1040 F. Cooperative refunds arising from expenditures for groceries or other personal non-business purposes, usually do not enter into taxable income computations. Refunds arising from the purchase of depreciable items, such as machinery, should either be added to income or be used to reduce the cost basis of the items and not reported as income. Dividends or interest on stock owned in cooperatives should be reported as income on Form 1040. (See "Farming" in the official instructions on how to prepare your U. S. income tax return on Form 1040.)

How Do You Report Agricultural Program Payments?

All government payments, such as those for approved conservation practices, must be included in gross income, whether received in cash or in

materials such as fertilizer or lime. Where fertilizer was received under a government program, include the value of the fertilizer in income and offset this receipt by an entry under expenses covering the value of the fertilizer (as figured in the government program) plus any cash handling charges. Where the government payments are based on improvements such as concrete outlets, tile, or lime spread on the land, there may be no offsetting entry under current expenses. The first two represent capital investments and should be put in the depreciation schedule. The cost of lime should be handled as discussed in the next question.

How Is the Cost of Liming Handled?

If the benefit from lime is essentially limited to 1 year, or if maintenance applications are made each year, the cost is a deductible expense in the year the lime is spread. If, however, the benefit extends over a number of years, the cost should be distributed over such a period. The portion of the cost attributed to each year need not be the same if the annual benefits from the liming are clearly greater in the early part of the period than in the last.

Can Wages Paid to Your Child Be Deducted as an Expense?

Reasonable cash wages paid by a father to a minor child for work actually performed as a bona fide employee in the farm business may be deducted as a business expense. Such wages are included in the income of the child and may result in the child's having taxable income. If the father takes the child's earnings and utilizes them for his own purposes, or if the father requires the child to purchase his own clothing or other necessities which the father is obligated to furnish, the deduction of the child's earnings as a business expense will be disallowed to that extent.

A farmer should not charge as expense his estimate of the value of his labor or other unpaid family labor.

Can Board of Hired Labor Be Deducted?

Board and room and supplies furnished to hired labor are deductible only to the extent that they are purchased by the farmer. This excludes food raised on the farm and used in boarding laborers.

Are Livestock Death Losses Deductible?

CASH BASIS: If an animal that was born and raised on your farm dies, you *cannot deduct* for it, because the cost of raising the animal has been deducted as operating expenses previously. If the animal was purchased, you *can* deduct your loss but the method of deducting it depends on the cause of the death of the animal. (The amount of your loss in the cost of the animal, less depreciation and any insurance received.) If the animal was killed by a destructive force, such as lightning, or by order of governmental authorities (because of disease), and if it was held for 12 months or more for breeding, draft, or dairy purposes, the loss should be handled in Schedule D. Otherwise, the amount of the loss should be entered on the blank line of the summary at the bottom of page 1, Form 1040 F, with an explanation. However, see page 12 regarding non-recognition of gain from disposition of diseased livestock.

ACCRUAL BASIS: When the value of the animal appears in the beginning-of-year inventory and not in the end-of-year inventory, the loss is automatically accounted for in the change in inventory value. Any money received from insurance or indemnity would be entered as other farm income.

Is the Loss or Damage to a Growing Crop Deductible?

No, because the costs of growing it have been deducted as farm operating expenses. Any insurance received as a result of such loss or damage should be reported as other farm income.

What Business Outlays Are Not Deductible as Cash Expenses?

Capital investments and repayment of debt principal are not deductible as current operating expenses. Capital investments include new equipment, new buildings, major improvements to old buildings, and major overhaul of machinery. The line between ordinary repairs and major improvements is often hard to draw. The general rule is: If the improvement substantially lengthens the life of the building or changes the use of the structure, it should be considered a capital investment. In such cases add the cost of the improvement to the amount shown on Form 1040 F, page 2, Depreciation, column 3. If necessary the life expectancy is changed to the new estimated life, and entered in column 6 of the depreciation table, Form 1040 F. Thereafter the amount of depreciation claimed each year will be the new cost divided by the estimated life.

What About Hired Farm Workers?

A hired farm worker who expects to earn \$600 or more during any calendar year (\$1200 or more if he is 65 years of age or older) should file a declaration of estimated tax (Form 1040 ES) by April 15.

The hired farm worker is not required to include in his income the value of meals furnished him by his employer on his employer's premises. Neither is he required to include the value of lodging if he is required to accept lodging on his employer's premises as a condition of his employment (Section 119).

Can You Carry Back and Carry Forward Net Operating Losses?

Yes, if not offset by income from other sources. (Section 172) Net operating losses can be carried back two years and if not offset, any remaining loss can be carried forward for five years. The definition of a net operating loss deduction has been broadened. (See page 9.) If you show a net loss on your return for the current year (because of unprofitable farm operations), or if losses from certain transactions exceed your net farm profit (see page 9), you can use this business loss to offset income in other years. If you paid a tax in 1952 you can claim a refund based on refiguring the tax for that year taking into account the 1954 loss. Any remaining excess of the 1954 loss may likewise be carried back to 1953. You can carry any yet remaining excess of the net operating loss forward for 5 years. A 1954 operating loss should be used first to claim a refund (on

Form 843) of taxes paid on 1952 income. If the loss is not used up in offsetting the 1952 income, it should be used in offsetting the 1953 income. Any remaining unused operating loss should be used to offset income in 1955, 1956, 1957, 1958 and 1959, in that order.

How Is Depreciation on Commercial Orchards Computed?

Depreciation on the taxpayer's investment in a commercial orchard (the investment in the trees, apart from the investment in the land on which they stand) is allowable. The investment in the trees is the price the taxpayer paid for them (or his "other basis") and any costs he incurred in bringing them to bearing age. (See "Development Costs" on page 20.) However, if an orchard was developed by the present owner and the costs of development were deducted, on previous tax returns, as *annual operating expenses*, then depreciation *cannot* be justified because the costs have already been charged off.

The taxpayer should make a reasonable estimate of the probable length of the productive life of the trees, based on their age when he acquired them, the species and variety of the trees, the soil type, and all other pertinent information.

(See "Figuring Depreciation" on page 5.)

How Do You Handle Social Security Taxes Paid By a Farmer on Wages Of Hired Farm Workers?

The social security tax paid by a farmer on wages of hired farm workers is a business expense and should be included in farm expenses. This tax, paid by the farmer-employer, should be reported under farm expenses as "social security tax on wages." In reporting farm expenses, the wages paid (including the tax withheld from the worker) should be itemized separately from the tax paid by the farmer-employer.

What Recourse Have You if Your Return is Questioned?

If your return is questioned and, at a conference with a local representative of the Internal Revenue Service, payment of additional tax is required, you may (1) ask for an informal conference for the purpose of discussing the proposed adjustments with a conferee; or (2) if it is clear to you that you owe the amount requested, sign a waiver and pay the additional tax. If you are not satisfied with the explanation furnished by the conferee, you should not sign a waiver and you will receive a 30-day letter. The receipt of a 30-day letter gives you 30 days from the date of the letter in which to decide whether the additional tax is owed and to choose one of three courses of action. First, you may file a formal protest under oath, with the District Director and request that the case be transferred to the Appellate Division of the District. Second, you can, by request, or by simply failing to respond during the 30-day period, secure the issuance of the statutory notice from which an appeal may be taken to the Tax Court of the United States. Third, you may sign the waiver form enclosed with the 30-day letter.

CHECK LIST OF FARM EXPENSES

In general the farmer may deduct from gross receipts all expenditures directly connected with the farm business except those which represent capital investments. The latter most generally may be recovered through depreciation. (See page 5.) Many of the expenditures are partly business and partly personal. Deduct only that part which has to do with the farm business.

<i>Labor Hired</i>	Rope	<i>Fertilizer Bought</i>	<i>Rent, Cash</i>
Day labor	Twine	Mixed fertilizer	Pasture
Season & year labor	Rubber bands	Phosphate	Cropland
Piecework	<i>Containers</i>	Potash	Buildings
Cash board	Bags	Nitrogen	<i>Trucking Hired</i>
<i>Feed Bought</i>	Boxes	Lime	Hauling crops
Grain	Egg cases	Slag	Hauling livestock
Other concentrates	Poultry and other crates	Manure	Hauling milk
Beet pulp	Baskets	<i>Veterinary</i>	*Other hauling
Feed mixing hired	Cans and pails	Services	*Freight & express
Hay	Bottles and caps	Equipment	*Parcel post
Other roughage	<i>Insect and Disease Control</i>	Dips	<i>*Auto and Truck</i>
<i>Seeds & Plants Bought</i>	Sprays	Disinfectants	Gas and oil
Corn	Dusts	Fly control	Antifreeze
Oats	Other materials	Medicines	Repairs
Rye	<i>Machinery Repairs</i>	Vaccines	Tires
Wheat	Machine-shop work	Poultry flock treatment	Operator's license
Other grains	Repair parts	Dehorning	Insurance
Legumes	Blacksmith work	<i>*Fuel, Light, Power</i>	<i>Poultry Bought</i>
Grass	Harness repairs	Gasoline	Chicks and poults
*Vegetables	<i>*Farm Bldg. Repairs</i>	Fuel oil	Other poultry
Seed mixtures	Roofing	Oil and grease	Hatching eggs
Seed treatment	Painting	Coal	Custom hatching
Plants & vines bought	Plumbing	Electricity	<i>Miscellaneous</i>
<i>Machine Work Hired</i>	Wiring	<i>*Taxes</i>	Commissions
Tractor	Cement	Real Estate	Advertising
Silo filling	Lumber	Other farm property	Seed certification
Hay baling	Glazing	Auto & truck use tax	Storage
Ginning	Nails, screws, bolts	<i>Insurance Premiums</i>	Warehouse charges
Airplane dusting	Greenhouse	*Farm buildings	Farm papers
Other machine work	Coldframes	Livestock	Bedding & litter
<i>Supplies Bought</i>	<i>Livestock Fees</i>	Crops	Small tools and equipment
Strainer discs	Breeding	Accident & liability	Fencing materials
Washing powders	Registration, transfer	<i>Interest Paid</i>	*Telephone
Leg bands	Cow testing	Notes	Farm organization dues
*Stamps & stationery	Exhibition	Chattel mortgages	Farm business travel
*Light bulbs & fuses	Sheep shearing	Real estate mortgage	
<i>Tying Material</i>			
Wire			

* Particular care should be used with these items to make sure that personal expenses are not included.

Farm Income

The sale of any of the items listed below constitutes farm income. Some farmers will have other sources of farm income that do not appear on this list.

<i>* Livestock</i>	<i>Livestock Products</i>	Field corn	Peaches
Feeder pigs	Milk	Popcorn	Cherries
Boars	Cream	Sweet corn	Pears
Fat hogs	Butter	Soybeans	Berries
Sows	Buttermilk	Wheat	Maple sirup
Gilts	Cheese	Oats	Cider
Stags	Eggs	Rye	
Feeder cattle	Dressed poultry	Barley	<i>Miscellaneous</i>
Fat cattle	Dressed meat	Sorghum	Custom work
Veal calves	Wool	Grass seed	Machine rental
Heifers	Lard	Clover seed	Breeding fees
Cows	Hides	Lespedeza seed	Mdse. for produce
Bulls	Honey	Alfalfa seed	Rent received in crop shares
Lambs	<i>* Woodland Products</i>	Tomatoes	Agricultural program payments
Ewes	Standing trees	Potatoes	Insurance rec'd on loss of growing crops
Rams	Logs	Tobacco	Interest on cropper accounts
Goats	Posts	Pumpkins	Cash rent
Horses	Poles	Melons	Refunds (of items claimed as expense)
Mules	Ties	Pickles	Patronage refunds
Hens	Fuel wood	Peanuts	
Broilers	Chemical wood	Beans	
Frying chickens	Pulp wood	Cabbage	
Turkeys	Mine props	Sweet potatoes	
Ducks	Christmas trees	Peppers	
Geese	<i>Crops</i>	Apples	
Bees	Cotton		

* Under certain conditions some of these items may be treated as the sale of capital assets. (See pages 11 and 23.)