



2008 Instructions for Schedule F

Profit or Loss From Farming

Use Schedule F (Form 1040) to report farm income and expenses. File it with Form 1040, 1040NR, 1041, 1065, or 1065-B.

Your farming activity may subject you to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Additional information. Pub. 225 has examples of filled-in forms and schedules, and lists important dates that apply to farmers.

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Section 179 deduction increased. For property placed in service during a tax year beginning in 2008, the limit for the section 179 deduction to expense certain depreciable business property has been increased to \$250,000. This limit will be reduced when the total cost of section 179 property placed in service during the tax year exceeds \$800,000.

Gulf Opportunity (GO) Zone property. In addition to the increase discussed above, the higher section 179 deduction has been extended for qualified section 179 GO Zone property when substantially all of the use is in specified portions of the GO Zone and is placed in service in 2008. For the location of specified GO Zone portions, see Notice 2007-36.

Special depreciation allowance. For qualifying property acquired and placed in service in 2008, you may be able to take a depreciation deduction equal to 50% of the adjusted basis of the property. Qualifying property includes certain property with a recovery period of 20 years or less, certain computer software, water utility property, or qualified leasehold improvements. For more information, see Pub. 946.

Exclusion from self-employment tax for certain Conservation Reserve Program (CRP) payments. Beginning in 2008, farmers receiving social security retirement or disability benefits do not have to pay self-employment tax on CRP payments. CRP payments are still subject to income tax.

Indian employment credit has been extended. The Indian employment credit has been extended for qualified wages paid to an employee through December 31, 2009.

Special rules for contributing food inventory have been extended. These rules were due to expire at the end of 2007 but have been extended to contributions made in 2008 and 2009.

Deduction for qualified clean-up costs in the GO Zone has expired. This deduction was available for certain demolition and clean-up costs paid or incurred before January 1, 2008.

Increased expensing for qualified timber property in the GO Zone has expired. The increased expensing limit was available for reforestation expenditures paid or incurred before January 1, 2008.

What's New—Disaster Areas

Kansas and Midwestern Disaster Areas

The following tax benefits are available for qualifying Schedule F filers in the Kansas and Midwestern disaster areas.

- Employee retention credit for employers.
- Deduction for qualified demolition and clean-up costs.
- Increased section 179 deduction for qualified property.
- Special depreciation allowance for qualified property.

For information about these benefits, see:

- Pub. 4492-A, Information for Taxpayers Affected by the May 4, 2007, Kansas Storms and Tornadoes; and
- Pub. 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas.

Special instructions for taxpayers affected by the May 4, 2007, Kansas storms and tornadoes. To claim a refund if you have already filed your 2007 tax return and have qualifying expenses for that year, file an amended return on Form 1040X, Amended U.S. Individual Income Tax Return, except as otherwise provided in Notice 2008-67. This notice is found on page 307 of Internal Revenue Bulletin 2008-32 at www.irs.gov/irb/2008-32_irb/ar14.html.

Other Federally Declared Disaster Areas

The following tax benefits are available for qualifying Schedule F filers affected by federally declared disasters occurring after December 31, 2007, and before January 1, 2010.

- Deduction for qualified demolition and clean-up costs (see Pub. 535).
- Increased section 179 deduction for qualified property (see Pub. 946).

- Special depreciation allowance for qualified property (see Pub. 946).

For a list of designated counties in federally declared disaster areas go to www.fema.gov/news/disasters.fema.

General Instructions

Other Schedules and Forms You May Have To File

- Schedule E, Part I, to report rental income from pastureland that is based on a flat charge. However, report on Schedule F, line 10, pasture income received from taking care of someone else's livestock. Also use Schedule E, Part I, to report farm rental income and expenses of a trust or estate based on crops or livestock produced by a tenant.
- Schedule J to figure your tax by averaging your farm income over the previous 3 years. Doing so may reduce your tax.
- Schedule SE to pay self-employment tax on income from your farming business.
- Form 4562 to claim depreciation (including the special allowance) on assets placed in service in 2008, to claim amortization that began in 2008, to make an election under section 179 to expense certain property, or to report information on vehicles and other listed property.
- Form 4684 to report a casualty or theft gain or loss involving farm business property, including purchased livestock held for draft, breeding, sport, or dairy purposes. See Pub. 225 for more information on how to report various farm losses, such as losses due to death of livestock or damage to crops or other farm property.
- Form 4797 to report sales, exchanges, or involuntary conversions (other than from a casualty or theft) of certain farm property. Also use this form to report sales of livestock held for draft, breeding, sport, or dairy purposes.
- Form 4835 to report rental income based on crop or livestock shares produced by a tenant if you are an individual who did not materially participate in the management or operation of a farm. This income is not subject to self-employment tax. See Pub. 225.
- Form 8824 to report like-kind exchanges.

- Form 8903 to take a deduction for income from domestic production activities.
- Form 8910 to claim a credit for placing a new alternative motor vehicle in service for business use.
- Form 8911 to claim a credit for placing qualified alternative fuel vehicle refueling property in service for business use.

Heavy highway vehicle use tax. If you use certain highway trucks, truck-trailers, tractor trailers, or buses in your farming business, you may have to pay a federal highway motor vehicle use tax. See the Instructions for Form 2290 to find out if you owe this tax.

Information returns. You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For details, see the 2008 General Instructions for Forms 1099, 1098, 5498, and W-2G.

If you received cash of more than \$10,000 in one or more related transactions in your farming business, you may have to file Form 8300. For details, see Pub. 1544.

Reportable transaction disclosure statement. If you entered into a reportable transaction in 2008, you must file Form 8886 to disclose information if your federal income tax liability is affected by your participation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but do not do so. You may also have to pay interest and penalties on any reportable transaction understatements. For more information on reportable transactions, see *Reportable Transaction Disclosure Statement* on page C-2 of the instructions for Schedule C.

Husband-Wife Farm

If you and your spouse jointly own and operate a farm as an unincorporated business and share in the profits and losses, you are partners in a partnership whether or not you have a formal partnership agreement. File Form 1065 instead of Schedule F.

Exception—Qualified Joint Venture

If you and your spouse each materially participate as the only members of a jointly owned and operated farm, and you file a joint return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership. For an explanation of “material participation,” see the instructions for Schedule C, line G, on page C-3, and the instructions for line E on this page.

Making the election. To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule F. On each line of your separate Schedule F, you must enter your share of the applicable income, deduction, or loss. Each of you must also file a

separate Schedule SE to pay self-employment tax, as applicable.

As long as you remain qualified, your election cannot be revoked without IRS consent.

For more information, see *Exception—Qualified Joint Venture* on page C-2 of the instructions for Schedule C.

Exception—Community Income

If you and your spouse wholly own an unincorporated farming business as community property under the community property laws of a state, foreign country, or U.S. possession, the income and deductions are reported based on the following.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.
- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.
- If either or both you and your spouse are partners in a partnership, see Pub. 541.
- If you and your spouse elected to treat the business as qualifying joint venture, see *Exception—Qualified Joint Venture* on this page.

The only states with community property laws are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A change in your reporting position will be treated as a conversion of the entity.

Estimated Tax

If you had to make estimated tax payments for 2008 and you underpaid your estimated tax, you will not be charged a penalty if both of the following apply.

- Your gross farming or fishing income for 2007 or 2008 is at least two-thirds of your gross income.
- You file your 2008 tax return and pay the tax due by March 2, 2009.

For details, see chapter 15 of Pub. 225.

Specific Instructions

Filers of Forms 1041, 1065, and 1065-B. Do not complete the block labeled “Social security number (SSN).” Instead, enter your employer identification number (EIN) on line D.

Line B

On line B, enter one of the 14 principal agricultural activity codes listed in Part IV on page 2 of Schedule F. Select the code that best describes the source of most of your income.

Line C

If you use the cash method, check box 1, “Cash.” Complete Schedule F, Parts I and II. Generally, report income in the year in which you actually or constructively received it and deduct expenses in the year you paid them. However, if the payment of

an expenditure creates an asset having a useful life that extends substantially beyond the close of the year, it may not be deductible or may be deductible only in part for the year of the payment. See chapter 2 of Pub. 225.

If you use an accrual method, check box 2, “Accrual.” Complete Schedule F, Parts II, III, and Part I, line 11. Generally, report income in the year in which you earned it and deduct expenses in the year you incurred them, even if you did not pay them in that year. Accrual basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See Pub. 538.

Farming syndicates. Farming syndicates cannot use the cash method of accounting. A farming syndicate may be a partnership, any other noncorporate group, or an S corporation if:

- The interests in the business have at any time been offered for sale in a way that would require registration with any federal or state agency, or
- More than 35% of the loss during any tax year is shared by limited partners or limited entrepreneurs. A limited partner is one who can lose only the amount invested or required to be invested in the partnership. A limited entrepreneur is a person who does not take any active part in managing the business.

Line D

You need an employer identification number (EIN) only if you had a qualified retirement plan or were required to file an employment, excise, estate, trust, partnership, or alcohol, tobacco, and firearms tax return. If you need an EIN, see the Instructions for Form SS-4. If you do not have an EIN, leave line D blank.

Line E

Material participation. For the definition of material participation for purposes of the passive activity rules, see the instructions for Schedule C, line G, on page C-3. If you meet any of the material participation tests described in those instructions, check the “Yes” box.

If you are a retired or disabled farmer, you are treated as materially participating in a farming business if you materially participated 5 or more of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if he or she actively manages the farm and the real property used for farming meets the estate tax rules for special valuation of farm property passed from a qualifying decedent.

Check the “No” box if you did not materially participate. If you checked “No” and you have a loss from this business, see *Limit on passive losses* below. If you have a profit from this business activity but have current year losses from other passive activities or prior year unallowed passive ac-

tivity losses, see the Instructions for Form 8582.

Limit on passive losses. If you checked the "No" box and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule F, line 36. Generally, you can deduct losses from passive activities only to the extent of income from passive activities. For details, see Pub. 925.

Part I. Farm Income—Cash Method

In Part I, show income received for items listed on lines 1 through 10. Generally, include both the cash actually or constructively received and the fair market value of goods or other property received for these items. Income is constructively received when it is credited to your account or set aside for you to use. However, direct payments or counter-cyclical payments received under the Farm Security and Rural Investment Act of 2002 are required to be included in income only in the year of actual receipt.

If you ran the farm yourself and received rents based on crop shares or farm production, report these rents as income on line 4.

Sales of livestock because of weather-related conditions. If you sold livestock because of drought, flood, or other weather-related conditions, you can elect to report the income from the sale in the year after the year of sale if all of the following apply.

- Your main business is farming.
- You can show that you sold the livestock only because of weather-related conditions.
- Your area qualified for federal aid.

See chapter 3 of Pub. 225 for details.

Chapter 11 bankruptcy. If you were a debtor in a chapter 11 bankruptcy case during 2008, see page 20 in the instructions for Form 1040 and page SE-2 of the instructions for Schedule SE (Form 1040).

Forms 1099 or CCC-1099-G. If you received Forms 1099 or CCC-1099-G showing amounts paid to you, first determine if the amounts are to be included with farm income. Then, use the following chart to determine where to report the income on Schedule F. Include the Form 1099 or CCC-1099-G amounts in the total amount reported on that line.

Form	Where to report
1099-PATR	Line 5a
1099-A	Line 7b
1099-MISC for crop insurance	Line 8a
1099-G or CCC-1099-G	
• for disaster payments . .	Line 8a
• for other agricultural program payments	Line 6a

You may also receive Form 1099-MISC for other types of income. In this case, report it on whichever line best describes the income. For example, if you received a Form 1099-MISC for custom farming work, include this amount on line 9, "Custom hire (machine work) income."

Lines 5a and 5b

If you received distributions from a cooperative in 2008, you should receive a Form 1099-PATR. On line 5a, show your total distributions from cooperatives. This includes patronage dividends, nonpatronage distributions, per-unit retain allocations, and redemptions of nonqualified written notices of allocation and per-unit retain certificates.

Show patronage dividends received in cash and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income. Include cash advances received from a marketing cooperative. If you received per-unit retains in cash, show the amount of cash. If you received qualified per-unit retain certificates, show the stated dollar amount of the certificates.

Do not include as income on line 5b patronage dividends from buying personal or family items, capital assets, or depreciable assets. Enter these amounts on line 5a only. Because you do not report patronage dividends from these items as income, you must subtract the amount of the dividend from the cost or other basis of these items.

Lines 6a and 6b

Enter on line 6a the total of the following amounts.

- Direct payments.
- Counter-cyclical payments.
- Price support payments.
- Market gain from the repayment of a secured Commodity Credit Corporation (CCC) loan for less than the original loan amount.
- Diversion payments.
- Cost-share payments (sight drafts).
- Payments in the form of materials (such as fertilizer or lime) or services (such as grading or building dams).

These amounts are government payments you received and are usually reported to you on Form 1099-G. You may also receive Form CCC-1099-G from the Department of Agriculture showing the amounts and types of payments made to you.

On line 6b, report only the taxable amount. For example, do not report the market gain shown on Form CCC-1099-G on line 6b if you elected to report CCC loan proceeds as income in the year received (see *Lines 7a Through 7c* below). No gain results from redemption of the commodity because you previously reported the CCC loan proceeds as income. You are treated as repurchasing the commodity for the amount of the loan repayment. However, if you did not report the CCC loan proceeds

under the election, you must report the market gain on line 6b.

Lines 7a Through 7c

Commodity Credit Corporation (CCC) loans. Generally, you do not report CCC loan proceeds as income. However, if you pledge part or all of your production to secure a CCC loan, you can elect to report the loan proceeds as income in the year you receive them, instead of the year you sell the crop. If you make this election (or made the election in a prior year), report loan proceeds you received in 2008 on line 7a. Attach a statement to your return showing the details of the loan(s).

Forfeited CCC loans. Include the full amount forfeited on line 7b, even if you reported the loan proceeds as income. This amount may be reported to you on Form 1099-A.

If you did not elect to report the loan proceeds as income, also include the forfeited amount on line 7c.

If you did elect to report the loan proceeds as income, you generally will not have an entry on line 7c. But if the amount forfeited is different from your basis in the commodity, you may have an entry on line 7c.

See chapter 3 of Pub. 225 for details on the tax consequences of electing to report CCC loan proceeds as income or forfeiting CCC loans.

Lines 8a Through 8d

In general, you must report crop insurance proceeds in the year you receive them. Federal crop disaster payments are treated as crop insurance proceeds. However, if 2008 was the year of damage, you can elect to include certain proceeds in income for 2009. To make this election, check the box on line 8c and attach a statement to your return. See chapter 3 of Pub. 225 for a description of the proceeds for which an election can be made and for what you must include in your statement.

Generally, if you elect to defer any eligible crop insurance proceeds, you must defer all such crop insurance proceeds (including federal crop disaster payments).

Enter on line 8a the total crop insurance proceeds you received in 2008, even if you elect to include them in income for 2009.

Enter on line 8b the taxable amount of the proceeds you received in 2008. Do not include proceeds you elect to include in income for 2009.

Enter on line 8d the amount, if any, of crop insurance proceeds you received in 2007 and elected to include in income for 2008.

Line 10

Use this line to report income not shown on lines 1 through 9, such as the following.

- Illegal federal irrigation subsidies. See chapter 3 of Pub. 225.

- Bartering income.

• Income from cancellation of debt. Generally, if a debt is canceled or forgiven, you must include the canceled amount in income. If a federal agency, financial institution, or credit union canceled or forgave a debt you owed of \$600 or more, it should send you a Form 1099-C, or similar statement, by February 2, 2009, showing the amount of debt canceled in 2008. However, you may be able to exclude the canceled debt from income. See Pub. 4681 for details.

• State gasoline or fuel tax refunds you received in 2008.

• The amount of credit for federal tax paid on fuels, if you deducted the total cost of the fuel on your 2007 Form 1040.

• The amount of credit for alcohol and cellulosic biofuel fuels that was claimed on Form 6478.

• The amount of credit for biodiesel and renewable diesel fuels that was claimed on Form 8864.

• Any recapture of excess depreciation on any listed property, including any section 179 expense deduction, if the business use percentage of that property decreased to 50% or less in 2008. Use Form 4797 to figure the recapture. See the instructions for Schedule C, line 13, on page C-5 for the definition of listed property.

• The inclusion amount on leased listed property (other than vehicles) when the business use percentage drops to 50% or less. See chapter 5 of Pub. 946 to figure the amount.

• Any recapture of the deduction for clean-fuel vehicles and clean-fuel vehicle refueling property used in your farming business. For details on how to figure recapture, see Regulations section 1.179A-1.

• The gain or loss on the sale of commodity futures contracts if the contracts were made to protect you from price changes. These are a form of business insurance and are considered hedges. If you had a loss in a closed futures contract, enclose the amount of the loss in parentheses.

• Any income from breeding fees, or fees from renting teams, machinery, or land.



For property acquired and hedging positions established, you must clearly identify on your books and records both the hedging transaction and the item(s) or aggregate risk that is being hedged.

Purchase or sales contracts are not true hedges if they offset losses that already occurred. If you bought or sold commodity futures with the hope of making a profit due to favorable price changes, report the profit or loss on Form 6781 instead of this line.

Part II. Farm Expenses

Do not deduct the following.

• Personal or living expenses (such as taxes, insurance, or repairs on your home) that do not produce farm income.

• Expenses of raising anything you or your family used.

• The value of animals you raised that died.

• Inventory losses.

• Personal losses.

If you were repaid for any part of an expense, you must subtract the amount you were repaid from the deduction.

Capitalizing costs of property. If you produced real or tangible personal property or acquired property for resale, certain expenses must be included in inventory costs or capitalized. These expenses include the direct costs of the property and the share of any indirect costs allocable to that property. However, these rules generally do not apply to expenses of:

1. Producing any plant that has a preproductive period of 2 years or less,

2. Raising animals, or

3. Replanting certain crops if they were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty.



Exceptions (1) and (2) do not apply to tax shelters, farming syndicates, partnerships, or corporations required to use the accrual method of accounting under section 447 or 448(a)(3).

If you capitalize your expenses, do not reduce your deductions on lines 12 through 34e by the capitalized expenses. Instead, enter the total amount capitalized in parentheses on line 34f and enter "263A" in the space to the left of the total. See *Preproductive period expenses* on page F-7 for details.

But you may be able to currently deduct rather than capitalize the expenses of producing a plant with a preproductive period of more than 2 years. See *Election to deduct certain preproductive period expenses* next.

Election to deduct certain preproductive period expenses. If the preproductive period of any plant you produce is more than 2 years, you can elect to currently deduct the expenses rather than capitalize them. But you cannot make this election for the costs of planting or growing citrus or almond groves that are incurred before the end of the fourth tax year beginning with the tax year you planted them in their permanent grove. You are treated as having made the election by deducting the preproductive period expenses in the first

tax year for which you can make this election and by applying the special rules, discussed below.



In the case of a partnership or S corporation, the election must be made by the partner, shareholder, or member. This election cannot be made by tax shelters, farming syndicates, partnerships, or corporations required to use the accrual method of accounting under section 447 or 448(a)(3).

Unless you obtain IRS consent, you must make this election for the first tax year in which you engage in a farming business involving the production of property subject to the capitalization rules. You cannot revoke this election without IRS consent.

Special rules. If you make the election to deduct preproductive expenses for plants:

• Any gain you realize when disposing of the plants is ordinary income up to the amount of the preproductive expenses you deducted, and

• The alternative depreciation rules apply to property placed in service in any tax year your election is in effect.

For details, see *Uniform Capitalization Rules* in chapter 6 of Pub. 225.

Prepaid farm supplies. Generally, if you use the cash method of accounting and your prepaid farm supplies are more than 50% of your other deductible farm expenses, your deduction for those supplies may be limited. Prepaid farm supplies include expenses for feed, seed, fertilizer, and similar farm supplies not used or consumed during the year. They also include the cost of poultry that would be allowable as a deduction in a later tax year if you were to (a) capitalize the cost of poultry bought for use in your farming business and deduct it ratably over the lesser of 12 months or the useful life of the poultry, and (b) deduct the cost of poultry bought for resale in the year you sell or otherwise dispose of it.

If the limit applies, you can deduct prepaid farm supplies that do not exceed 50% of your other deductible farm expenses in the year of payment. You can deduct the excess only in the year you use or consume the supplies (other than poultry, which is deductible as explained above). For details and exceptions to these rules, see chapter 4 of Pub. 225.

Whether or not this 50% limit applies, your expenses for livestock feed paid during the year but consumed in the later year, may be subject to the rules explained later in the line 18 instructions.

Line 12

You can deduct the actual expenses of operating your car or truck or take the standard mileage rate. You must use actual expenses if you used your vehicle for hire or you used five or more vehicles simultaneously in your farming business (such as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2008 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or
- Leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you take the standard mileage rate, multiply the number of business miles driven:

- Before July 1, 2008, by 50.5 cents, and
 - After June 30, 2008, by 58.5 cents.
- Add to this amount your parking fees and tolls, and enter the total on line 12. Do not deduct depreciation, rent or lease payments, or your actual operating expenses.

If you deduct actual expenses:

- Include on line 12 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show depreciation on line 16 and rent or lease payments on line 26a.

If you claim any car or truck expenses (actual or the standard mileage rate), you must provide the information requested on Form 4562, Part V. Be sure to attach Form 4562 to your return.

For details, see Pub. 463.

Line 14

Deductible soil and water conservation expenses generally are those that are paid to conserve soil and water or to prevent erosion of land used for farming. These expenses include (but are not limited to) costs for the following.

- The treatment or movement of earth, such as leveling, grading, conditioning, terracing, contour furrowing, and the restoration of soil fertility.
- The construction, control, and protection of diversion channels, drainage ditches, irrigation ditches, earthen dams, watercourses, outlets, and ponds.
- The eradication of brush.
- The planting of windbreaks.

These expenses can be deducted only if they are consistent with a conservation plan approved by the Natural Resources Conservation Service of the Department of Agriculture for the area in which your land is located. If no plan exists, the expenses must be consistent with a plan of a comparable state agency. You cannot deduct the expenses if they were paid or incurred for land used in farming in a foreign country.

Do not deduct expenses you paid or incurred to drain or fill wetlands, or to prepare land for center pivot irrigation systems.

Your deduction cannot exceed 25% of your gross income from farming (excluding certain gains from selling assets such as farm machinery and land). If your conservation expenses are more than the limit, the excess can be carried forward and deducted in later tax years. However, the amount deductible for any 1 year cannot exceed the 25% gross income limit for that year.

For details, see chapter 5 of Pub. 225.

Line 15

Enter amounts paid for custom hire or machine work (the machine operator furnished the equipment).

Do not include amounts paid for rental or lease of equipment that you operated yourself. Instead, report those amounts on line 26a.

Line 16

You can deduct depreciation of buildings, improvements, cars and trucks, machinery, and other farm equipment of a permanent nature.

Do not deduct depreciation on your home, furniture or other personal items, land, livestock you bought or raised for resale, or other property in your inventory.

You can also elect under section 179 to expense a portion of the cost of certain property you bought in 2008 for use in your farming business. The section 179 election is made on Form 4562.

For information about depreciation and the section 179 deduction, see chapter 7 of Pub. 225.

For details on the special depreciation allowance and section 179 deduction for qualified property in the GO Zone, see chapter 3 of Pub. 946.

See the Instructions for Form 4562 for information on when you must complete and attach Form 4562.

Line 17

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 25. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs. If you made contributions on your behalf as a self-employed person to a dependent care assistance program, complete Form 2441, Parts I and III, to figure your deductible contributions to that program.

Contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance are not deductible on Schedule F. However, you may be able to deduct on Form 1040, line 29 (or on Form 1040NR, line 28), the amount you paid for health insurance on behalf of yourself, your

spouse, and dependents even if you do not itemize your deductions. See the instructions for Form 1040, line 29, or Form 1040NR, line 28, for details.

Line 18

If you use the cash method, you cannot deduct when paid the cost of feed your livestock will consume in a later year unless all of the following apply.

- The payment was for the purchase of feed rather than a deposit.
- The prepayment had a business purpose and was not made merely to avoid tax.
- Deducting the prepayment will not materially distort your income.

If all of the above apply, you can deduct the prepaid feed when paid, subject to the overall limit for *Prepaid farm supplies* explained on page F-4. If all of the above do not apply, you can deduct the prepaid feed only in the year it is consumed.

Line 20

Do not include the cost of transportation incurred in purchasing livestock held for resale as freight paid. Instead, add these costs to the cost of the livestock, and deduct them when the livestock is sold.

Line 22

Deduct on this line premiums paid for farm business insurance. Deduct on line 17 amounts paid for employee accident and health insurance. Amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability are not deductible.

Lines 23a and 23b

Interest allocation rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule F.

Generally, you allocate interest expense by tracing how the proceeds of the loan are used. See chapter 4 of Pub. 535 for details.

If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in your farming business, see chapter 4 of Pub. 535 to figure the amount to include on lines 23a and 23b.

How to report. If you have a mortgage on real property used in your farming business (other than your main home), enter on line 23a the interest you paid for 2008 to banks or other financial institutions for which you received a Form 1098 (or similar statement). If you did not receive a Form 1098, enter the interest on line 23b.

If you paid more mortgage interest than is shown on Form 1098, see chapter 4 of Pub. 535 to find out if you can deduct the additional interest. If you can, include the amount on line 23a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 23a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 23b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 23b, enter "See attached."

Do not deduct interest you prepaid in 2008 for later years; include only the part that applies to 2008.

Line 24

Enter the amounts you paid for farm labor. Do not include amounts paid to yourself. Reduce your deduction by the amounts claimed on:

- Form 5884, Work Opportunity Credit, line 2;
- Form 5884-A, Credits for Affected Midwestern Disaster Area Employers, lines 2 and 6;
- Form 8844, Empowerment Zone and Renewal Community Employment Credit, line 2;
- Form 8845, Indian Employment Credit, line 4; and
- Form 8861, Welfare-to-Work Credit, line 2.

Include the cost of boarding farm labor but not the value of any products they used from the farm. Include only what you paid household help to care for farm laborers.



If you provided taxable fringe benefits to your employees, such as personal use of a car, do not include in farm labor the amounts you depreciated or deducted elsewhere.

Line 25

Enter your deduction for contributions to employee pension, profit-sharing, or annuity plans. If the plan included you as a self-employed person, enter contributions made as an employer on your behalf on Form 1040, line 28 (or on Form 1040NR, line 27), not on Schedule F.

Generally, you must file the applicable form listed below if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year. There is a penalty for failure to timely file these forms.

Form 5500-EZ. File this form if you have a one-participant retirement plan that meets certain requirements. A one-participant

plan is a plan that covers only you (or you and your spouse).

Form 5500. File this form for a plan that does not meet the requirements for filing Form 5500-EZ.

For details, see Pub. 560.

Lines 26a and 26b

If you rented or leased vehicles, machinery, or equipment, enter on line 26a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an inclusion amount. See *Leasing a Car* in Pub. 463 to figure this amount.

Enter on line 26b amounts paid to rent or lease other property such as pasture or farmland.

Line 27

Enter amounts you paid for incidental repairs and maintenance of farm buildings, machinery, and equipment that do not add to the property's value or appreciably prolong its life.

Do not deduct repairs or maintenance on your home.

Line 31

You can deduct the following taxes on this line.

- Real estate and personal property taxes on farm business assets.
- Social security and Medicare taxes you paid to match what you are required to withhold from farm employees' wages.
- Federal unemployment tax.
- Federal highway use tax.
- Contributions to state unemployment insurance fund or disability benefit fund if they are considered taxes under state law.

Do not deduct the following taxes on this line.

- Federal income taxes, including your self-employment tax. However, you can deduct one-half of your self-employment tax on Form 1040, line 27.
- Estate and gift taxes.
- Taxes assessed for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your farming business. Instead, treat these taxes as part of the cost of the property.
- Other taxes not related to your farming business.

Line 32

Enter amounts you paid for gas, electricity, water, and other utilities for business use on the farm. Do not include personal utilities. You cannot deduct the base rate (including taxes) of the first telephone line into your

residence, even if you use it for your farming business. But you can deduct expenses you paid for your farming business that are more than the cost of the base rate for the first phone line. For example, if you had a second phone line, you can deduct the business percentage of the charges for that line, including the base rate charges.

Lines 34a Through 34f

Include all ordinary and necessary farm expenses not deducted elsewhere on Schedule F, such as advertising, office supplies, etc. Do not include fines or penalties paid to a government for violating any law.

At-risk loss deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 2008. However, for the loss to be deductible, the amount "at risk" must be increased.

Bad debts. See chapter 10 of Pub. 535.

Business start-up costs. If your business began in 2008, you can elect to deduct up to \$5,000 of certain business start-up costs. This limit is reduced (but not below zero) by the amount by which your start-up costs exceed \$50,000. You can amortize any remaining qualified business start-up costs over 180 months. For details, see chapters 4 and 7 of Pub. 225. For amortization that begins in 2008, you must complete and attach Form 4562.

Business use of your home. You may be able to deduct certain expenses for business use of your home, subject to limitations. Use the worksheet in Pub. 587 to figure your allowable deduction. Do not use Form 8829.

Forestation and reforestation costs. Reforestation costs are generally capital expenditures. However, for each qualified timber property, you can elect to expense up to \$10,000 (\$5,000 if married filing separately) of qualifying reforestation costs paid or incurred in 2008.

You can elect to amortize the remaining costs over 84 months.

The amortization election does not apply to trusts and the expense election does not apply to estates and trusts. For details on reforestation expenses, see chapters 4 and 7 of Pub. 225. For amortization that begins in 2008, you must complete and attach Form 4562.

Legal and professional fees. You can include on this line fees charged by accountants and attorneys that are ordinary and necessary expenses directly related to your farming business. Include fees for tax advice and for the preparation of tax forms related to your farming business. Also include expenses incurred in resolving asserted tax deficiencies related to your farming business.

Tools. You can deduct the amount you paid for tools that have a short life or cost a small amount, such as shovels and rakes.

Travel, meals, and entertainment. Generally, you can deduct expenses for farm business travel and 50% of your business meals and entertainment. But there are exceptions and limitations. See the instructions for Schedule C, lines 24a and 24b, that begin on page C-6.

Preproductive period expenses. If you had preproductive period expenses in 2008 that you are capitalizing, enter the total of these expenses in parentheses on line 34f and enter "263A" in the space to the left of the total.

For details, see page F-4, *Capitalizing costs of property*, and *Uniform Capitalization Rules* in chapter 6 of Pub. 225.

Line 35

If line 34f is a negative amount, subtract it from the total of lines 12 through 34e. Enter the result on line 35.

Line 36

If you have a loss, the amount of loss you can deduct this year may be limited. Individuals, estates, and trusts must complete line 37 before entering the loss on line 36. If you checked the "No" box on line E, also see the Instructions for Form 8582.

Enter the net profit or deductible loss here and on Form 1040, line 18, and Schedule SE, line 1a. Nonresident aliens—enter the net profit or deductible loss here and on Form 1040NR, line 19. Estates and trusts—enter the net profit or deductible loss here and on Form 1041, line 6. Partnerships—do not complete line 37; instead, stop here and enter the profit or loss on this line and on Form 1065, line 5 (or Form 1065-B, line 7).

Community income. If you and your spouse had community income and are filing separate returns, see page SE-2 of the instructions for Schedule SE before figuring self-employment tax.

Earned income credit. If you have a net profit on line 36, this amount is earned income and may qualify you for the earned income credit if you meet certain conditions. See the instructions for Form 1040, lines 64a and 64b, for details.

Conservation Reserve Program (CRP) payments. If you received social security retirement or disability benefits in addition to CRP payments, the CRP payments are not subject to self-employment tax. You will deduct these payments from your net farm profit or loss on line 1b of Schedule SE. Do not make any adjustment on Schedule F.

Line 37

At-risk rules. Generally, if you have a loss from a farming activity and amounts in-

vested in the activity for which you are not at risk, you must complete Form 6198 to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity.

Check box 37b if you have amounts invested in this activity for which you are not at risk, such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire the activity that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (other than you) having such an interest.

Figuring your deductible loss. If all amounts are at risk in this activity, check box 37a. If you checked the "Yes" box on line E, enter your loss on line 36. But if you checked the "No" box on line E, you may need to complete Form 8582 to figure your allowable loss to enter on line 36. See the Instructions for Form 8582.

If you checked box 37b, first complete Form 6198 to determine the amount of your deductible loss. If you checked the "Yes" box on line E, enter that amount on line 36. But if you checked the "No" box on line E, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter -0- on line 36. Be sure to attach Form 6198 to your return. If you checked box 37b and you do not attach Form 6198, the processing of your tax return may be delayed.

Any loss from this activity not allowed for 2008 only because of the at-risk rules is treated as a deduction allocable to the activity in 2009.

For details, see Pub. 925 and the Instructions for Form 6198.

Part III. Farm Income—Accrual Method

If you use an accrual method, report farm income when you earn it, not when you receive it. Generally, you must include animals and crops in your inventory if you use

this method. See Pub. 225 for exceptions, inventory methods, how to change methods of accounting, and rules that require certain costs to be capitalized or included in inventory.

Chapter 11 bankruptcy. If you were a debtor in a chapter 11 bankruptcy case during 2008, see page 20 of the instructions for Form 1040 and page SE-2 of the instructions for Schedule SE (Form 1040).

Lines 39a Through 41c

See the instructions for lines 5a through 7c on page F-3.

Line 44

See the instructions for line 10 on page F-4.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is approved under OMB control numbers 1545-1975 and 1545-1976 and is shown below.

Recordkeeping	7 hr., 5 min.
Learning about the law or the form	1 hr., 2 min.
Preparing the form	2 hr., 52 min.
Copying, assembling, and sending the form to the IRS	40 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.