TEACHING MANUAL

FARM INCOME TAX MANAGEMENT
AND TAX REPORTING

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<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer's Tax Calendar for 1969</td>
<td>1</td>
</tr>
<tr>
<td>Tax Forms Needed by New York Farmers</td>
<td>2</td>
</tr>
<tr>
<td>Recent Changes in Farm Tax Reporting</td>
<td>3</td>
</tr>
<tr>
<td>Investment Tax Credit</td>
<td>4</td>
</tr>
<tr>
<td>Depreciation</td>
<td>8</td>
</tr>
<tr>
<td>Guidelines for Depreciation for Farm Assets</td>
<td>10</td>
</tr>
<tr>
<td>Capital Gains and Losses</td>
<td>11</td>
</tr>
<tr>
<td>Income from Wood, Timber and Christmas Tree Sales</td>
<td>14</td>
</tr>
<tr>
<td>Land Clearing Expense</td>
<td>15</td>
</tr>
<tr>
<td>Farm Partnerships</td>
<td>15</td>
</tr>
<tr>
<td>Social Security</td>
<td>16</td>
</tr>
<tr>
<td>The Retirement Income Credit and Farmers</td>
<td>18</td>
</tr>
<tr>
<td>Employees' Social Security and Income Taxes</td>
<td>21</td>
</tr>
<tr>
<td>Farm Tax Tips</td>
<td>22</td>
</tr>
<tr>
<td>Retirement Planning and Income Tax Management</td>
<td>24</td>
</tr>
<tr>
<td>New York State and Local Sales Taxes</td>
<td>26</td>
</tr>
<tr>
<td>New Agricultural Property Tax Exemption</td>
<td>27</td>
</tr>
<tr>
<td>for Certain Farm and Horticultural Buildings</td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax Suggestions for Part-time Farmers and Country Dwellers</td>
<td>29</td>
</tr>
<tr>
<td>The New York State Personal Income Tax</td>
<td>31</td>
</tr>
<tr>
<td>The New York State Unincorporated Business Tax</td>
<td>35</td>
</tr>
</tbody>
</table>
FARMER'S TAX CALENDAR FOR 1969

There have been no changes in important tax dates for 1969. Important dates for New York farmers to keep in mind in regard to tax obligations are as follows:

January 15 - Deadline for farmers who elect to file an estimate of Federal income tax due. Farmers may also elect to file an estimate of New York State income tax due on this date. When these estimates are used, the corresponding final Federal and/or State returns are due April 15.

January 31 - Deadline for a farmer to file Federal income tax Forms W-2 and W-3 if at least one individual was paid $600 or more. If optional Form W-2 is used Copies S and S-1 take the place of State Form IT2102.1 - Deadline for filing Form 943. This year-end Social Security report on hired help must be filed by any employer who paid an employee $150 or more cash wages during the year for agricultural labor, or who had an employee who performed agricultural labor on 20 or more days for cash wages on time basis. An employer who has made monthly deposits sufficient to cover his full tax liability is allowed 10 days additional for filing year-end report.

February 17 - Deadline for filing Federal and State income tax returns and New York State unincorporated business tax, unless the farmer elected to file estimates on January 15.

February 28 - Deadline for filing New York State Form IT2102.1 (or copy S of Optional Form W-2) and transmittal Form IT2102.4 if at least one individual was paid $600 or more.

- Also deadline for filing Federal Forms 1096 and 1099 when at least one individual was paid $600 or more in interest or rent.

April 15 - Deadline for filing final Federal and State income taxes and New York State unincorporated business tax for farmers who filed estimates by January 15.

Month-End Check - Any farm employer withholding Social Security taxes from hired men's wages must check at the end of each month to see if he has accumulated $100 in withholding and employer's contributions of all employees. If so, the total amount accumulated is to be deposited at any Federal Reserve Bank or authorized commercial bank by the 15th of the following month. Federal Reserve Form 511 is used for this purpose.
TAX FORMS NEEDED BY NEW YORK FARMERS

Federal Forms

1040 - U. S. Individual Income Tax Return

Schedule B (Form 1040) - Supplemental Schedule of Income and Retirement Income Credit

Schedule C (Form 1040) - Profit (or Loss) from Business or Profession

Schedule D (Form 1040) - Gains and Losses from Sales or Exchanges of Property

Schedule F (Form 1040) - Schedule of Farm Income and Expenses

1040X - Amended U. S. Individual Income Tax Return

1065 - U. S. Partnership Return of Income

Schedule D (Form 1065) - Gains and Losses from Sales or Exchanges of Property

3468 - Computation of Investment Credit

4136 - Computation of Gasoline Tax Credit

W-2 (or Optional Form W-2) - Wage and Tax Statement

W-3 - Transmittal Form

1096 and 1099 - Information Returns

Form 943 - Employer's Annual (Social Security) Tax Return for Agricultural Employees

New York State Forms

IT-201 - Individual or Joint Return

IT-208 - Combined Income Tax Return

IT-204 - Partnership Return (Income and Unincorporated Business Tax)

IT-202 - Unincorporated Business Tax

IT-2102.1 - Information Return (or use Optional W-2)

IT-2102.4 - Transmittal Form
Recent Changes in Farm Tax Reporting

**Tax Surcharge**

The ten percent Income Tax surcharge, which was signed into law July 4, 1968, is retroactive to April 1, 1968. For 1968 calendar year returns, the ten percent surcharge is applied by adding 7.5 percent to the tax if it is $734 or more. If the tax is less than $734, the surcharge is taken from tables on page 10 of Form 1040 instructions. For some taxpayers, these provide either a lower surcharge or none at all.

**Reporting Payments to Farm Employees**

Optional Form W-2 should be used to report wages paid to and Social Security tax withheld from farm employees. This replaces the use of Form 1099, New York State Form IT-2102.1, and Form SS-14 for these purposes. Copies S and S1 of Optional Form W-2 replace State Form IT-2102.1; Copy S is sent to the State with transmittal Form IT-2102.4 and Copy S1 given to the employee.

**Social Security Tax Rates**

Social Security Tax rates move up again on January 1, 1969. Maximum covered earnings are $7,800 in both 1968 and 1969. At the 1968 self-employment rate (6.4 percent), the maximum contribution is $499.20. For 1969, the self-employment rate goes to 6.9 percent and the maximum contribution will be $538.20. Employer and employee contributions on covered earnings are 4.4 percent each in 1968 and 4.8 percent each in 1969.

**Federal Gas Tax Refunds**

Federal gas tax refund claims are now taken as a credit against income tax using Form 4136. In addition to the four cents per gallon gasoline tax, a six cent per gallon lubricating oil tax credit may be claimed on oil purchased for use other than in a highway motor vehicle.

Gasoline tax credit received must be entered as income on Schedule F (Form 1040).

For cash basis taxpayers, the 1967 gasoline tax credit is income in 1968 when it was used to reduce the 1967 income tax. For accrual basis taxpayers, the 1968 gasoline tax credit is income for the same year.

**Tax Benefits for Older Farmers**

Several changes made in 1964 are of special interest to older farmers. One of the most important of these provides partial exclusion of the gain on sale of a personal residence for taxpayers 65 and over.

The "new" Standard Deduction is helpful to many taxpayers 65 or over since they are allowed a double exemption. A married couple both over 65 and filing a joint return will not be taxed on an adjusted gross income of $3,000 or less:

\[
\text{Personal exemptions} - (\$600 \times 4) = 2,400
\]

\[
\text{Standard Deduction} - \$200 + (\$100 \times 4) = 600
\]

Total $3,000

In addition, they may have up to $200 of tax-free income from qualifying dividends.
INVESTMENT TAX CREDIT

Suspension Period Rules

The investment tax credit provisions of the Internal Revenue Code were suspended during a period from October 10, 1966 to March 9, 1967. Few farmers were affected by the suspension because the first $20,000 of eligible property purchased or placed in use during the suspension period was exempt from the suspension and eligible for the credit. There will be few cases in which suspension period rules will affect income tax reporting for 1968 or later.

Limitations on Investment Credit

Total investment credit which may be taken is limited to the amount of the tax liability up to a maximum of $25,000. When the tax liability is more than $25,000, investment credit is now limited to $25,000 plus 50 percent of the excess over $25,000.

The investment credit may not be taken on more than $50,000 worth of used assets in any one year.

Property does not qualify if used by a relative before its present acquisition. This includes spouse, ancestors and lineal descendants, but not a brother or sister.

Property Which Qualifies

Each year some additional clarification is gained on qualifying property. In general, the credit applies to any depreciable property used in farming except livestock, buildings and most structural parts of buildings.

Machinery and equipment items are clearly eligible. These include not only the common movable items such as tractors, planting equipment and combines but also such stationary items as pumps, stanchions, feed bunks, and materials handling equipment. Two-way radios, farm office equipment and an airplane used in the farm business will also qualify. If items qualify except that they are partly for personal use, claim investment credit only on the business share.

Real property items which qualify for investment tax credit include water wells, field drainage tile, fences and corrals, depreciable fruit trees and vines, and storage structures such as silos, corncribs and grain bins.
I.R.S. has been very reluctant to classify any farm storages other than grain bins and silos as eligible for the investment credit. Any storage facility which looks like a building is likely to be classified as a building by I.R.S. However, a storage facility, such as a modified air fruit storage, which has no other use and could not be readily adapted to other uses, appears to qualify under the regulation.

On items where there is some question as to the eligibility, it would seem that the taxpayer's best course is to claim the credit and await events.

**Computing The Qualified Investment**

The investment tax credit is 7% of the "qualified investment" on eligible property. On a straight purchase of a new or used item of property, the qualified investment is simply the price paid. However, in the case of certain trades, exchanges, or replacement transactions, calculation of the qualified investment becomes complicated.

It is also necessary to keep in mind that when useful lives of less than eight years are estimated, only part of the 7% credit is available.

The following examples will provide practice in determining the qualified investment.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Qualified Investment</th>
<th>Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. New tractor purchased for $6,000, estimated useful life 10 years, no trade involved.</td>
<td>$6,000</td>
<td>On purchase of new or used property without a trade-in, qualified investment is the cost.</td>
</tr>
<tr>
<td>2. Used tractor purchased for $3,000, estimated useful life 5 years, no trade involved.</td>
<td>$1,000</td>
<td>Same as 1, but estimated life of 5 years limits qualified investment to 1/3 of cost.</td>
</tr>
<tr>
<td>3. New tractor acquired for $3,000 cash and an old tractor with a basis of $1,500. Estimated useful life of new tractor, 10 years.</td>
<td>$4,500</td>
<td>On a non-taxable exchange, basis for investment credit is the sum of cash paid and adjusted basis of traded-in item.</td>
</tr>
<tr>
<td>4. New tractor acquired for $3,000 cash, and livestock traded-in with adjusted basis of $2,000 but market value of $3,000. Estimated useful life of tractor, 10 years.</td>
<td>$6,000</td>
<td>On a taxable exchange, basis for investment credit is cash plus fair market value of traded-in items.</td>
</tr>
</tbody>
</table>
5. Used tractor acquired for $3,000 cash and old tractor traded-in with adjusted basis of $1,000, estimated life of newly acquired tractor, 5 years. $1,000

When used property exchanged for used property in a non-taxable exchange, adjusted basis of traded-in item not included in basis for investment credit. Five year life limits credit to one-third of cash paid.

6. A used tractor was purchased for $4,000 to replace a used tractor which was sold separately. The tractor purchased has estimated life of 5 years. The tractor sold had adjusted basis of $1,000. $1,000

When a used item is purchased to replace a used item which was sold, cash paid for the newly acquired item must be reduced by the adjusted basis of the item sold, if the two are "similar or related" in service or use.

In addition to the six transactions illustrated, a special rule is invoked with respect to investment credit when a casualty or theft loss occurs.

Assume that a tractor with an adjusted tax basis of $4,000 is completely destroyed by fire. Tax investment credit of $420 had been taken on this tractor just two years before (cost $6,000). Subsequent to the fire, $3,000 insurance was collected.

The rule which applies is: If neither the insurance collected nor the adjusted basis of the lost item exceeds the reduction in the amount originally subject to investment credit on the lost item, the recapture rule applies:

Lost item - Tractor, cost $6,000, estimated life 10 years, amount originally subject to investment credit $6,000, tractor burned after two years, insurance collected $3,000, adjusted basis $4,000, reduction in amount subject to investment credit $6,000.

In this case, the entire amount of investment credit, ($420) taken at purchase of the tractor, is recaptured, and added to the tax in year of the casualty loss. If a tractor is purchased to replace the lost one, investment credit is calculated on it without reference to the casualty loss.

If the reduction in the amount subject to investment credit on the lost item is exceeded by either the insurance collected or the adjusted basis of the lost item or both, then the casualty or theft rule applies:

Lost item - Tractor, cost $6,000, estimated life 4 years, amount originally subject to investment credit $2,000, tractor burned after two years, insurance collected $3,000, adjusted basis $4,000, reduction in amount subject to investment credit $2,000.

In this case, the investment credit originally taken is not recaptured, but the basis of a tractor purchased to replace the lost one must be reduced by $3,000 for calculating investment credit, the lesser of the two items of insurance collected and adjusted basis. If the insurance collected was $4,200 then the basis of the replacement tractor must be reduced by $4,000 before calculating investment credit.
The Recapture Rule

If you dispose of an asset before the expiration of the useful life on which the credit was computed, you must recompute the amount of the investment subject to the credit. If the recomputed credit is less than you have used to reduce your tax, you must add to your tax liability in the year of disposition, the difference between the credit taken and the credit earned.

Example #1: In 1963, you purchased a tractor for $6,000, estimating a useful life of 10 years. On the 1963 return, you calculated the credit as 7% of $6,000 or $420. You had a tax liability before the credit of $1,000, so applied the entire $420 to tax reduction in 1963.

In 1967, you sold the tractor, having kept it more than 4 years, but less than 6 years. Its useful life in your hands thus entitles you to a credit of 1/3 of 7% of its cost, or $140. The difference between the amount taken ($420) and the amount earned ($140) is $280, which must be recaptured. You attach a statement explaining the transaction, to Form 1040 and enter $280 on Line 14b, Page 1, Form 1040, as an addition to tax.

In disposing of an asset before the expiration of its useful life, you may find that the credit earned is more than you have actually used to reduce your tax.

Example #2: In 1966, you purchased a tractor for $6,000, estimating a useful life of 10 years. On the 1966 return (Form 1040), you calculated the credit as $420. However, you had no income tax to pay in 1966, and did not use the $420 to recover tax in former years through carry-back. Therefore, you added the $420 to unused investment tax credit.

In 1967, you disposed of the tractor. Having kept it less than 4 years, no credit has been earned. Because no part of the $420 was used to reduce tax, no recapture results on the 1967 return. However, unused credit must be reduced by $420.

What Is A Disposition?

When you cease to own the property or cease to use it in a qualifying manner, you have disposed of it for purposes of the tax credit. If you sell it, exchange it, give it away, contribute it to a partnership, burn it up, or get rid of it through liquidation, you have disposed of it, and must recompute the credit. If you die before the end of the useful life of the asset, no adjustment is necessary.

Problems relative to investment credit have arisen in initiating farm partnerships between father and son. If, in doing so, the father sells a share of or full ownership of assets to the son which have been subject to investment credit, the father must recompute the credit on the items thus disposed of, which may result in the recapture of a significant amount of investment credit. The son as purchaser, however, is not allowed the credit, because the credit is denied on all property acquired from a close relative.

It may be advisable in family transactions to lease rather than sell the assets which have been subjected to the credit.
Depreciation records are becoming more and more important in the preparation of accurate farm income tax reports. Copies of past returns do not provide sufficient information for complete and accurate reporting on most commercial farm operations. A separate more detailed depreciation record such as the one illustrated in the Farmers Tax Guide is suggested.

**Item vs. Class Reporting**

Entries on the depreciation schedule may be summarized into distinctly different classes of depreciable assets. However, the taxpayer must have his own records kept in enough detail to verify the accuracy of the summarized schedule.

In most cases, it is probably best for a farmer to continue to use item accounts rather than grouping machinery, buildings, or cattle. A separate continuation sheet of Part V - Depreciation may be attached to Schedule F if more lines are needed.

**Depreciation Guidelines**

Internal Revenue Service Publication 456 includes guidelines for determining reasonable useful lives of depreciable farm business property. These include:

A. Machinery and Equipment - 10 years

B. Animals:
   - Cattle, breeding or dairy - 7 years
   - Hogs, breeding - 3 years
   - Sheep and Goats, breeding - 5 years

C. Farm buildings - 25 years

For many classes of depreciable property, no specific useful lives are suggested, and statements are made that the facts in each case should determine the depreciable life. Depreciation rates should be set in line with experience on the farm of the taxpayer. IRS Publication 456 says,

"The determination of the useful economic life of an asset is a matter of judgement and estimate. For this reason, it is the policy of the Internal Revenue Service, generally, not to disturb depreciation deductions. Therefore, adjustments in the depreciation deduction should not be proposed unless there is a clear and convincing basis for a change."

**Depreciable Real Estate**

Farmers who purchase property frequently overlook their opportunity to claim depreciation on depreciable real estate items included in the purchase and used in the farm business. In addition to farm buildings, these might include fences, drain tiles, drilled wells, and commercial orchards or vineyards (investment in trees or vines and trellis aside from the value of the bare land). Such expenditures are also eligible for the investment tax credit.
It is important that the taxpayer keep a record of real estate purchases and of his allocation of the purchase price to land, buildings and other depreciable portions of the cost.

If an orchard or vineyard has been grown or a fence erected by the present owner and the costs deducted on previous income tax returns as annual operating expenses, then depreciation may not be taken because the costs have already been charged off.

Recovering Costs of New Orchards and Vineyards

Amounts spent in setting out new orchards and vineyards must be treated as capital investments rather than as current operating expenses.

The taxpayer may treat as either capital investment subject to depreciation or as current operating expense such expenditures during the development period of orchards and vineyards as those for cultivating, spraying, pruning, and taxes. Some farmers have found it convenient to treat these expenditures as current operating expenses.

Because the investment in orchards and vineyards has been ruled eligible for investment tax credit, farmers have an incentive for capitalizing the costs involved in establishing new orchards and vineyards. The costs to be capitalized are eligible for the investment tax credit the year in which the orchard or vineyard comes into production.
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<tbody>
<tr>
<td>NEW MACHINERY PURCHASED</td>
<td>Yes - 6 yrs. or more life</td>
<td>St. Line - yes D. Bal. - 3 yrs. or more life Digits - 3 yrs. or more life</td>
<td>10 Yrs.</td>
<td>Boot paid plus undeep. balance on trade less add. 1st. yr. dep. less required salvage val.</td>
<td>Boot paid plus undeep. bal. on trade less add. 1st. year dep.</td>
<td>Boot paid plus undeep. bal. on trade less add. 1st. year dep. less required salvage value</td>
<td>Boot only</td>
<td></td>
</tr>
<tr>
<td>USED MACHINERY PURCHASED</td>
<td>Same as above</td>
<td>St. Line - yes D. Bal. - 3 yrs. or more life and limited to 1 1/2 st. line rate. Digits - no.</td>
<td>No Guide</td>
<td>Same as above</td>
<td>Same as above</td>
<td>Not eligible</td>
<td>Boot only</td>
<td></td>
</tr>
<tr>
<td>NEW BUILDINGS</td>
<td>Not eligible</td>
<td>St. Line - yes D. Bal. - 3 yrs. or more life Digits - 3 yrs.</td>
<td>25 Yrs.</td>
<td>Cost</td>
<td>Cost</td>
<td>Cost less salvage value</td>
<td>Not eligible</td>
<td></td>
</tr>
<tr>
<td>USED BUILDINGS PURCHASED</td>
<td>Not eligible</td>
<td>St. Line - yes D. Bal. - 3 yrs. or more life and limited to 1 1/2 st. line rate. Digits - no.</td>
<td>No Guide</td>
<td>Same as above</td>
<td>Cost</td>
<td>Not eligible</td>
<td>Not eligible</td>
<td></td>
</tr>
<tr>
<td>FENCE, SILOS, GRAIN STORAGE, DRAIN TILE</td>
<td>Not eligible</td>
<td>St. Line - yes D. Bal. - 3 yrs. or more life Digits - 3 yrs. or more life</td>
<td>25 Yrs.</td>
<td>Same as above</td>
<td>Cost</td>
<td>Cost less salvage value</td>
<td>Not eligible</td>
<td></td>
</tr>
<tr>
<td>BREEDING AND DAIRY ANIMALS PURCHASED</td>
<td>Yes - 6 yrs. or more life</td>
<td>Same as above (except limited to 1 1/2 st. line rate on d. bal. for livestock)</td>
<td>3-10 Yrs.</td>
<td>Boot paid plus undeep. balance on trade less 1st. yr. dep. less salvage value.</td>
<td>Boot paid plus undeep. bal. on trade less 1st. year additional dep.</td>
<td>Boot paid plus undeep. bal. on trade less 1st. yr. add. dep. less sal. val.</td>
<td>Boot only</td>
<td></td>
</tr>
<tr>
<td>FRUIT TREES AND VINES</td>
<td>Not eligible</td>
<td>Same as above</td>
<td>No Guide</td>
<td>Cost</td>
<td>Cost</td>
<td>Cost</td>
<td>Not eligible</td>
<td></td>
</tr>
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CAPITAL GAINS AND LOSSES

For income tax purposes, property owned by farmers can normally be classified as capital assets, non-capital or ordinary assets, and hybrid assets that are sometimes treated as one and sometimes treated as the other, depending on the circumstances. Hybrid assets can be further divided into Section 1231, 1245 or 1250 property.

Capital assets includes almost all property owned for non-business or personal use like stocks and bonds for investment, residence, car, etc.

Non-capital assets is property held for sale in the usual operation of the farm business. Apples, potatoes, feeder cattle, feeder lambs, bob calves, and poultry, are never capital assets.

Items that sometimes are, sometimes are not, treated as sales of capital assets can for convenience sake be called hybrid items. They include:

A. Sales, exchanges, involuntary conversions (except for uninsured casualty and theft losses) of:

   (1) Livestock held for draft, dairy, or breeding purpose for one year or more.
   (2) Farm land held for more than six months.
   (3) Machinery held for more than six months (except that gain on such items to the extent of depreciation occurring after 1961 will always be ordinary gain).
   (4) Farm buildings held for more than six months, except that part or all of the gain which can be attributed to depreciation may be ordinary assets.

B. Gains and losses arising from fire, theft, or condemnation of capital assets.

C. Casualty losses of insured property.

D. An unharvested crop sold with the land, when the land has been held for more than six months.

The farmer must compare gains and losses of these items. If the comparison shows a net loss, none of them are treated as capital gains. All are then entered as ordinary gains and losses under "Property Other Than Capital Assets," on Schedule D, Part III except casualty losses on assets such as a boat, auto for personal use, etc. These are listed on page 2 of Form 1040, if deductions are itemized. If the gains exceed the losses, all the gains and losses are listed in Part I, line 5 of Schedule D.

All sales of livestock held for draft, dairy, or breeding purposes are listed on Schedule D, as follows:
A. In Part I, line 5, if held for a year or more and there is a gain on these hybrid items that sometimes are and sometimes are not treated as sales of capital assets:

or

B. In Part III, line 1, page 2 of Schedule D, if held for less than one year or if there is a net loss on these items.

Casualty and theft losses of animals held for dairy or breeding purposes for less than one year and of farm buildings and machinery held for six months or less are always listed in Part III, page 2 of Schedule D.

A casualty or theft loss, not compensated for by insurance in any amount, of purchased livestock held 12 months or more for draft, dairy, or breeding purposes, or of other depreciable farm property held more than six months, is treated as an ordinary loss, deductible in full, and is always listed in Part III, page 2 of Schedule D as "Property Other Than Capital Assets."

The Rule on Gain Realized From Sale of Farm Machinery (Section 1245 Property)

Gain on sale of all depreciable personal property except livestock, and all other tangible depreciable property except buildings is ordinary gain to the extent of depreciation allowed or allowable on such property after 1961.

This rule is designed to discourage farmers from depreciating a farm machine rapidly, selling it at a "profit" which is only 50% taxable, then buying a new machine and receiving the investment credit.

The rule affects such property disposed of in any tax year commencing after December 31, 1961.

The rule is effective only to the extent of depreciation allowed or allowable after 1961 on each item concerned.

The rule does not apply to any livestock or to buildings.

Relatively few farmers are affected, because in the normal course of events, farmers trade in used machinery and equipment, they do not sell outright. In the instances where used farm machinery is sold outright, it probably results in a loss as often as in a gain.

Where farm machinery is sold or otherwise disposed of in a way which results in recognizable gain or loss, the disposition is reported as follows:

A. If there is any gain on such items, the disposition is reported in Part II, page 1, Schedule D. The extent of the gain which is ordinary is determined there.

If the calculation in Part II shows that some of the gain may be capital, that amount is included with other hybrid assets in the comparison to determine net gain or net loss from all such hybrid assets.
B. If there is a loss on disposition of such items, they are included in the group of hybrid assets in the comparison to determine net gain or net loss from all such hybrid assets.

The Rule on Gain From Sale of Farm Buildings (Section 1250 Property)

Rule changes made in 1964 affect classification and reporting of gain realized from the sale of depreciable realty used in the business, called Section 1250 property. Few farm sales are affected, because a majority of farmers use only S-line depreciation on farm buildings.

If the property is held for at least one year and only S-line depreciation is taken after 1963, no adjustment is necessary, all gain is capital gain as formerly.

If property is held for 10 years or more, no adjustment is necessary, regardless of the method of depreciation used.

If property is held for one year or less, gain in the amount of all depreciation taken including that taken under S-line, is ordinary gain.

If property is held for more than one year but less than ten, a "fast" method of depreciation is used, and gain is realized on the sale, the gain must be divided.

1. Determine total gain realized on sale of the depreciable real estate.

2. Determine the amount of additional depreciation taken in excess of S-line.

3. Determine "applicable percentage" - 100% minus 1% per month for each month the property is held over 20 months.

A percentage of the lesser of 1 or 2 is treated as ordinary income, and to determine the percentage, step 3 must be taken.

Assume a farm is sold after being held five years. Allocation of sale price shows gain on depreciable farm buildings of $5,000. The farmer was using the declining balance method of depreciation, which resulted in $2,000 more depreciation than would have been taken with S-line during the five years of ownership.

The "applicable percentage" in this case is 60%, because the property was held 40 months over the 20 month period. (100% - 40% = 60%)

In this case, the excess depreciation ($2,000) is less than the amount realized over the adjusted basis ($5,000), so 60% x $2,000 = amount to be treated as ordinary gain.

Gain from sale of Section 1250 property must first be reported in Part II, Page 1, Schedule D. That part of the gain there found to be "other gain" is then included in hybrid assets. If there is a loss on sale of Section 1250 property, the loss is included in the group of hybrid assets.
INCOME FROM WOOD, TIMBER AND CHRISTMAS TREE SALES

The easiest way to report farm sales of wood and timber is as ordinary income on Page 1, Schedule F. If the wood and timber sold was purchased standing at a previous date, depletion should be taken as a farm expense also on Page 1, Schedule F to help offset the income.

Generally, only those who want to increase farm income for Social Security purposes will find it advantageous to report sales of any substantial quantity of wood and timber as ordinary income.

Treating Receipts From Sale of Wood and Timber as Capital Gain

Income from the sale of standing timber owned more than six months and sold on the stump on a lump-sum basis, may be treated as a capital asset and the transaction reported under long-term capital assets on Schedule D.

Income from the sale of standing timber owned more than six months and sold on a cutting contract or pay-as-cut basis, is grouped with other "hybrid" items. If total gains exceed total losses, all these items are entered on Schedule D under long-term capital gains and losses. If total losses exceed total gains, all items are listed on Schedule D under property other than capital assets. (Part III)

When a farmer cuts wood and timber from his own land and sells the products, he may treat income as two separate deals. He can proceed as though he sold the standing timber to himself and report any gain as income from sale of a capital asset. Then when he sells the logs or wood, any "profit" realized on the cutting and selling deal is ordinary income.

Income From Sale of Christmas Trees

Christmas trees which are more than six years old when cut are considered the same as wood and timber for tax purposes. Here is an example where trees were raised, cut, bundled, and sold at the roadside by a farmer:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of 1,000 trees, on stump</td>
<td>$800</td>
</tr>
<tr>
<td>Cost of trees and planting (all yearly growing costs were taken on annual tax returns when they occurred)</td>
<td>$100</td>
</tr>
<tr>
<td>Capital gain on growing operations</td>
<td>$700</td>
</tr>
<tr>
<td>Proceeds from sale of trees at roadside</td>
<td>$1,100</td>
</tr>
<tr>
<td>Less fair market value of trees on stump</td>
<td>$800</td>
</tr>
<tr>
<td>Less expenses for cutting, bundling and hauling</td>
<td>$200</td>
</tr>
<tr>
<td></td>
<td>$1,000</td>
</tr>
<tr>
<td>Ordinary income from harvesting</td>
<td>$100</td>
</tr>
</tbody>
</table>
Land Clearing Expenses

Since 1962, farmers have been allowed to treat land clearing costs as deductible expenses, rather than capital charges. Such expenditures must be for the purpose of making the land suitable for farming, and are limited to $5,000 or 25 per cent of taxable income whichever is lesser.

This rule is separate and apart from the soil and water conservation expense rule. Not many New York farmers are affected. It is likely that expenses of this kind have been classified as soil and water conservation expenses by many farmers in the past, and written off as an annual expense.

Farm Partnerships

For federal income tax purposes a partnership is generally said to be created when two or more persons join together for the purpose of carrying on a trade or business, including farming. Each partner contributes in some way -- either money, property, labor, or skill -- and shares in the profits or losses or both in accordance with agreed proportions.

Reporting

A partnership, as such, does not pay any income tax but must file an information return on Form 1065 for federal income tax, even though the partnership has no net income. These forms show what the income of the partnership is and how the income is divided between the partners.

Schedule F should be used to calculate the net farm profit and a copy attached to both the state and federal partnership return.

Each partner files his own Form 1040 after he enters his share of the partnership net profit. It is not necessary for the individual partners to file copies of either Form 1065 or of Schedule F.

Capital gains and losses of the partnership are filed on a special Schedule D (Form 1065) then each partner reports his share on Schedule D (Form 1040).

A partnership is not required to file Form 3468, investment credit, but is required to file a statement showing partnership items on which the credit was taken and how it was divided between the partners.

Balance Sheets, Form 1065

The partnership return calls for Balance Sheets (Schedule F) and Reconciliation of Partner's Capital Accounts (Schedule M). Most farm partners file on the cash basis and do not keep books of account which provide information for completing these two schedules. This information has no direct connection with the computation of taxable income. Internal Revenue asks for it merely to get a better picture of partnership operations. It is best to complete these schedules if possible. Most partnerships can complete the balance sheets as they would a credit statement. If the schedules cannot be completed, it is probably advisable to attach a brief explanation.
SOCIAL SECURITY

Earnings Base

The maximum amount of earnings that can count for social security and on which you pay social security contributions was increased to $7,800 on January 1, 1968. This will not be changed for 1969.

SOCIAL SECURITY CONTRIBUTION RATES

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate for Employees and Employers</th>
<th>Rate for Self-Employed People</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent of covered earnings</td>
<td>Percent of covered earnings</td>
</tr>
<tr>
<td></td>
<td>OASI* insurance</td>
<td>OASI* insurance</td>
</tr>
<tr>
<td></td>
<td>Hospital</td>
<td>Hospital</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>1968</td>
<td>3.8</td>
<td>5.8</td>
</tr>
<tr>
<td>1969-70</td>
<td>4.2</td>
<td>6.3</td>
</tr>
<tr>
<td>1971-72</td>
<td>4.6</td>
<td>6.9</td>
</tr>
<tr>
<td>1973-75</td>
<td>5.0</td>
<td>7.0</td>
</tr>
<tr>
<td>1976-79</td>
<td>5.0</td>
<td>7.0</td>
</tr>
<tr>
<td>1980-86</td>
<td>5.0</td>
<td>7.0</td>
</tr>
<tr>
<td>1987 &amp; after</td>
<td>5.0</td>
<td>7.0</td>
</tr>
</tbody>
</table>

* Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund

Farmer's Option

Farm operators are the only self-employed group covered by social security that have the privilege of an optional method of reporting earnings for social security. If a farmer's gross farm income is over $2,400 but his net earnings are less than $1,600, he may choose to pay the social security tax either on his actual net earnings or on $1,600. If his gross income from farming is not more than $2,400, he may elect to pay social security tax on 2/3 of his gross income. This option has the effect of providing minimum covered earnings of $1,600 per year for any farmer who has a gross income of $2,400 or more.

Because retirement, survivor and other benefits are computed on the basis of average earnings, farmers will almost always benefit by using the optional method in years of low earnings. In some cases, they will benefit greatly by doing so.

The optional method is recognition that farm earnings fluctuate widely from year to year. It provides a means for all commercial farmers to add to their social security earnings on a regular basis.
<table>
<thead>
<tr>
<th>Wages earned</th>
<th>Amount withheld</th>
<th>Employee receives</th>
<th>Amount withheld</th>
<th>Employee receives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.04</td>
<td>.96</td>
<td>.05</td>
<td>.95</td>
</tr>
<tr>
<td>2</td>
<td>.09</td>
<td>1.91</td>
<td>.10</td>
<td>1.90</td>
</tr>
<tr>
<td>3</td>
<td>.13</td>
<td>2.87</td>
<td>.14</td>
<td>2.86</td>
</tr>
<tr>
<td>4</td>
<td>.18</td>
<td>3.82</td>
<td>.19</td>
<td>3.81</td>
</tr>
<tr>
<td>5</td>
<td>.22</td>
<td>4.78</td>
<td>.24</td>
<td>4.76</td>
</tr>
<tr>
<td>10</td>
<td>.44</td>
<td>9.56</td>
<td>.48</td>
<td>9.52</td>
</tr>
<tr>
<td>15</td>
<td>.66</td>
<td>14.34</td>
<td>.72</td>
<td>14.28</td>
</tr>
<tr>
<td>20</td>
<td>.88</td>
<td>19.12</td>
<td>.96</td>
<td>19.04</td>
</tr>
<tr>
<td>25</td>
<td>1.10</td>
<td>23.90</td>
<td>1.20</td>
<td>23.80</td>
</tr>
<tr>
<td>30</td>
<td>1.32</td>
<td>28.68</td>
<td>1.44</td>
<td>28.56</td>
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<tr>
<td>35</td>
<td>1.54</td>
<td>33.46</td>
<td>1.68</td>
<td>33.32</td>
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<tr>
<td>40</td>
<td>1.76</td>
<td>38.24</td>
<td>1.92</td>
<td>38.08</td>
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<tr>
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<td>1.98</td>
<td>43.02</td>
<td>2.16</td>
<td>42.94</td>
</tr>
<tr>
<td>50</td>
<td>2.20</td>
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<td>2.40</td>
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<td>55</td>
<td>2.42</td>
<td>52.58</td>
<td>2.64</td>
<td>52.36</td>
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<tr>
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<td>2.64</td>
<td>57.36</td>
<td>2.88</td>
<td>57.12</td>
</tr>
<tr>
<td>65</td>
<td>2.86</td>
<td>62.14</td>
<td>3.12</td>
<td>61.88</td>
</tr>
<tr>
<td>70</td>
<td>3.08</td>
<td>66.92</td>
<td>3.36</td>
<td>66.64</td>
</tr>
<tr>
<td>75</td>
<td>3.30</td>
<td>71.70</td>
<td>3.60</td>
<td>71.40</td>
</tr>
<tr>
<td>80</td>
<td>3.52</td>
<td>75.48</td>
<td>3.84</td>
<td>76.16</td>
</tr>
<tr>
<td>85</td>
<td>3.74</td>
<td>81.26</td>
<td>4.08</td>
<td>80.92</td>
</tr>
<tr>
<td>90</td>
<td>3.96</td>
<td>86.04</td>
<td>4.32</td>
<td>85.68</td>
</tr>
<tr>
<td>95</td>
<td>4.18</td>
<td>90.82</td>
<td>4.56</td>
<td>90.44</td>
</tr>
<tr>
<td>100</td>
<td>4.40</td>
<td>95.60</td>
<td>4.80</td>
<td>95.20</td>
</tr>
</tbody>
</table>

**Month-End Check**

When accumulated deductions plus matching employer contributions reach $100 or more by the end of any month, these amounts must be deposited by the 15th of the following month with a Federal Reserve Bank or commercial bank authorized to receive them. Federal Tax Deposit Form 511 is now used for this purpose. Under the new procedures, taxpayers no longer receive validated receipts to attach to their returns as evidence of payment.
How Much Credit is Allowed

The rules governing retirement income credit against the Federal Income Tax are somewhat complicated. Because they are not easy to understand, and because few farmers, even in older age brackets, think of themselves as retired, it is likely that a significant number of farmers who are eligible do not take advantage of this income tax credit. A summary of the rules will help to indicate the circumstances under which farmers are likely to benefit.

- To qualify, a taxpayer must meet the "prior earned income test," must have received over $600 of earned income in each of at least 10 prior calendar years.

- Fifteen percent of eligible retirement income is allowed as a credit directly against income tax due. The total allowed cannot be greater than the tax due.

- The maximum amount of retirement income eligible for the 15 percent credit is $1,524. Fifteen percent of $1,524 is $299, which represents the maximum reduction in income tax possible for a taxpayer. Few qualify for this amount.

- If both taxpayer and spouse are eligible and each has retirement income, each can claim the credit, even though filing a joint return. If both are 65 or over and file a joint return, they may use an optional calculation which grants $2,286 as maximum retirement credit instead of the standard $1,524.

- Eligible retirement income for taxpayers under 65 includes only pensions and annuities under public retirement systems. Eligible retirement income for taxpayers 65 and over includes all pensions and annuities, as well as interest, dividends, and gross rents.

- Eligible retirement income must be reduced by amounts received under Social Security and the Railroad Retirement Act regardless of age of taxpayer. Taxpayers 72 and over make no further reductions. Taxpayers 62 but under 72 must further reduce the eligible retirement income by a portion of earned income received over $1,200 (one-half of the amount between $1,200 and $1,700 and all of the rest). Taxpayers under 62 must further reduce eligible retirement income by all earned income received over $900.

- Earned income includes all wages, salaries, and professional fees received. For taxpayers engaged in a trade or business, such as farming, where both capital and the taxpayer's personal services are income producing factors, a reasonable amount (not over 30 percent) of net profit is considered earned income.

- Calculations for the retirement income credit are made on page 2, Schedule B, Form 1040.
Farmers most likely to benefit from the retirement income credit are those over 65 years of age in the following situations:

Those who still own a farm but who have rented it to another operator.

Those who have sold their farm and receive significant sums in interest or dividends.

Those who are still operating their farms, but who have slowed down to the point where net farm profits are low, and who receive significant sums in interest, dividends, or rents from other sources.

Few farmers receive income from retirement systems other than Social Security. For this reason, it is rare to find a farmer under age 65 who will benefit from the retirement income credit.

Farmers over 65 who continue to operate large and profitable farm businesses are also unlikely to benefit because their income is derived largely from the farm itself, none of which qualifies for the credit and some of which will be classified as earned income and thus reduce or eliminate any eligible income from other sources.

Farmers 65 or over should have a general understanding of the retirement income credit provisions of the Federal Income Tax Law. Some will find that they have been failing to claim credit for which they are eligible. Others will be influenced in their plans to discontinue active farming or to change their farming activities.

When both spouses are 65 years of age or older and file a joint return, they should compute their Retirement Income Credit under the General Rule as well as under the Alternative Computation. They can then compare the results and choose the method which will result in the greater credit.

Example

Harry and Wilma Grant are both 66 years of age and file a joint return for 1968. Harry meets the 10 year prior earned income test but Wilma does not. Harry received in 1968 a taxable pension of $5,000 from his former employer, wages of $1,400 from part-time work, and a Social Security pension of $1,000. Wilma received Social Security benefits of $500 and wages of $1,300. The retirement income upon which the credit is based is determined as follows:
Total combined retirement income $5,000

Maximum amount upon which the credit may be based $2,286

Less:

Harry's Social Security pension $1,000
Wilma's Social Security pension 500
One-half of Harry's wages over $1,200 but not over $1,700 100
One-half of Wilma's wages over $1,200 but not over $1,700 50 1,650

Retirement income upon which the credit is based $ 636

Therefore, their joint retirement income credit for 1968 under the alternative computation is 15 percent of $636 or $95.40.

If the alternative computation were not elected, Harry's retirement income credit would be determined as follows:

Maximum amount upon which credit may be based $1,524

Less:

Harry's Social Security $1,000
One-half of Harry's wages over $1,200 but under $1,700 100 1,100

$424 X 15% = $63.60

Wilma would have no retirement income credit as she did not meet the 10 year prior earnings test. Therefore, by electing the special provision, the taxpayers will receive a tax saving of $31.80 ($95.40 minus $63.60).
EMPLOYEES' SOCIAL SECURITY AND INCOME TAXES

Regular and Seasonal Farm Help

The law neither requires nor permits a farmer to withhold federal income tax from wages paid farm help. However, the farmer must report all amounts of $500 or more paid to any one person. Forms W-2 or Optional W-2 and W-3 are used for reporting the amount paid.

A hired man with a gross income of $600 ($1,200 if over 65 years of age) or more is required to file an income tax return. If a tax is due, some farm employees find they do not have the money needed to pay the tax. A few farmers withhold from the hired man's wages and make regular deposits to a savings account in the employee's name with the intent that the deposits be used to pay income taxes. This provides one answer to the problem of being prepared to pay the income tax when due.

For federal income tax, a hired man may exclude from his gross income the value of any meals, lodging, or rental value of a house furnished to him by his employer for the convenience of the employer but only if:

1. The meals are furnished on the business premises of the employer and for the employee's convenience.

2. Lodging or house rental where the employee is required to accept such lodging or housing on the business premises of the employer as a condition of his employment.

It is a farmer's responsibility to make Social Security tax withholdings from wages or other compensation paid to any worker who earns $150 or more or who works a total of 20 days or more in any calendar year. The withholdings plus the employer's matching contributions must be deposited regularly in a Federal Depository bank. The contribution rates for employees and employers increase from 4.4 percent to 4.8 percent each on January 1, 1969.

Children

Farmers who pay their dependent children for work actually performed by them can save tax dollars by shifting income from themselves to their children. A child who earns $400 or less will not owe any Federal or State Income tax. If he is under 19 or a full-time student, he may still be a dependent if his parents provide more than half of his support. The wages actually paid to a child appear as a labor expense on the farmer's 1040F.

A child under 21 in the employ of his father or mother is not covered by Social Security.

The spouse or minor child—under the age of 18 of a farmer-employer is not covered by Workmen's Compensation unless the services of such spouse or minor child are under an express contract for hire.
FARM TAX TIPS

1. The tax surcharge which became effective on April 1, 1968 increases your 1968 income tax by 7.5 percent (it may be less if the normal tax is under $734).

2. Investment credit represents an important tax saving for most farmers. A dollar of investment credit is equivalent to several dollars of depreciation.

3. New Form 1040 X, Amended U. S. Individual Income Tax Return, may be used to correct an individual income tax return for any year. A farmer who neglected to claim investment credit last year, for example, may file 1040 X with Form 3468 attached to claim the credit.

4. Operators of profitable farm businesses should investigate possible advantages of setting up a qualified retirement pension plan for themselves and their regular employees.

5. Some older retired farmers can reduce their income tax by using retirement income credit as computed on page 2 of Schedule B (Form 1040).

6. A farmer may deduct as a labor expense, reasonable cash wages paid his child for work actually performed by him.

7. Agricultural employers must withhold Social Security tax from the wages of any employee who earns $150 or more or who works 20 days or more for cash wages (except some family employees).

8. Gasoline tax credit used to reduce income tax must also be reported as income. Such credit used by a cash basis taxpayer to reduce 1968 tax becomes income in 1969.

9. Most farm business record books and electronic farm business accounting systems provide an acceptable classification of farm expenses for use in Part III of Schedule F. It isn't necessary to reclassify items entered in the records to correspond with the Schedule F classes.

10. Many of a farmer's expenses are partly personal and partly business. These expenses must be allocated for income tax purposes. Common examples of such expenses are real estate taxes, fire insurance, electricity, telephone, auto expenses, gas and oil, and travel expenses.

11. In computing net earnings from self-employment, you must claim all allowable deductions including depreciation.

12. The optional method of computing net earnings from self-employment provides an important benefit to many farmers in years of low earnings.
13. Income from the sale of livestock held for dairy or breeding purposes should always be reported on Schedule D and never on Schedule F.

14. Depreciation allowances are lost if not taken in the year they are allowable. The special 20 percent first year depreciation is available only the first year depreciation is allowable.

15. Use of optional Form W-2 for reporting on wages paid farm employees satisfies several requirements. Farmers who employ help will want to consider this as a way of saving time in preparing reports.

16. Partnerships must file Form 1065 and Schedule D (Form 1065) if the partnership has capital gains or losses. Schedule F (Form 1040) is used to report farm partnership income and expenses. Only one Schedule F need be filed.

17. Tax management should be aimed first at using all allowable exemptions and deductions each year.

18. The sale of a farm and other business assets frequently involves important tax considerations. A farmer needs competent professional advice in making arrangements for such a sale.

19. Complete farm business records are the essential basis for income tax reporting. Incomplete records frequently result in paying more tax than is actually due.

20. Make a final check of income tax returns before they are mailed. Errors in arithmetic, missing Social Security numbers and missing signatures are common errors.

21. Money items on tax returns may be shown in whole dollars. To do this eliminate amounts of less than 50 cents and increase amounts of 50 cents through 99 cents to the next highest dollar.
Starting in 1968, self-employed persons including farmers can shift part of their income to their retirement years by investing in qualified retirement programs. Liberalized provisions of the Self-Employed Individuals Tax Retirement Act of 1962 (Keough Act) now make it possible and practical for farmers and other self-employed persons to set up a retirement program for themselves and their regular employees on a tax sheltered basis.

For a consistently profitable farm business, this kind of retirement planning can also be good tax management. A retirement plan can help to create a sound basis for income in later years for both the farmer and his regular employees. It can help to minimize income taxes by postponement of tax obligation to retirement years when total taxable income is likely to be less. It also provides a valuable fringe benefit which can help to attract and keep competent workers.

Contributions

Starting in 1968, owner-employees may contribute up to ten percent of their earned income to a maximum of $2,500 to a qualified retirement plan. In 1967 and before, only half of these amounts were deductible; now they are all deductible.

All full-time employees with three or more years of consecutive service must be included in the retirement program. Employees with less than three years service may also be included. Deposits made by the owner-employee for his employee are tax deductible for the owner-employee but are not taxable to the employee until he gets the distribution during his retirement.

Owner-employees decide each year if they wish to contribute to the fund. They need not contribute each year. However, if the plan includes employees, the contribution must be made for them as required by the plan.

The owner-employee may deduct his contributions and those made on behalf of his employees and still itemize non-business deductions, take the standard deductions or the minimum standard deduction. Contributions for farm employees are entered as a farm expense on 1040F (column 3, Part III); owner-employee deductions are entered on page 2 of Form 1040 (line 4, Part III). The deductions are explained on Form 2950SE (1968) which must be attached to Form 1040.
Investment Alternatives

The funds may be held or invested in several ways. Many investment companies, banks, trust companies and insurance companies have plans for investment of these retirement funds which are designed especially to meet the requirements of the Self-Employed Individuals Tax Retirement Act. These include:

(a) Purchase of nontransferable annuity or endowment contracts

(b) Purchase of special U. S. Retirement Bonds

(c) Purchase of "face amount investment certificates" either nontransferable or held by a trust

(d) Purchase of mutual fund or investment stock shares to be held by a bank as custodian

(e) Contributions to a trust or custodial bank account

All qualified plans prohibit the payment of any benefits prior to age 59 1/2 years except in the case of death or disability. Distribution must have commenced by age 70 1/2 for owner-employees and for other employees at age 70 1/2 or at retirement, whichever is later.

A farmer who decides that he may be interested in setting up a self-employed retirement plan should seek competent counsel. Attorneys, bankers, tax consultants, investment counselors, and insurance representatives can be helpful in choosing a suitable plan which will satisfy requirements of the Internal Revenue Service.
NEW YORK STATE AND LOCAL SALES TAXES

If you itemize your deductions on page 2 of Form 1040, the table below may be used to help determine the amount of the general State sales tax to be entered in Part IV.

Local sales taxes may be added to the amount shown in the table. In calculating the additional amount allowed for local sales tax, use the ratio between the State tax of 2 percent and the local sales tax.

If the local sales tax was begun or changed during 1968, the amount claimed must be adjusted to reflect the portion of the year that the tax was in effect at each rate.

Sales taxes for automobiles are not included in the table and should be added if applicable. Gasoline taxes are also not included in the table.

NEW YORK STATE SALES TAX TABLE (2% rate)

<table>
<thead>
<tr>
<th>Income as shown on line 9, page 1 Form 1040</th>
<th>1 &amp; 2</th>
<th>Family Size (persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1,000</td>
<td>$ 8</td>
<td>$10</td>
</tr>
<tr>
<td>$1,000 - $1,499</td>
<td>11</td>
<td>$13</td>
</tr>
<tr>
<td>$1,500 - $1,999</td>
<td>14</td>
<td>$17</td>
</tr>
<tr>
<td>$2,000 - $2,499</td>
<td>17</td>
<td>$21</td>
</tr>
<tr>
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<td>20</td>
<td>$25</td>
</tr>
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<td>$97</td>
</tr>
<tr>
<td>$18,000 - $18,999</td>
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</tr>
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<td>$19,000 - $19,999</td>
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<td>$105</td>
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<tr>
<td>$20,000 and over</td>
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NEW AGRICULTURAL PROPERTY TAX EXEMPTION
FOR CERTAIN FARM AND HORTICULTURAL BUILDINGS

A 1968 amendment to the Real Property Tax Law provides limited exemption from taxation of certain buildings and structures essential to the operation of agricultural and horticultural lands. The exemption applies to taxable status dates occurring on and after January 1, 1969. This has been interpreted to mean that an eligible building which was not on the 1968 assessment roll and which was completed on or after January 1, 1969 will qualify for the exemption.

The new section follows in full:

Section 483. Exemption from taxation of structures and buildings essential to the operation of agricultural and horticultural lands.

1. Structures and buildings essential to the operation of lands actively devoted to agricultural or horticultural use and actually used and occupied to carry out such operation which are constructed or reconstructed subsequent to January 1, 1969 and prior to January 1, 1979 shall be exempt from taxation to the extent of any increase in value thereof by reason of such construction or reconstruction for a period of five years.

2. Such exemption shall be applicable only to structures and buildings necessary to the operation of lands which have been actively devoted to bona fide agricultural and horticultural production for a period of not less than two consecutive years prior to the date of application.

3. The term "structures and buildings" shall include: (a) structures and buildings or portions thereof used directly and exclusively in the raising and production for sale of agricultural and horticultural commodities or necessary for the storage thereof, but not structures and buildings or portions thereof used for the processing of agricultural and horticultural commodities, or the retail merchandising of such commodities; (b) structures and buildings used to provide housing for regular and essential employees and their immediate families who are primarily employed in connection with the operation of lands actively devoted to agricultural and horticultural use, but not including structures and buildings occupied as a residence by the applicant and his immediate family.

4. The term "lands actively devoted to agricultural or horticultural use" shall mean lands not less than five acres in area actually used in bona fide agricultural and horticultural production and operation carried on for profit.

5. Such exemption from taxation shall be granted only upon an application by the owner of the building or structure on a form prescribed by the state board. The applicant shall furnish such information as such board shall require. Such application shall be filed with the assessor of the city, town, village or county having the power to assess property for taxation on or before the appropriate taxable status date of such city, town, village or county.
6. If the assessor is satisfied that the applicant is entitled to an exemption pursuant to this section, he shall approve the application. Such structures or buildings shall be exempt from taxation as herein provided.

7. The assessed value of any exemption granted pursuant to this section shall be entered by the assessor on the portion of the assessment roll provided for property exempt from taxation. An exemption granted pursuant to this section shall continue only while the buildings and structures are actually used and occupied as provided herein, but in no event for more than five years.

8. In the event that land or buildings or structures in agricultural or horticultural use are converted to non-agricultural or non-horticultural use during the period of an exemption granted pursuant to this section, the structures or buildings upon which the exemption was granted shall be subject to roll-back taxes for the period during which the exemption was operative. Structures and buildings subject to roll-back taxes shall be taxed as provided herein.

(a) Notwithstanding any limitations contained in section 550 of this chapter, the assessors of the appropriate assessing unit shall enter on the taxable portion of the assessment roll of the current year the assessed valuations of the structures or buildings on which exemption was granted in any prior year or years at the assessed valuation or valuations as set forth on the exempt portion of the assessment roll or rolls.

(b) The amount of roll-back taxes shall be computed by the appropriate tax levying body by applying the applicable tax rate for each such prior year to the assessed valuation, as set forth on the exempt portion of the assessment roll, for such structures or buildings for each such prior year during such period of exemption.

(c) Such roll-back taxes shall be levied and collected in the same manner and at the same time as other taxes are imposed and levied on such roll.
FEDERAL INCOME TAX
SUGGESTIONS FOR PART-TIME FARMERS AND COUNTRY DWELLERS

People who work in town and live in the country sometimes derive income from their rural holdings. This income may be in the form of land or barn rent from a neighboring farmer, in the form of Government payments, from the sale of farm products, or other farm income. The manner in which such income and associated expenses should be reported to Internal Revenue depends on the kind and amounts involved. The following questions and answers may help to clarify the Federal income tax responsibilities of non-farmers who have some farm income.

1. Who is a farmer? For tax purposes, if you receive at least two-thirds of your gross income from "farming" you are a farmer. Farmers use Federal Form 1040, Schedule F, to calculate their net earnings for tax purposes. Farmers must pay their tax by February 15.

2. What is hobby farming? If a farm is operated for recreation or pleasure, and the expenses are in excess of receipts, the expenses are regarded as non-deductible personal expenses, and the receipts may be omitted from gross income. If receipts exceed expenses, however, the excess must always be included in income. If the taxpayer can show that he is attempting to show a profit, his farm operations will generally not be classified as a hobby farm. If losses reported exceed $50,000 for five consecutive years, the operations will definitely be classified as hobby farming, and expenses disallowed.

3. How do non-farmers report income from farming? Any non-farmer may use Federal Form 1040, Schedule F to report income and expenses related to farming, regardless of the amount. However, small amounts of both income and expense can be reported on 1040B as "other income." It is suggested (this is only a rule of thumb) that if farm income is from more than one source or exceeds $500, a farm Schedule 1040F be completed and filed with the Federal return Form 1040.

4. What about quarterly estimates? Farmers are not required to file quarterly estimates because they file their returns by February 15 instead of April 15. If your major source of income is wages or salary subject to withholding, but you receive some income in addition from farming, or other sources, you probably should file quarterly estimates. Generally, all taxpayers who receive enough outside income to require payment of $40 or more in tax in addition to tax withheld, must file the quarterly estimates.

5. Can a part-time farmer take depreciation? If you can show that you are attempting to make a profit on your farming, you can offset income with all appropriate expenses, including depreciation. For example, if you are renting out your barn, you can take depreciation on your investment in the barn. If you are renting land, you can depreciate your investment in tile drains and fences. You cannot depreciate land.

6. What about income from wood, timber, or Christmas trees? Small amounts of income from these sources may be reported on the farm Schedule 1040F. You are allowed to recover your original investment in trees as a depletion allowance on Schedule F. For larger amounts of income from sale of wood, timber, and Christmas trees, it may be possible to use Schedule D and receive gains treatment on at least a portion of such income.
7. Can a part-time farmer earn Social Security benefits from farm income? If you had net earnings of $400 or more from farming and less than $7,800 in wages, you must pay Social Security tax on the farm earnings. If you had less than $400 net from farming, but at least $600 gross income from farming, you may get Social Security credit from farm income if you want. Use Form 1040, Schedule B and F1 to calculate and pay the self-employment tax.

8. Where should income from rural recreation facilities be reported? A farmer or a non-farmer with minor income from renting campsites, boats, etc., may report this income on 1040B as "other income." If such income is substantial, Schedule C, Form 1040, should be filed and the recreation facilities thus reported as a separate business.

9. What Federal tax schedules should be used to report income to part-time farmers and country dwellers? The following table lists common items of income to part-time farmers, and forms which may be used to report this income.

```
<table>
<thead>
<tr>
<th>Source</th>
<th>Form to Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent of land or buildings</td>
<td>Schedule B, Form 1040</td>
</tr>
<tr>
<td>Rent of house</td>
<td>Schedule B</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>Page 2, Form 1040</td>
</tr>
<tr>
<td>Sale of wood, lumber, or Christmas trees</td>
<td>Schedule F, Form 1040, for small amounts. Schedule D for larger amounts.</td>
</tr>
<tr>
<td>Sale of fruit, berries, garden produce</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Sale of honey or maple products</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Sale of standing hay</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Tractor or machine work for neighbors</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Sale of eggs and chickens</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Sale of livestock held for sale</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Income from Government farm programs</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Soil and gravel sales</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Nursery stock, flowers and plants</td>
<td>Schedule F</td>
</tr>
<tr>
<td>Sale of livestock held for dairy or breeding purposes</td>
<td>Schedule D, Form 1040</td>
</tr>
<tr>
<td>Sale of house lot or other land</td>
<td>Schedule D, Form 1040</td>
</tr>
<tr>
<td>Wages from occasional farm work</td>
<td>Form 1040</td>
</tr>
</tbody>
</table>
```

Small amounts of income from almost any source may be reported on page 2, Form 1040. For a business other than a farm, use Schedule C, Form 1040. Income from all sources must be combined on Form 1040 to calculate the tax due.
QUESTIONS AND ANSWERS ON THE NEW YORK STATE PERSONAL INCOME TAX

The new State Income Tax Law now conforms closely with the Federal Internal Revenue Code.

Farmers must compute their Federal income tax, then carry the adjusted gross income over to the appropriate State form. There is no New York State farm tax form.

New York adjusted gross income is the basis for computing the New York personal income tax and with few exceptions is the same as Federal adjusted gross income.

It is not necessary to compute capital gains and losses separately in arriving at New York adjusted gross income because all capital gains and capital losses are automatically included in New York adjusted gross income to the same extent they are for Federal income tax.

Questions and Answers about New York Returns

1. Who must file a New York State income tax return; when is it due?

Every New York resident who is required to file a Federal income tax return for the taxable year must file a New York State income tax return. It will also be necessary to file a return if a tax refund is being claimed, even though the individual is not otherwise required to file a return. The New York State return is due at the same time the Federal return is due.

2. Who must file a New York Declaration of Estimated Income Tax?

A declaration must be filed by every taxpayer (except farmers) whose total New York income from sources other than wages is expected to exceed $600 times the number of his exemptions, plus $400.

3. Are Farmers Required to File a Declaration of Estimated Income Tax?

No. If two-thirds of total New York adjusted gross income is from farming, no estimate is required for either New York personal income tax or for New York unincorporated business tax. Farmers' filing dates for both are the same as for Federal income tax.

4. What is New York adjusted gross income?

New York adjusted gross income is computed by starting with Federal adjusted gross income and adding or subtracting some income items which were exempt from Federal tax but not from State tax, or vice versa.

5. What items must be added to Federal adjusted gross income to arrive at New York adjusted gross income?

The following are the most common items which must be added to Federal adjusted gross income:

A. Interest on bonds of states or localities other than New York, the income from which is exempt from Federal income tax.
B. Interest or dividend income on bonds or securities of any U. S. authority exempt from federal tax but not from state income tax.

C. Any income tax deducted as a business expense or otherwise in computing Federal adjusted gross income. (New York State unincorporated business tax)

6. What items may be subtracted from Federal adjusted gross income to arrive at New York State adjusted gross income?

The following are the most common items which may be SUBTRACTED from Federal adjusted gross income:

A. Any interest on United States bonds which was included in the taxpayer's Federal adjusted gross income.

B. Any pension received by a retired officer or employee of New York State or its cities, etc., which was included in the taxpayer's Federal adjusted gross income. This applies to pensions paid by New York State and related retirement systems.

C. A refund of income tax from New York State or any other taxing authority if the refund was included in Federal adjusted gross income.

D. A portion of any gain from sale of property included in Federal adjusted gross income if the property had a higher adjusted basis on December 31, 1959 for New York State income tax purposes than for Federal income tax purposes. The amount which may be subtracted is the difference in basis. (If the gain is considered a long-term capital gain for Federal income tax purposes, the amount is limited to 50 per cent of the difference in basis.)

<table>
<thead>
<tr>
<th>Description</th>
<th>Federal</th>
<th>State</th>
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</thead>
<tbody>
<tr>
<td>Tractor bought January 1, 1958--Basis</td>
<td>$3,500</td>
<td>$3,500</td>
</tr>
<tr>
<td>Depreciation allowed</td>
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<td>-700</td>
</tr>
<tr>
<td>Adjusted basis December 31, 1959</td>
<td>$2,240</td>
<td>$2,800</td>
</tr>
</tbody>
</table>

Amount State basis exceeds Federal $560

7. How are these additions and subtractions made when a husband and wife file a joint Federal income tax return but elect to file separate New York State income tax returns?

The husband and wife must each first determine his or her own separate Federal adjusted gross income as if separate Federal returns had been filed. Then each must make the necessary additions or subtractions to his or her own Federal adjusted gross income. To compute their tax on such a separate basis, a husband and wife will use a single form (IT 208) which is included in the resident packet IT 201 P.
8. May a taxpayer use different methods of computing depreciation for Federal and New York income tax purposes if he was using different methods prior to 1960?

No. Since the computation of New York adjusted gross income starts with Federal adjusted gross income, the same depreciation deduction allowed for Federal income tax purposes must be used for New York income tax purposes.

9. Is it necessary to compute separately capital gains and losses in arriving at New York adjusted gross income?

No. All capital gains and capital losses automatically are included in New York adjusted gross income to the same extent they are for Federal income tax purposes. Note: For New York unincorporated business tax income, capital gains are included at 100 per cent.

10. How does the tax investment credit affect the New York State income tax return?

The State does not recognize the investment credit feature of the Federal tax structure. No calculations, adjustments, or entries are to be made on the State returns relative to investment credit.

11. If a husband and wife each have separate income, and filed a joint return for Federal, is it an advantage to file a New York combined income tax return?

If they both have separate income, they should compute their tax on the resident return IT 201 and on the combined form IT 208, and use the return that is most advantageous. Sometimes the combined form will result in a lower tax because more of the income is taxed in lower brackets.

12. What deductions are allowed for New York income tax purposes?

A standard deduction of 10 per cent of New York adjusted gross income, which may not exceed $1,000, is allowed to every taxpayer not claiming the New York itemized deduction.

13. Is the New York standard deduction of a husband and wife computed the same as for an individual taxpayer?

Yes, if they file a joint New York return. But if they file separate New York returns, the total standard deduction for both is limited to $1,000 or 10 per cent of their combined New York adjusted gross incomes, whichever is less.

14. Is the standard deduction of a husband and wife filing separate New York returns the same as their Federal standard deduction?

No. It is based on New York adjusted gross income and may be divided between the two returns in any manner. (The Federal standard deduction of a married person filing a separate return is limited to $500.)
15. Must a taxpayer use the standard deduction for New York income tax purposes?

Only if he used the standard deduction for Federal income tax purposes. If he itemized his deductions for Federal income tax purposes, he may elect either to take the standard deduction or itemize his deductions for New York income tax purposes.

16. What additional deduction may an individual add to his Federal itemized deductions to arrive at the amount of the New York itemized deduction?

Up to $150 for life insurance or endowment policy premiums, net after dividends, upon the life of the taxpayer. If a husband and wife file a joint New York return, a deduction may be claimed for such premium up to $150 actually paid on each one's life.

17. If a husband and wife file a joint Federal income tax return but file separate New York State income tax returns on the combined form IT 208, what exemptions are allowed?

The husband and wife are each allowed a New York exemption of $600 for each Federal exemption to which he or she would have been entitled if separate Federal returns had been filed.

18. Is income tax paid to New York State deductible on the Federal return?

The State income tax and, except in the case of a partnership, the State unincorporated business tax, are not deductible on Federal Schedule F as business expenses. They are deductible on Schedule 1040 if deductions are itemized. The unincorporated business tax is not deductible because it is a tax on net income instead of gross income and is therefore considered a personal rather than business expense (see Federal Tax Guide for Small Businesses).
QUESTIONS AND ANSWERS ON THE NEW YORK STATE UNINCORPORATED BUSINESS TAX

1. What is the unincorporated business tax and what farmers must file?

   This is a tax, in addition to the income tax, levied on the net income of unincorporated businesses, including farm businesses operated by individuals or by partnerships.

   Every farmer or farm partnership with a gross income of more than $10,000 from the farm business must file. It is possible, but highly unlikely, that a farmer with less than $10,000 gross could have over $6,250 net and thus be required to file a return.

2. What income is considered in calculating unincorporated business tax?

   For a farmer on a cash basis it includes:
   A. Net farm income from page 1 of Federal Schedule F; plus:
   E. All the gain from sale or exchange of real or personal property (including livestock held for draft, breeding or dairy purposes) carried as business assets (except real property held outside New York State).
   C. Plus other business income.

3. What form is used and what is the filing date for the unincorporated business tax?

   Form IT 202 for the individual. Form IT 204 for partnerships.
   The filing date is February 15, the same date personal income tax is payable. It should be attached to the personal income tax return.

4. Is there any allowance for taxpayer's services or personal exemption?

   Yes. Up to 20 per cent of the total net income from the business or $5,000, whichever is lower, is allowed for the personal services of the taxpayer. In addition there is a flat statutory exemption of $5,000 (if business was conducted for a full 12 months).

5. What credit toward the unincorporated business tax can be taken after the tax is computed?

   An amendment to the unincorporated business tax law includes a provision for a credit for the entire amount of the tax, if the tax is $100 or less and a graduated reduction of the tax if it is between $100 and $200.

6. How are capital gains and losses treated for the unincorporated business tax?

   Capital gains and losses from the sale or exchange of stocks, bonds, or real estate carried as business assets are fully taxable and deductible, respectively.

7. May a loss from operating a farm business be carried forward to offset future income subject to the unincorporated business tax?

   No.

8. Suppose a man has two or more unincorporated businesses, does he file separate returns for each business?

   No. The operations of the businesses must be consolidated.