

# RURAL TAX EDUCATION

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# **Small Farm Tax Guide**

## **[Tax Guide for Owners and Operators of Small and Medium Size Farms](#)**

Download the full version of the Tax Guide here.

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### **[Chapter 1 Overview of Farm Management](#)**

This chapter reviews basic farm-management concepts and how they may be affected by tax considerations. It also illustrates how managing taxes can increase a farmer's after tax income. Tools and techniques discussed within this chapter illustrate management complexity relative to farm business goals.

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### **[Chapter 2 Overview of Farm Taxes](#)**

Farmers pay a wide variety of taxes to federal, state and local governments. This chapter provides a brief overview of those taxes to help you understand the context of the tax planning discussed in the following chapters.

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### **[Chapter 3 Farm Income](#)**

This chapter defines farm, farming and farm income. In preparing their federal income tax returns, farmers are required not only to report all of their income but also to determine the income's character so that they can apply the proper tax rates. This chapter includes a list of special federal tax provisions for farmers. Farmers can defer income taxes to a future year by taking advantage of tax law provisions that give them favorable tax treatment.

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### **[Chapter 4 Farm Deductions](#)**

Some income tax deductions have special rules for farmers. Other deductions are available only to farmers and ranchers. This chapter is intended to help operators of farms and ranches optimize deductions to reduce their tax liability.

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### **[Chapter 5 Managing the Timing of Income and Deductions](#)**

A primary goal of tax management is to avoid wide fluctuations in annual income in order to avoid swings in marginal tax rates. Farmers who use cash-basis accounting can manage their tax liability by shifting income away from the high-income years and deductions away from low-income years. This chapter will cover the tax rules that impose some limits on making these shifts as well as some non-tax factors to include in the analysis of the costs and benefits of the shifts.

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### **[Chapter 6 Managing the Character of Income and Deductions](#)**

This chapter explains the various ways that income is taxed and strategies for maximizing the income that is taxed at the lowest rates. Taxable income falls into three categories: 1) Ordinary income subject to self-employment (SE) tax, 2) Ordinary income not subject to SE tax, and 3) Gain on disposition that is taxed as long-term capital gain. By understanding the character of income, farmers may have the opportunity to generate income to the most favorable tax rate.

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### **[Chapter 7 Other Tools to Manage Tax Liability](#)**

This chapter discusses additional tax law provisions that help farm producers and ranchers manage or reduce their overall tax liability. Farmers and ranchers can use income averaging, shifting income to another taxpayer, bunching itemized deductions, retirement accounts and health plans to manage their income tax liability to keep it as low as possible.

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## **[Chapter 8 Damaged, Destroyed, or Stolen Property](#)**

This chapter explains some of the basic rules and some planning opportunities for taxpayers whose property is damaged destroyed or stolen, but does not provide a detailed explanation of these complex rules.

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## **[Chapter 9 Alternative Minimum Tax](#)**

This chapter gives basic explanation of the alternative minimum tax (AMT), some examples of situations that cause taxpayers to become subject to AMT. And further discussion provides some planning techniques to minimize the AMT's impact.

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## **[Chapter 10 Net Operating Losses](#)**

This chapter discusses the use of net operating loss (NOL) rules if taxable income for a tax year is negative. NOL's allow taxpayers to carry business losses from the loss year to offset taxable income in other tax years. A loss can be carried back and/or forward. This chapter explains how to calculate, carry back or forward, and making the optimal use of an NOL.

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## **[Chapter 11 Income Tax Consequences of Farm Financial Distress](#)**

Farmers often face significant income tax consequences from financial distress transactions. This chapter discusses the two most common income tax consequences from these transactions which are the recognition of gain or loss from transfer of assets, and discharge of indebtedness income.

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## **[Chapter 12 Buying and Selling a Farm](#)**

This chapter provides an introduction to the issues buyers and sellers face when they buy or sell a farm. Income tax planning is as important in buying and selling a farm as it is in operating a farm.

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## **[Chapter 13 Tax Reporting and Payment](#)**

This chapter explains a farmer's income and self-employment tax reporting obligations, including estimated taxes, entity returns, and information returns.

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