

# PA Veteran Farming Conference

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FARM CREDIT

888.339.3334  
HorizonFC.com

# Introduction



Accounting Officer  
**Chad Rugh**



# What can you expect to learn?

- What are Farm Records
- How to Keep Basic Farm Records
- How is Farming for Profit different than a Hobby Farm
- Tips for Good Farm Recordkeeping
- Why are Good Records Important
- How to Select a Qualified Farm Accountant
- Where to Find a Farm Accountant
- What information will a lender request?
- Farm Credit Beginning Farmer Resources and Opportunities



# Getting to Know You Questions

# What are Farm Records?

- All records related to your farm business.
  - Financial Records
  - The recording of farm business income (cash in) and expenses (cash out) conducted in the normal day to day operation of a farm.
  - Cash vs. Accrual
    - Vast majority of farms use the cash method – IT'S EASIER!
    - Cases where Accrual is required
  - What records to keep?
    - Receipts & Invoices, Proof of payment, Deposit Detail
    - Statements – Bank, Credit Card, Loan, Settlement, Investment, Tax Related
    - Payroll & Labor related records – W2, W3, Payroll tax deposit statements
    - Contracts and agreements (leases),
    - If not a physical record, have access to an electronic version.
    - If in doubt – keep it!

# How to Keep Basic Farm Records

- Have a Positive Attitude
  - Passion, interest, healthy attitude
  - Bookkeeper Drudgery = poor records
- Separate the farm business checkbook from the personal checkbook.
- Know which expenses and income are Farm Related vs Personal
- Record all transactions that are *related* to the farm
  - Machine sales and purchases
  - Timber Sales
  - Loan payments
- Also Record what is not *related* to farming
  - Medical expenses
  - Taxes
  - Charitable donations
  - Estimated payments

**Get the Receipt. Compile the Statements.**



# Methods that are used to keep Farm Records

- Paper Record Books
- QuickBooks
- Farm Raise
- Center Point
- Quicken
- Other Farm Computer Applications
- Excel
- General Ledger



# How to Keep Basic Farm Records

- Establish a Chart of Accounts
  - Categorize the business transactions.
    - Income = Crop & Livestock Sales, Custom Work Income, Government Payments, etc.
    - Expense = Seed, Repairs, Labor, Fuel, Supplies, Rent, etc.
  - Use the IRS Schedule F as a guide to your chart of accounts.
  - Be sure accounts are categories of income/expense, not vendor names.
  - Use sub-accounts to track detail.
  
- **Get the Receipt! Compile the Statements.**



**SCHEDULE F  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (IRS)  
Name of proprietor

**Profit or Loss From Farming**

▶ Attach to Form 1040, Form 1040NR, Form 1041, or Form 1065.  
▶ Go to [www.irs.gov/ScheduleF](http://www.irs.gov/ScheduleF) for instructions and the latest information.

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **14**

Social security number (SSN)

**A** Principal crop or activity \_\_\_\_\_ **B** Enter code from Part IV:  1  2  3  4  5  6  7  8  9  0 **C** Accounting method:  Cash  Accrual **D** Employer ID number (EIN), (see inst): \_\_\_\_\_

**E** Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on passive losses.  Yes  No  
**F** Did you make any payments in 2018 that would require you to file Form(s) 1099 (see instructions)?  Yes  No  
**G** If "Yes," did you or will you file required Forms 1099?  Yes  No

**Part I Farm Income—Cash Method.** Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)

<b>1a</b> Sales of livestock and other resale items (see instructions)	<b>3a</b>		
<b>b</b> Cost or other basis of livestock or other items reported on line 1a	<b>1b</b>		
<b>c</b> Subtract line 1b from line 1a			<b>1c</b>
<b>2</b> Sales of livestock, produce, grains, and other products you raised			<b>2</b>
<b>3a</b> Cooperative distributions (Form(s) 1099-PATR)	<b>3a</b>	<b>3b</b> Taxable amount	<b>3b</b>
<b>4a</b> Agricultural program payments (see instructions)	<b>4a</b>	<b>4b</b> Taxable amount	<b>4b</b>
<b>5a</b> Commodity Credit Corporation (CCC) loans reported under election			<b>5a</b>
<b>b</b> CCC loans forfeited	<b>5b</b>	<b>5c</b> Taxable amount	<b>5c</b>
<b>6</b> Crop insurance proceeds and federal crop disaster payments (see instructions)			<b>6</b>
<b>a</b> Amount received in 2018	<b>6a</b>	<b>6b</b> Taxable amount	<b>6b</b>
<b>c</b> If election to defer to 2019 is attached, check here <input type="checkbox"/>		<b>6d</b> Amount deferred from 2017	<b>6d</b>
<b>7</b> Custom hire (machine work) income			<b>7</b>
<b>8</b> Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			<b>8</b>
<b>9</b> <b>Gross income.</b> Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part II, line 50. See instructions.			<b>9</b>

**Part II Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses. See instructions.

<b>10</b> Car and truck expenses (see instructions). Also attach Form 4562	<b>10</b>		<b>23</b> Pension and profit-sharing plans	<b>23</b>
<b>11</b> Chemicals	<b>11</b>		<b>24</b> Rent or lease (see instructions):	<b>24</b>
<b>12</b> Conservation expenses (see instructions)	<b>12</b>		<b>a</b> Vehicles, machinery, equipment	<b>24a</b>
<b>13</b> Custom hire (machine work)	<b>13</b>		<b>b</b> Other (land, animals, etc.)	<b>24b</b>
<b>14</b> Depreciation and section 179 expense (see instructions)	<b>14</b>		<b>25</b> Repairs and maintenance	<b>25</b>
<b>15</b> Employee benefit programs other than on line 23	<b>15</b>		<b>26</b> Seeds and plants	<b>26</b>
<b>16</b> Feed	<b>16</b>		<b>27</b> Storage and warehousing	<b>27</b>
<b>17</b> Fertilizers and lime	<b>17</b>		<b>28</b> Supplies	<b>28</b>
<b>18</b> Freight and trucking	<b>18</b>		<b>29</b> Taxes	<b>29</b>
<b>19</b> Gasoline, fuel, and oil	<b>19</b>		<b>30</b> Utilities	<b>30</b>
<b>20</b> Insurance (other than health)	<b>20</b>		<b>31</b> Veterinary, breeding, and medicine	<b>31</b>
<b>21</b> Interest (see instructions):			<b>32</b> Other expenses (specify):	
<b>a</b> Mortgage (paid to banks, etc.)	<b>21a</b>		<b>a</b> _____	<b>32a</b>
<b>b</b> Other	<b>21b</b>		<b>b</b> _____	<b>32b</b>
<b>22</b> Labor hired (see employment credits)	<b>22</b>		<b>c</b> _____	<b>32c</b>
			<b>d</b> _____	<b>32d</b>
			<b>e</b> _____	<b>32e</b>
			<b>f</b> _____	<b>32f</b>
<b>33</b> <b>Total expenses.</b> Add lines 10 through 32f. If line 32f is negative, see instructions.				<b>33</b>
<b>34</b> <b>Net farm profit or (loss).</b> Subtract line 33 from line 9.				<b>34</b>
If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.				
<b>35</b> Reserved for future use.				
<b>36</b> Check the box that describes your investment in this activity and see instructions for where to report your loss.				
<b>a</b> <input type="checkbox"/> All investment is at risk.		<b>b</b> <input type="checkbox"/> Some investment is not at risk.		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11240H

Schedule F (Form 1040) 2018

# How to Keep Basic Farm Records

- Livestock Sales
  - Breeding livestock sales vs. market livestock sales
    - Raised vs. Purchased
  - Milk checks – net or gross? Advance or final?
- Crop Sales
  - By specific crop.
  - Is crop insurance income considered crop income?
- Other Farm Income
  - Can include several types of income.

# Farm Business vs. Hobby Farm

- According to IRS publication 225 the “Farmers Tax Guide”
  - “You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant.” If your motivation for farming is to produce a product that will bring a profit, you are a farmer and not simply a hobbyist.”
- This publication is what most accountants use to guide them when completing taxes
- Questions to ask yourself
  1. What is the time and effort I give to my operation
  2. What are my expectations of the what I am using to farm with
  3. Am I attempting to make a profit
  4. Can I show the IRS that I have made a profit in two out of the last five years
  5. What is my eventual goal of my farm operation
- There are stiff penalties for claiming farming deductions on your taxes when they are used for a hobby

# How to Keep Basic Farm Records

- 3 C's of farm records:
  - Correct – records are accurate – accounts are reconciled.
    - Checking, Savings, Credit Card, Loan Balances – your records should match their records.
  - Complete – all the necessary data is recorded, all transactions are recorded
    - Buy a small tractor using Farm Credit Express. Do you record the purchase and the borrow?
  - Consistent – account names are consistently used for the same transactions.
- All transactions are recorded.
  - Sometimes we have to ACT like a transaction went through the checking account even though there is no bank record of it on the statement.
    - Purchase a capital item with borrowed funds.
    - CASH purchase out of personal cash.
- Get the Receipt! Compile the Statements.

# How to Keep Basic Farm Records

- Benefits of Computer Software Systems
  - Easy to use sub-accounts in software programs.
  - Journal entries insure debits = credits.
  - Availability of reports.
  - Bank account reconciliation is simplified.
  - Download bank transactions to computer software
    - Transactions need to be checked for proper account assignment.
    - Split deposits – are livestock sales kept separate from crop sales or government payments?
  - Allows easier use of enterprise accounting.
  - Automated creation of budgets.
  - Easy to correct errors or make adjustments.

# How to Keep Basic Farm Records

- How long should financial records be kept?
  - Tax-related -7 years
  - Non-Tax related (bank statements, pay stubs, bills)- 1 year
  - Items needed to prove income or expense for an audit -3 Years
  - Employer Records-Lifetime

# Why are Good Records Important?

- Provides necessary data for Key Financial Statements
  - Balance Sheet – what the business owns and owes
  - Income Statement
    - Cash – for filing taxes
    - Accrual Adjusted – for determining true profit (net farm income)
  - Cash Flow Statement
    - Reconciliation of balance sheet and income statement
    - From where and to where did all the cash come and go?

# Why are Good Records Important?

- Provides necessary data for:
  - Tax preparation
    - Including tax planning
    - Payroll data and filing accurate 1099s
    - Support data for IRS audit
    - Expense vs. Capital Purchase
  - Business decisions
    - Capital Expenditures
    - Feasibility Study of Expansion or Enterprise Changes
    - Annual Business Analysis of Key Financial Indicators
    - Accurate Calculation of Costs of Production
    - Loan Requests
    - Transition and Succession Planning
    - Marketing Decisions
    - Creating and Monitoring Budgets



# Why are Good Records Important?

- Specific Transaction Examples
  - Repair or Capital Purchase – does it matter?
    - YES - For calculating accrual profit
      - Repair expense will drive down profitability in the current year.
      - Capitalization spreads out the expense over multiple years.
  - Farm vs. personal purchases
    - Just because you bought it at Tractor Supply doesn't make it a business expense.
    - Are business and personal purchases co-mingled?
    - What about business/personal portion of utility expenses – electric, phone, internet etc.
  - Cash vs. check vs. debit card vs. credit card
    - How can you keep credit card purchases recorded correctly?
      - Pay the balance each month.
        - Assign purchases to accounts monthly when the bill is paid.
      - Maintain a running balance.
        - Borrow from the credit card company.
        - Is the interest a business expense or personal expense?
  - GET THE RECEIPT !!!

# Selecting a Qualified Farm Accountant

- Not all tax returns are created equal
  - Farm tax returns have specialized rules that Farm Accountants are more qualified to handle
- Reputation in the farming community
- Accountant concentrates most of their portfolio on farm related accounts
- Do they offer specialized services
  - On Farm visits are very important
- Can they meet the needs of your family
- Your accountant should want your farm to succeed
- Is this someone you can trust

# Where Can you Find a Farm Accountant

- Ask your fellow farmers who they have as their accountant
- Ask your loan officer if they know who provides accounting services in the area
- Research on the internet
- Most of our current new business comes from referrals

**Thank You!**