

6.3.Special Tax Rules for Agriculture - Mixed-Use Real Property

	Slide Title		Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
1	Title Slide	Lesson 6.3: Special Tax Rules for Agriculture – Mixed-Use Real Property	This training provides greater detail on the tax treatment of a property where you live and operate your farm or ranch business.		
2	LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW	• 40+ years of leadership in agricultural and food law • Nationally recognized faculty • Specially designed courses • On-campus and distance options • For recent law graduates and experienced attorneys • Outreach and education for farms and food businesses through the Food and Ag Impact Project • Visit us at https://law.uark.edu/academics/llm-food-ag			

3	Legal Disclaimer	This presentation is intended to provide general information on agricultural income tax issues and should not be construed as providing legal advice. It should not be cited or relied upon as legal authority. State laws vary and no attempt is made to discuss state specific laws. For advice about how these issues might apply to your individual situation, consult an attorney.			
4	Funding	This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA22CPT0012189. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture. In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.	This project and materials created by Poppy Davis as part of the LL.M. Program in Agricultural and Food Law at the University of Arkansas School of Law is part of the Agricultural Financial, Tax and Asset Protection program.		

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5	Program Overview	1. Filing: Federal Income Tax Filing Requirements 2. Records: Recordkeeping Requirements 3. Taxes: Individual Federal Income Tax Return 4. Entities: Business Entities and Federal Tax 5. Agricultural Income: Special Rules 6. Special Tax Rules for Agriculture <- We are here.	There were five lessons previously in this series. The sixth training covers special tax rules for agriculture.		
6	Lesson 6 Overview – Special Tax Rules for Agriculture	6.1 USDA Payments 6.2 Debt Relief 6.3 Mixed-Use Real Property <- We are here. 6.4 Value-Added Inventory 6.5 Conservation 6.6 Catastrophe and Disasters 6.6.a Livestock Losses and Weather Related Sales			
7	What is Mixed-Use Real Property?	In this lesson mixed-use real property is property that is used for the business of farming or ranching and also as the residence of the farm or ranch owner.	Mixed-use property may also be property that is partially used for farming or ranching, and partially used for some other income-generating activity such as rental real-estate, hunting, forestry, or events.	It is not uncommon for a rural property to have many different simultaneous uses including: the primary residence of the owner, the site of farm or ranch business, rental real estate, forest land, and the site of one or more other businesses.	Does anyone here own this type of property? Does anyone here rent this type of property?

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8	How is Mixed-Use Property Reported on a Tax Return?	1. Direct expenses go with each use or business. 2. Shared expenses are allocated between uses or businesses. 3. Allocated means divided according to a method that accurately represents actual use.	Simple example: A house, a field, and a barn. The house is all the residence of the farmer/rancher, the field and the barn are all used in the farm/ranch business. Everything related to the house is personal, everything related to the field and the barn is farm/ranch. The maintenance of the driveway that goes to the house and the barn is a shared expense.	1. If the farmer rents the entire property, the rental cost is allocated between personal and business. 2. If the farmer owns the property, ownership costs are allocated between personal and business.	
9	Allocating Costs for Rented Mixed-Use Property	If the mixed-use property is rented under one lease with just one combined rent payment, the rent should be allocated between the business and personal portion. No deduction is allowed for the portion of rent allocated to the residence. The portion of rent allocated to the business is deducted on Schedule F as rental expense. If the business and the residence share one utility bill the utility cost should be allocated between personal (no deduction	The personal portion of rent is the fair market value of the residence on its own, or a reasonable division of the rent based on the value of the residence and the value of the business property. If the business and the residence share one utility bill, the utility cost should be allocated between personal (no deduction allowed) and business (deduct on Schedule F.)		

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		allowed) and business (deduct on Schedule F.)			
10	Allocating Costs for Mixed-Use Property Owned by the Taxpayer	For a property owned by the farmer/rancher, ownership and operating costs include: 1. Mortgage interest 2. Property taxes 3. Insurance 4. Repairs and maintenance, utilities 5. Depreciation To allocate these costs, you need to know: 1. The fair market value of the business assets. 2. The ratio or percent of total business assets to total purchase price.	The personal portion of mortgage interest and property taxes may be deducted on Schedule A as itemized deductions, subject to IRS limits. The business portion of all other ordinary and necessary expenses may be deducted on Schedule F (or C for other businesses or E for rental properties) subject to other IRS rules and limitations.	Note that the personal portion of insurance and repairs and maintenance cannot be deducted anywhere. Also, there is no depreciation deduction associated with the personal residential use of a house or building.	
11	Determining business and personal use	House 100,000 Barn 50,000 <u>Land 10 Acres 40,000</u> Purchase Price 190,000 Farm/Ranch Use: Barn 50,000 <u>8 Acres 32,000</u> Business Use: 82,000 Residential Use House 100,000 <u>2 Acres 8,000</u> Residential Use 108,000	1. Determine the fair market value of any depreciable assets purchased as part of the property. 2. Determine the fair market value of the land. 3. Total the depreciable assets and land used in the business. 4. Total the depreciable assets and land used for the residence. 5. Determine the percentage that is business and personal.	The best method is to have a certified agricultural or rural appraiser perform a written appraisal of the fair market value of the property as of the date of purchase. The next best method is to draw a simple map of the property identifying personal and business assets and acres and use your county property tax statement values as the fair market values.	Has anyone had help doing this sort of an allocation so they could report their mixed use property properly on their tax return? Can you share a little about the

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		Business Percentage $82,000/190,000 = 43\%$ Residential Percentage $108,000/190,000 = 57\%$ Total = 100%	6. Depreciate the depreciable assets that are business assets. 7. Use the calculated percentages to allocate business and personal mixed expenses.	Remember to use different per acre values for land if you have land with different productive values (flood plain, prime, steep, wooded, etc.)	process of getting an appraisal and determining the asset values and allocation percentages?
12	Determining business and personal use	Depreciate the barn. Report 57% of mortgage interest and property taxes on Schedule A (PERSONAL USE) Report 43% of mortgage interest and property taxes on Schedule F. (FARM BUSINESS) Report 43% of shared insurance and repairs and maintenance expense on Schedule F. (FARM BUSINESS)	1. The barn is a depreciable asset with a fair market value of \$50,000. Take a portion of the value each year as depreciation expense. 2. Mortgage interest and property taxes are reported 57% on Schedule A and 43% on Schedule F. 3. 43% of shared insurance and repairs and maintenance expense are reported on Schedule F. 4. Any additional insurance or repairs and maintenance expense that are only for the farm/ranch are reported at 100% on Schedule F.		

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13	Don't forget these assets if purchased with the land!	Growing crops Productive vineyards and orchards Fences Wells Irrigation Timber* *For information on timber taxes see TimberTax.Org.	When you purchase a property, you pay one price, but it represents all the different assets on the property. A careful analysis of the values of each of the assets will help you come up with a true and accurate list of all the depreciable assets used in your farm/ranch business and a good ratio to use to allocate shared expenses.	See IRS Pub 225 Chapters 4 and 6 for more information on how to determine the depreciable basis of assets purchased with the land.	
14	What if I did not do that?	See the discussion of amended returns in Lesson 1. Generally, you can amend returns going back three years to claim deductions to which you were entitled.			
15	For more information	If you purchase a property you intend to use as a residence and a business, you should consult a qualified tax preparer to help you determine the value of business assets and the allocation ratio for shared expenses. IRS Publication 587 covers business use of a home and mentions Schedule F. You have to interpret "home" to include the whole property to apply the instructions of Pub 587 to a farm or ranch property.			

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16	Questions? Thank you!				
17	How do I learn more about federal income taxes and my farm or ranch?	There are previous lessons in this series. For each lesson there is a short set of questions you can answer to help you decide if the training will be useful to you. You can access the questions and the trainings at: https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php Additional project resources are available here: https://agftap.org/			
18	How do I learn more about federal income taxes and my farm or ranch?	• IRS Publication 225, The Farmers Tax Guide • RuralTax.org • IRS website and publications			
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