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Taxable Income Generally

All business income is taxable and must be reported on your tax return, but the IRS defines several different types of income. Different types of income are taxed differently, and importantly there are elaborate rules for which types of losses (negative income) can offset which types of income.

Agricultural income also has special rules to define it, and it comes with special benefits. Fishing income has some but not all of the same characteristics as agricultural income.

Agricultural income is income from the sale of crops or livestock which you raise.

Agricultural income is **not** income from manufactured food and beverage products or income from non-farming and ranching activities that take place on the land where you farm or ranch.

If you include non-agricultural income with your agricultural income you are overstating your agricultural income, and that may result in you paying less taxes than you owe, or receiving benefits from programs you do not actually qualify for. This could leave you liable for back taxes, re-paying program benefits, and owing interest and penalties.

Processing that is incidental to the growing, raising, harvesting process is still considered a farming activity. Examples are field packing, washing, cooling, and putting to standard packs as required by marketing standards or local custom. Once you are beyond that - doing more than is required to get the raw agricultural product to market - doing things that alter its physical form and extend the time it can be held for sale, you may be into activities which would not qualify as farming or ranching for federal income tax purposes.

For example, you might have to wash and cool and package a product for that product to make it to market (think fragile ripe fruit) but you do not have to turn it into jam or pie. Washing, cooling, and packing are all part of agricultural income, but if you make jam or pie that income is not agricultural income.

In small operations it may be hard to separate the accounting for a small amount of value added activity.

If you are just experimenting with a new product it may not be practical to set up elaborate accounting before you know if the product is going to work out for you.

If the value-added products you make have a short shelf life and sell about as fast as your fresh farm products, there may be no practical difference between separating the accounting and tax reporting and keeping it all together.

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