

PA-40 Schedule F

Farm Income and Expenses

PA-40 F (09-02) (I)

PA DEPARTMENT OF REVENUE

Overview

Use **PA Schedule F** to report income or loss from a business you operate as a farm. The following definitions may be helpful in determining if you should file a **PA Schedule C** or **PA Schedule F**:

Farmer—A person engaged in the business of farming.

Farming—The following activities, when engaged in as a regular business, are farming:

(i) **Agriculture**. The business of producing food products or other useful or valuable growths or crops by tilling and cultivating the soil, and by breeding, raising and feeding cattle, livestock, bees, poultry, or other animals which produce a food product or which are themselves a food product. For example, the commercial raising of mushrooms is farming, but gardening and similar noncommercial activities are not farming. The following are not included within the definition of agriculture:

- (A) The breeding or raising of dogs, cats and other pets; game animals, birds, fish, or other animals which are intended for use in sporting or recreational activities such as, but not limited to, hunting, fishing, show competition and racing.
- (B) The operation of stockyards or slaughterhouses.

(ii) **Horticulture**. The business of producing vegetables, vegetable plants, fruits, and nursery stock, including the operation of commercial vegetable greenhouses and nurseries. Horticulture does not include the business of servicing plants owned by other persons.

(iii) **Floriculture**. The business of producing flowers and decorative or shade trees, plants and shrubs, in the field, nursery or greenhouse, but not including the raising of trees as timber, or lumbering, logging or sawmill operations.

(iv) **Dairy farming**. The business of breeding, feeding and raising of cattle and other milk producing animals, and the production of feed for them by the owner of the animals. This doesn't include operations such as pasteurizing or homogenizing or the making of butter, cheese and ice cream. These activities should be reported on **PA Schedule C**.

(v) **Fur-ranching**. The propagation and raising of ranch raised fur-bearing animals.

(vi) **Propagation of game birds**. The propagation of game birds for commercial purposes by holders of propagation permits issued under 34 Pa.C.S. § § 101—2965 (relating to Game and Wildlife Code).

(vii) **Propagation of aquatic animals**. The propagation of fish and other aquatic animals for commercial use as a food or food product by holders of propagation permits issued under 30 Pa.C.S. § § 101—7314 (relating to Fish and Boat Code).

Note

Pennsylvania determines income and loss under those accounting principles, systems, or practices that are:

- Acceptable by standards of the accounting profession, and
- Consistent with the regulations of the Department setting forth such principles and practices.

Pennsylvania does not generally follow **federal tax accounting rules** to determine income or loss:

- You may use any accounting method for PA purposes, as long as you apply your accounting methods consistently.
- Pennsylvania does not allow Farm Income Averaging.
- A farmer may deduct all losses in the taxable year realized. You report all transactions that are directly related to your farming operation on your **PA Schedule F**.

You should maintain separate books and records for PA PIT purposes, and file **PA Schedule F**. Do not submit a Federal Schedule F. You may usually use your Federal Schedule F expenses for PA PIT purposes. This schedule does not have separate instructions for those lines where PA PIT and federal rules agree. However, you may not use federal amounts if you made certain elections to accelerate or defer income and expenses; or spread expenses over more than one taxable year. If you wish to take advantage of the Pennsylvania reporting differences that decrease your federal profit, you must complete the **PA Schedule F**.

If you use the same records, and do not have to make the adjustments that PA Personal Income Tax law requires, you may use **PA Schedule I**.

Caution. You may only use **PA Schedule I** if you do not have any **required** PA adjustments, and you elect to ignore other PA allowable adjustments, including those that may reduce your PA tax.

For additional information regarding the definition of a business, profession, or farm activity, and for Pennsylvania's requirements for reporting income and expenses, go to the Department's home page www.revenue.state.pa.us and link to the PA PIT GUIDE.

The Federal Schedule F instructions for the following federal schedules **do not apply**:

Schedule SE. You do not report self-employment taxes to Pennsylvania.

Form 4684. You report gain or loss from all business activity on **PA Schedule F**. You include a casualty or theft loss (or gain if insurance proceeds exceed the basis of the property lost or taken) of business property on Line 11 of **PA Schedule F**. You may reference the federal schedule as the explanation for the gain or loss item. You do not submit the federal schedule with your PA tax return.

Form 4835. You report rental income from farm production or crop shares when you did not materially participate as rental income on **PA Schedule E**. Pennsylvania does not have "materially participating" rules. An owner may deduct all losses in the taxable year realized. You only report on your **PA Schedule F**, the income, expenses and profit or loss from the operation of your farm enterprise.

Form 8824. You do not report like-kind exchanges on **PA Schedule F**. Pennsylvania laws and regulations do not recognize like-kind exchanges. You must report any gain or loss from any sale, exchange, or disposition on Line 11 of **PA Schedule F**, if the transaction was a normal business transaction. You must report any gain or loss from other dispositions (non-business) on **PA Schedule D**. You may use any accounting method as long as you apply your accounting methods consistently. Pennsylvania follows generally accepted accounting principles and practices for reporting profit or loss from business or professional activity.

If you own or operate more than one farm or farming operation, you must submit a separate **PA Schedule F** for each operation.

Specific Instructions

A. Agricultural Activity Code. Enter the four-digit code that best describes your principle income producing activity.

Note

If your principal source of income is from providing agricultural services such as soil preparation, veterinary, farm labor, horticultural, or management for a fee or on a contract basis, use the most appropriate federal Principal Agricultural Activity Codes from Part IV of Federal Schedule F.

B. Principle Product. Describe in one or two words your principal crop or output for the current year.

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Disposition of PIK Commodities

If you disposed of commodities received under the payments-in-kind (PIK) program, fill in the oval for the description(s) that apply:

Enter your **Federal Employer Identification Number (FEIN)**, assigned to your farm by the IRS. If you do not have an FEIN, leave this space blank.

Enter your **PA Sales Tax License Number** if you have one, or leave this space blank.

Part I. Farm Income – Cash Method – Complete Parts I and II

Use generally accepted accounting principles and practices to maintain your books and records and report your income from your business or professional activity.

For additional information about Pennsylvania's requirements for reporting income and expenses, go to the Department's home page and link to the PA PIT GUIDE.

5a. and 5b. On Line 5a, show your total distributions from cooperatives. This includes patronage dividends, nonpatronage distributions, per-unit retain allocations and redemption of nonqualified notices and per-unit allocations.

Show patronage dividends (distributions) received in cash, and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income.

On Line 5b, enter patronage dividends from buying personal or family items, capital assets, or depreciable assets.

11. Other Income. Enter gross proceeds that you may have to report elsewhere on your federal tax return. Include the income from the sale of business assets that you reinvested, and used to acquire similar business assets. Also, include the gain or loss on replacing business property (including land or buildings used by the facility in the operation of a farm), and interest and dividend income from investments that generated working capital. Include other income as described for Line 10 of Federal Schedule F. However, PA PIT law and regulations do not have limitations on depreciation when business property use (or the inclusion amount on leased property adjustment) falls below 50%. You may deduct the allowable business depreciation on such property. You do not report "depreciation recapture" for Pennsylvania Personal Income Tax purposes.

Part II. Farm Deductions – Cash and Accrual Method

Include only those current expenses that are ordinary, necessary, and reasonable for producing farming income. Do not include personal or living expenses. Use accepted accounting principles and practices to maintain your books and records and report your expenses from your farming activity. PA law does not impose dollar or percentage limitations on allowable expenses. You may always deduct 100% of the PA allowable farm expenses that you incurred during the taxable year. You may usually use your Federal Schedule F expenses for PA PIT purposes.

Depreciation. You may also use your federal depreciation expense, after making any required adjustments. You may use any depreciation method permitted under accepted accounting principles and practices, but you may not change your method once you adopt a method.

You may deduct IRC Section 179 expenses. Pennsylvania follows the federal definitions for listed property.

Important

You may use your federal depreciation expense, but PA PIT law does not allow the additional depreciation expense permitted under federal law.

17. Employee benefit programs other than on Line 28. You may not deduct any payments you make for your own personal coverage. PA PIT law does not allow any personal expenses on any PA tax return.

22. Insurance. You may deduct life insurance on yourself or your spouse only if the farm business itself (not your spouse, other family members, or other persons) is the beneficiary. The farm business must use the insurance proceeds to continue its operations. If deducting insurance premiums, then proceeds received are business income on Line 11 of Part I.

23. Labor hired. You do not have to reduce your wage expense for any federal credits you claim. Add back any wage expenses you excluded in order to claim a federal credit. You may never deduct the costs of your own participation.

27. Other interest. You may never deduct personal interest. If you personally borrow money to acquire a farm or farm interest or to improve your farm, you may not deduct the interest on any PA schedule or PA tax return. If the farm business itself incurs debt, the farm business may deduct the interest expense.

34. Taxes. You may deduct tax expenses other than taxes based on income. You may not deduct taxes based on net income, Federal Income Taxes, and one-half of the self-employment taxes that the IRS allows. You may not deduct taxes paid to other states or foreign countries based on income. You may not deduct estate taxes and inheritance, legacy, succession, and gift taxes. Assessments for betterments and improvements are not allowable.

37. Other expenses. You may deduct any other cost of operations that are ordinary, necessary, reasonable, and current expenses of your farm business.

- You may deduct 100% of the sales tax paid on a depreciable asset. However, on disposition, your Pennsylvania basis and federal basis for that asset will be different.
- You may deduct charitable contributions you make from your farm account that the recipient publicly acknowledges. Personal charitable contributions are never allowable.
- You may use the capitalization rules established by your industry, under its generally accepted accounting principles and practices. Once elected, you must consistently use this method.
- You may deduct 100% of your expenses for removing barriers to individuals with disabilities and the elderly. You may not take the federal credit.
- You may deduct your home office expenses. Pennsylvania generally follows the federal rules for a home office.

Itemize any other expenses that are allowable under GAAP or FASB rules but are not allowable or limited under federal rules.

39. Enter those expenses that you incurred that qualified you to take a credit on your **PA-40, PA Schedule OC**. You cannot take these expenses and also receive the credit on your **PA-40**.

Part III. Farm Income – Accrual Method

Use accepted accounting principles and practices to maintain your books and records and report your income from your farming business.

45. Other Income. You enter transactions that you may have to report elsewhere on your federal tax return, such as the sale of business assets, gain or loss on replacing business property (other than land or buildings), and income from short-term investments to generate working capital. You include other income as described for Line 44 of Federal Schedule F. However, PA laws and regulations do not have limitations on depreciation when farming property use (or the inclusion amount on leased property adjustment) falls below 50%. You may deduct the allowable business depreciation on such property.

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Attach to form PA-40, PA-20S/PA-65, or PA-41

0203310024

OFFICIAL USE ONLY

Name of owner, as shown on PA tax return.

Owner's Social Security Number

A Agricultural Activity Code. (Write in the code that best describes your principal income-producing activity. The codes are listed on the reverse side of this schedule.)

B Principal Product. (Describe in one or two words your principal crop or output for the current tax year.)

If you disposed of commodities received under the payments-in-kind (PIK) program, fill in the oval(s) that apply:

Feed for livestock

Sold and reported in income

Taxpayer Identification Number (not SSN)

C

Part I Farm Income—Cash Method—Complete Parts I and II

(Accrual method taxpayers complete Parts II and III, and Line 12 of Part I.)

Sales Tax License Number (if applicable)

Table with 12 rows for Farm Income. Columns include line number, description, and numerical input fields.

Part II Farm Deductions-Cash and Accrual Method. Do not include personal or living expenses. Reduce the amount of your farm deductions by any reimbursements before entering the deduction.

Table with 39 rows for Farm Deductions. Columns include line number, description, and numerical input fields.

40 Total deductions. Reduce Line 38 by Line 39.

41 Net farm profit or loss (subtract Line 40 from Line 12) If a net loss is shown, fill in the oval. Enter the result on your PA tax return.

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0203410022

OFFICIAL USE ONLY

Name of owner as shown on PA tax return.

Social Security Number

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Part III Farm Income—Accrual Method

42	Sales of livestock, produce, grains, and other products during year				42		
43	Agricultural program payments:						
	a Cash				43a		
	b Materials and services				43b		
44	Commodity credit loans under election (or forfeited)				44		
45	Machine work				45		
46	Other income, including federal and state gasoline tax credit or refund				46		
47	Total. Add amounts on Lines 42 through 46				47		
48	Inventory of livestock, produce, grains, and other products at beginning of year	48					
49	Cost of livestock, produce, grains, and other products purchased during year	49					
50	Add Lines 48 and 49	50					
51	Inventory of livestock, produce, grains, and other products at end of year	51					
52	Cost of livestock, produce, grains, and other products sold. Subtract Line 51 from Line 50				52		
53	Gross income. Subtract Line 52 from Line 47. Enter here and on Part I, Line 12				53		

Principal Agricultural Activity Codes

Select one of the following codes and write the 4 digit number on Line A on page 1 of this schedule. (Note: If your principal source of income is from providing agricultural services such as soil preparation, veterinary, farm labor, horticultural, or management for a fee or on a contract basis, you should file Schedule C, (Profit or Loss From Business or Profession.)

- 0120 **Field crop**, including grains and nongrains such as cotton, peanuts, feed corn, wheat, tobacco, Irish potatoes, etc.
- 0160 **Vegetables and melons**, garden-type vegetables and melons, such as sweet corn, tomatoes, squash, etc.
- 0170 **Fruit and tree nuts**, including grapes, berries, olives, etc.

- 0180 **Horticultural specialty**, including the growing of ornamental floriculture and nursery products such as plants, shrubbery, bulbs, flowers, sod, etc.
- 0211 **Beefcattle feedlots**
- 0212 **Beefcattle**, except feedlots
- 0215 **Hogs, sheep, and goats**
- 0240 **Dairy**
- 0250 **Poultry and eggs**, including chickens, ducks, pigeons, quail, etc.
- 0260 **General livestock**, not specializing in any one livestock category
- 0270 **Animal specialty**, including fur bearing animals, pets, fish, horses, etc.
- 0300 **Agricultural production**, not specified.