PA Schedule F

Farm Income and Expenses

Forward to PA Schedule F

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:

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

(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 that produce a food product or 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; or game animals, birds, fish or other animals 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. The raising of trees as timber or lumbering and logging or sawmill operations are not included in the definition of floriculture.

(iv) *Dairy farming.* The business of breeding, feeding and raising 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 of the 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 of the Fish and Boat Code.

For more information regarding the definition of a business, profession or farm activity and for Pennsylvania's requirements for reporting income and expenses, visit www.revenue.state.pa.us.

NOTE: Pennsylvania determines income and loss under those accounting principles, systems and practices acceptable by standards of the accounting profession and consistent with the regulations of the Department.

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 accounting methods consistently.

Pennsylvania does not allow Farm Income Averaging.

A farmer may deduct all losses in the taxable year realized. Report all transactions directly related to your farming operation on PA Schedule F.

You should maintain separate books and records for PA Personal Income Tax (PIT) purposes. You may usually use your Federal Schedule F expenses for PA PIT purposes. 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. To take advantage of the Pennsylvania reporting differences that decrease your federal profit, complete PA Schedule F.

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

Schedule SE. Do not report self-employment taxes to Pennsylvania.

Form 4684. Report gain or loss from all business activity on PA Schedule F. 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. Reference the federal schedule as the explanation for the gain or loss item, but do not submit the federal schedule with your PA tax return.

Form 4835. Report rental income from farm production or crop shares whether or not you materially participate in the production of that income 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. Only report on PA Schedule F the income, expenses and profit or loss from the operation of your farm enterprise.

Form 8824. Do not report like-kind exchanges on PA Schedule F. Pennsylvania laws and regulations do not recognize like-kind exchanges. 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. Report any gain or loss from other dispositions (nonbusiness) on PA Schedule D.

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

Other Pennsylvania and federal income tax differences.

PA income from farming generally differs from the income determined for federal income tax purposes. Further, Pennsylvania will no longer accept a PA Schedule C-F Reconciliation for the purpose of adjusting the federal farm income to PA farm income. Therefore, the items which were previously included as additions to PA income or expenses on the PA Schedule C-F Reconciliation should be included with the specific line of income or expense on PA Schedule F. In addition, those items which Pennsylvania does not require be reported as income or does not allow as expense in determining net farm income, which are allowed in the determination of net federal farm income, should not be included in the specific farm income or expenses on PA Schedule F.

Examples of items that Pennsylvania requires as additions to income include: any advance receipts for goods or services; working capital interest or dividend income including federal-exempt interest and dividend income from obligations of other states; gains from the sale of business assets where the property is replaced by similar property; gains from involuntary conversions (such as those from IRC Section 1033); and gains from the sale of property where PA basis is different than federal basis.

Examples of items that Pennsylvania allows as additions to expenses that required a reduction for federal tax purposes include: a meals, travel and entertainment expense deduction of 100 percent by Pennsylvania for the expenses incurred; any differences in depreciation related to differences in basis of assets, amount of allowable Section 179 expense, or method of depreciation for federal or PA purposes; and any other reductions in federal expenses allowed at 100 percent for PA personal income tax purposes.

Examples of items that Pennsylvania requires as reductions in federal income or expenses include: income taxes based upon gross or net income; any differences in depreciation related to differences in basis of assets, amount of allowable Section 179 expense, or method of depreciation for federal or PA purposes; recognition of cancellation of debt income; recognition of income from IRC Section 481(a) spread adjustments; payments for owner pension, profit-sharing plans, deferred, or welfare benefit plans; percentage depletion; direct expensing of organizational expenses, start-up costs; or syndication fees; losses from the sale of property where PA basis is different than federal basis; and any other income or expenses where there is a specialized federal treatment that is not specifically addressed or allowed by PA personal income tax law that might involve additional expensing, expensing verses capitalization, carry back or carry forward of losses, income recognition, or other special treatments.

Specific Instructions

A. Agricultural Activity Code. Enter the four-digit code that best describes your principal income producing activity. If your principal source of income is from providing agricultural services such as soil

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Farm Income and Expenses

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 shown on side 2 of the PA Schedule F.

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

Disposition of Payments-In-Kind Commodities.
If you disposed of commodities received under the payments-in-kind program, fill in the oval for the description(s) that apply.

Enter your federal Employer Identification Number (FEIN). 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.

Line 5a. and 5b. On Line 5a, show your total distributions from cooperatives, including 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.

Line 7b. Materials and services. Include the amount from 1099-G, Box 9, Market Gain, associated with any Commodity Credit Corporation (CCC) loan where the proceeds from the loan were not originally elected to be included as income. Write "Market Gain" in the space to right of "Materials and services" when including an amount from this source. Include a schedule if more than one type of income is reported on this line.

Line 11. Other Income. Enter gross proceeds you may have to report elsewhere on your federal tax return. Include the income from the sale of business assets 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. PA PIT law and regulations do not limit depreciation when business property use (or the inclusion amount on leased property adjustment) falls below 50 percent. You may deduct the allowable business depreciation as described below on such property. Do not report "depreciation recapture" for PA Personal Income Tax purposes.

Part II. Farm Deductions – Cash and Accrual Method.
Include current expenses that are ordinary, necessary and reasonable for producing farming income. Do not include personal or living expenses. PA law does not impose dollar or percentage limitations on allowable expenses. You may always deduct 100 percent of the PA allowable farm expenses that you incurred during the taxable year.

Line 15. Conservation expenses. You may deduct certain expenditures (including any amount paid on any assessment levied by a soil or water conservation or drainage district to defray expenditures made) for soil or water conservation and the prevention of erosion if the expenditures are in respect of land you use. The allowable deduction for any one year may not exceed 25 percent of your gross income from farming, but any excess may be carried over to succeeding years with the same limit applying to those years.

To claim a deduction for these expenditures, you must elect to do so by claiming the deduction on your return for the first taxable year for which the expenditures are paid. Once you have elected to treat the expenditures as deductions, you must continue to do so in all future taxable years unless you secure consent to change.

Line 16a. Regular Depreciation. You may use any depreciation method permissable under accepted accounting principles and practices as long as you consistently apply the method.

NOTE: For each asset, you must also report straight-line depreciation, unless not using an optional accelerated depreciation method. You need straight-line depreciation to take advantage of Pennsylvania's Tax Benefit Rule when you sell the asset.

You must use the straight-line depreciation method if your PA basis and federal a basis for an asset differ.

Line 16b. Section 179 expense. Current expensing is limited to the expensing allowed at the time you placed the asset into service, or the expensing in effect under the IRC of 1986 as amended Jan. 1, 1997. Pennsylvania follows the federal definitions for listed property.

Line 17. Employee benefit programs other than on Line 28. You may not deduct any payments you make for your own personal coverage.

Line 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, proceeds received are business income on Line 11 of Part I.

Line 23. Labor hired. Do not reduce your wage expense for any federal credits you claim. Add back any wage expenses you excluded to claim a federal credit. Do not deduct the costs of your own participation.

Line 27. Other interest. Do not 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 tax return. If the farm business itself incurs debt, it may deduct the interest expense.

Line 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.

Line 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 percent of the sales tax paid on a depreciable asset. However, on disposition, your PA basis and federal basis for that asset will differ.
- You may deduct charitable contributions made from your farm account and acknowledged publicly by the recipient. Personal charitable contributions are not 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 percent of expenses for removing barriers to individuals with disabilities and the elderly. You may not take the federal credit on your PA return.
- You may deduct 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.

Line 39. Enter expenses you incurred that qualified you to take a PA Employment Incentive Payments Tax Credit, PA Job Creation Tax Credit and/or the PA Research and Development Tax Credit. You cannot take these expenses and also receive the credit on your PA-40.

Line 46. Other Income. Enter transactions 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. Include other income as described for Line 44 of Federal Schedule F. However, PA laws and regulations do not limit depreciation as described above when farming property use (or the inclusion amount on leased property adjustment) falls below 50 percent. Deduct the allowable business depreciation on such property.

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PA Schedule F

Farm Income and Expenses

PA-40 F (09–13) (FI)

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pennsylvania DEPARTMENT OF REVENUE

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Include with Form **PA-40, PA-20S/PA-65** or **PA-41**

OFFICIAL USE ONLY

Name of owner as shown on PA tax return:

Owner's Social Security Number

A. Agricultural Activity Code. Write the code that best describes your principal income-producing activity. 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 program, fill in the oval(s) that apply:

Feed for livestock

Sold and reported in income

Taxpayer Identification Number (not SSN)

C

Sales Tax License Number (if applicable)

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.)

1.	Sales of livestock and other items bought for resale			1.	
2.	Cost or other basis of livestock and other items bought for resale			2.	
3.	Subtract Line 2 from Line 1			3.	
4.	Sales of livestock, produce, grains and other products raised			4.	
5.	a. Total distributions received from cooperatives (from Form 1099-PATR)	5a.			
	b. Less: Non-income items	5b.			
6.	Net distributions. Subtract Line 5b from Line 5a			6.	
7.	Agricultural program payments:				
	a. Cash			7a.	
	b. Materials and services			7b.	
8.	Commodity credit loans under election (or forfeited)			8.	
9.	Crop insurance proceeds			9.	
10.	Machine work			10.	
11.	Other income, including federal and state gasoline tax credit or refund, interest income and sales of operational assets			11.	
12.	**Gross income.** Add amounts on Lines 3, 4, 6 and 7a through 11. If using the accrual method, enter the amount from Part III, Line 53 ▶			12.	

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.

13.	Breeding fees			27.	Other interest		
14.	Chemicals			28.	Pension and profit-sharing plans for employees		
15.	Conservation expenses			29.	Rent of farm, pasture		
16.	a. Regular depreciation			30.	Repairs, maintenance		
	b. Section 179 expense			31.	Seeds, plants purchased		
17.	Employee benefit programs other than those on Line 28			32.	Storage, warehousing		
18.	Feed purchased			33.	Supplies purchased		
19.	Fertilizers and lime			34.	Taxes		
20.	Freight, trucking			35.	Utilities		
21.	Gasoline, fuel, oil			36.	Veterinary fees, medicine		
22.	Insurance			37.	Other expenses (specify):		
23.	a. Labor hired				a.		
	b. Jobs credit				b.		
	c. Balance (subtract Line 23b from Line 23a)				c.		
24.	Land clearing			37.	Total other expenses		
25.	Machine hire			38.	Total expenses (Add Lines 13 through 37.)		
26.	Mortgage interest paid to financial institutions			39.	Reduce expenses by the total business credits claimed (for example, Employment Incentive Payments Credit) on your PA 40.		

40.	**Total deductions.** Subtract Line 39 from Line 38 ▶	40.		
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. Loss	41.		

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PA DEPARTMENT OF REVENUE

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Name of owner as shown on PA tax return:

Social Security Number

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 four-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 PA Schedule C.

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 **Beef cattle feedlots**

0212 **Beef cattle,** 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.

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