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Farm, Farming and Who’s a Farmer for Tax Purposes*

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Introduction

Meeting the qualifications of farming and being a farmer under the Internal Revenue Code (IRC) allows for special benefits; however, not all agricultural producers meet these qualifications even if they are producing agricultural products, which is why it is vitally important for operators of farms and their tax professionals to understand the IRS tax definitions of farm, farming and farmer. One of the benefits of being classified as a farmer is the exclusion of certain receipts from income as in the case of conservation payments as allowed under IRC Section 175.

Operators of farming businesses may associate the term farmer as an adjective when describing themselves. Used in the colloquial context most people will understand what being a farmer means as a description of the noble rural occupation. For income tax purposes, however, taxpayers and their advisers need to be certain of the facts and circumstances in the context of the tax issue at hand. In some instances, an individual can be classified as a farmer for one income tax purpose but not for another. Also, someone who is not classified as a farmer may still be engaging in farming activities and have farm income.

Brief examples of farmers/ranchers are:

- Redd Durham raises wheat and sells his wheat to the local elevator.
- Buck Tootie has a flock of milking goats and sells the milk to a local organic foods co-op.
- Daisy Brown-Eye grows cut flowers which she sells weekly at the local farmer’s market.
- Tripp Wyre raises lettuce and cabbage which he sells to a salad processing company.
- Dusty Lane operates a cattle ranch; she sells weaned calves to a feedlot investor.

* In cooperation with the participating land-grant universities, this project is funded in part by USDA-Risk Management Agency under a cooperative agreement. The information reflects the views of the author(s) and not USDA-RMA. For a list of participating land grant universities, see RuralTax.org.
These examples all show a producer raising or growing a product and selling that product. They have not further processed or modified the product. These are farming activities and hence would all qualify as farm income.

The following discussion looks at the definition of a farmer from an income tax perspective, including the definitions of farm, farming and farmers as found in the Internal Revenue Code (IRC) and Treasury Regulations.

**Defining “Farm”**

Farm is commonly defined in the tax code in numerous places with nearly the same words. One such definition is found in IRC Section 2032A(e)(4) relative to estate tax valuation; it reads as below:

> The term “farm” includes stock, dairy, poultry, fruit, furbearing animal, and truck farms, plantations, ranches, nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards and woodlands.

Examples of other locations in the Internal Revenue Code (IRC) and Treasury Regulations (TR) where this language with minor variation is used to define farm are:

- TR Section 1.61-4(d) (gross income of farmers)
- TR Section 1.175-3 (soil and water conservation expenses)
- TR Section 1.6073-1(b)(2) (estimated taxes)
- IRC Section 6420(c)(2) (excise tax on gasoline)
- TR Section 48.6420-4(c) (meaning of terms; excise tax on gasoline)

The list above is not all inclusive, taxpayers and tax preparers can find many other references that define farm for tax purposes.

In the definition above the word orchard is included, however, vineyard or grove is not. Yet, operators of a grape vineyard will fall under the definition of farm when using the inclusive wording “agricultural and horticultural commodities”. Grapes are the product of the vineyard and an agricultural commodity, therefore, the vineyard is a farm. Other rural operations producing products which can be defined as agricultural or horticultural, for example, a rural business producing goat’s milk will be defined for income tax purposes as a farm. A vineyard selling grapes is a farm. A winery that produces and sells wine would not be a farm. For operations with a combination, they would need to work with their tax preparer to separate out the farming activities from non-farm business activity.

The definition of a farm describes farming activities. These activities produce farm income which is recorded on a Form 1040 Schedule F: Profit or Loss From Farming. Someone may have a farm and produce farm income, but not qualify as a farmer under some tax provisions.
Defining “Farmer”

A farmer is an individual who is engaged in farming per the definition found above. Generally, the farmer has a profit motive when operating a farming business. IRS uses nine factors found in IRC Section 183, commonly known as the hobby loss rules, to determine a business’ profit motive. See the “Further Information” section at the end of this paper to get more information on hobby loss rules.

Below are some of the tax benefits of being a farmer. Each has some special provisions, so taxpayers may qualify as a farmer for one test or rule, but not for another test.

Estimated Tax Payments

If a taxpayer qualifies as a farmer by having more than two-thirds of his/her gross income being derived from farming, they may make a single estimated tax payment by the 15th of the month that follows the close of their tax year or make payment in full of their income tax liability by the first of the third month following the close of their tax year. (Calendar taxpayers: 15th of January or 1st of March).

Example 1: Wooly Sheppard raises sheep full-time in the alpine meadows of Colorado. Wooly sells market lambs and wool from the flock. This is Wooly’s primary source of income with over two-thirds of his income coming from this. He has a profit motive relative to his business activities. Wooly is a farmer for income tax purposes, and would qualify for the estimated tax payments provisions.

Example 2: Susie grows herbs for sale at her local farmer’s market on the weekends. Susie’s main source of income is her work as a computer engineer for a software company. Her herb sales are a small part of her total income.

Even though she has a horticultural activity, less than 2/3s of her income is from farming. So, she would not qualify for the special benefits for estimated tax payments.

If Susie can show she has a profit motive, her herb production would qualify as a farm activity and any income and expenses would be recorded on a IRS Form 1040 Schedule F.

Installment Sale of Farm Products

Cash-basis farmers are permitted to report income from the sale of farm products when the product is sold. They are not required to maintain inventories. If the farmer enters a forward sales contract to deliver the farm product in a subsequent year after production the income is reported in the year of payment not production. The contract must specify that the farmer can only receive the payment in the subsequent year to production, even if the delivery of the
This information is intended for educational purposes only. Seek the advice of your tax professional regarding the application of these general principles to your individual circumstances.
Agritourism is not defined in the Internal Revenue Code or Treasury Regulations for income tax purposes. Definitions from dictionaries provide similarities within the meaning of agritourism ranging from simply touring agricultural areas to see farms to boarding on those farms and engaging in various activities for education or entertainment. When the definition of farming is contrasted with these definitions of agritourism it becomes clear that farming taxpayers who expand into agritourism activities and their practitioners should be diligent in determining extent of the non-farming business.

**IRS Publications**

To access Form 1040 or other publications referenced in this paper, go to www.irs.gov and click on “Forms and Publications”. Then click on “Publication number” under “Download forms and publications by:.” Type the publication number in the find box to search for the publication. Publication may be viewed online by double clicking on the publication or downloaded.

**IRS Publication 225, Farmer’s Tax Guide.** This publication covers a wide variety of farm related income tax issues.

**Additional Topics**

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

The following fact sheets are either referenced in this paper, or might be of particular interest.

- Farm Losses versus Hobby Losses: Farmers Must Plan Ahead to Avoid Adverse Tax Consequences
- Filing Dates and Estimated Tax Payments
This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

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