



## Livestock Sales and Prize Winnings Frequently Asked Questions

The Internal Revenue Service Office of Governmental Liaison has provided the 4-H National Headquarters-USDA with a set of FAQ's regarding the taxability and 1099 filings required from the sales of livestock at county fairs. These are posted on your information. Additional information may be found at <http://www.irs.gov>.

### Livestock Sales and Prize Winnings Related to 4-H Programs Taxable Income Frequently Asked Questions

#### Is income from the sales of livestock and premium payments taxable?

Internal Revenue Code section 61 specifically states that "Except as otherwise provided in this subtitle, gross income means all income from whatever source derived," This income is clearly taxable to the 4-H member. In most situations, the member would file a Schedule F to report the income. There is no basis for a position that only income in excess of \$600 is taxable. This seems to be a misunderstanding of the filing threshold for Forms 1099.

#### What are reporting requirements (Form 1099) for income received from the sale of the animal at the auction?

Treasury Regulation section 1.6045-1(c)(7) provides an "exception for certain sales of agricultural commodities and commodity certificates". It states, "No return of information is required under section 6045 for a spot or forward sale of an agricultural commodity". In the definitions at 1.6045-1(c)(7)(iv), livestock is defined as an agricultural commodity and a spot sale is defined as "a sale that results in the substantially contemporaneous delivery of a commodity." Thus, there would be no Form 1099 filing requirements for the sale of the animals at auction.

#### Is Form 1099 required for premium payments?

The entity paying the premium does not receive the animal in return for the premium payment. The person who won the bid at the auction gets the animal; the payer of the premium gets only the good feeling or advertising value of the premium payment. The premium payments are paid as a prize or award. Therefore, since this is not a spot sale and no exception has been identified for this type of income there would be a Form 1099 filing requirement for the payer of the premium.

**Source: IRS (4-2007)**



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## LIVESTOCK SALES AND PRIZE WINNINGS RELATED TO 4-H PROGRAMS: TAXABLE INCOME AND CHARITABLE CONTRIBUTIONS

4-H Youth raising livestock and other farm animals to be sold at auctions, county and state fairs and other 4-H events, has long been a vital part of the 4-H educational experience. The income received and the funds paid at these events are subject to Federal tax laws and Internal Revenue Service (IRS) regulations. The Tax Reform Act of 1986 gave specific attention to "gross income amounts received on the sale of animals" and

such income of \$600 or more is taxable income to the recipient regardless of the educational purposes surrounding the raising of the animals or the use of the funds.

Additionally, the 4-H entities involved in these sales should provide clarification to the purchaser of the animal as to the ownership of the animal and whether a charitable contribution may be claimed for the purchase of the animal.

The following is provided to assist State and local 4-H programs in the conduct of these livestock sales and other related activities, as well as continuing to insure the proper use of the 4-H Name and Emblem:

### Livestock sales / Prize or Contest winnings:

1. The individual or 4-H entity receiving the gross income/ winnings of \$600 or more is required to report the gross income/ winnings to the IRS regardless of the educational purpose or benefit to the sale.
2. In most cases, the 4-H member would be issued an IRS Form 1099-MISC by the organization sponsoring the sale. Please note there are specific rules regarding the issuance of 1099-MISCs. Applicability needs to be determined.
3. In the majority of situations, the 4-H member remains the owner of the animal and presents it for sale to the auction or other event in anticipation of receiving the proceeds/ winnings.
4. In the situation that the ownership of the animal remains with the 4-H member, the sponsoring organization is only a conduit for the sale of the animal. (see item #1 under Charitable Contributions)
5. The net income to the 4-H member is not subject to Self-Employment Tax if the project is primarily for educational purposes and not for profit. (See reference section)

### Charitable Contributions:

1. When acting as a conduit for the sale of the animal, the sponsoring organization cannot view the sales proceeds as income to the organization and should clarify for the purchaser that they have not made a charitable contribution to the organization, but have purchased the animal through the organization for the direct benefit of the 4-H member.
2. The purchaser of the animal may claim a deduction, net of the fair market value of the animal, as a charitable contribution to a qualified organization when it is determined that the organization owns the animal, which it is selling and that the funds will remain with the organization to be expended on 4-H educational programs and activities.

This Fact Sheet is provided only for the most general use and information to 4-H members and organizations. Due to the complexity and varied applicability of IRS regulations, 4-H members, organizations and contributors are encouraged to seek guidance from their tax advisors regarding specific situations.

### References:

<http://www.irs.gov/pub/irs-pdf/1099MISC.pdf>

<http://www.irs.gov/publications/p225.ch12.html>

<http://www.irs.gov/taxtopics/index.html>

IRS Publication 225 Farmer's Tax Guide, Chapter 12: Self Employment Tax.

**4-H Club or FFA Project.** If an individual participates in a 4-H Club or FFA project, any net income received from the sales or prizes related to the project may be subject to income tax. Report the net income on line 21 of Form 1040. If necessary, attach a statement showing gross income and expenses. The net income may not be subject to Self Employment tax if the project is primarily for educational purposes and not for profit, and is completed by the individual under the rules and economic restrictions of the sponsoring 4-H or FFA organization. Such a project is generally not considered a trade or business.



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## **Livestock Proceeds Tax Implications - Explained**

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1. The IRS requires that any and all gross income, regardless of purpose/use/source, be reported as income. It may be reflected on Line 18 (Form 1040) as part of Schedule F – Farm Income or (loss), or it may appear on Line 21 (Form 1040) as Other Income. However, all income must be reported and may be subject to taxes. **Bottom line...4-H members must report income.**
2. Issuance of a 1099-MISC by the organization/group that is distributing funds to the 4-H member is determined by the IRS based on certain criteria. One of those criteria includes payments of \$600 or more in “prizes and awards.” **Bottom line...shows/fairs must provide 4-H members/IRS a 1099-MISC for any awards of \$600 or more.**
3. Disposition of the livestock project:
  - a. 4-H member retains ownership of the animal. **Bottom line...4-H member reporting is not affected.**
  - b. The “buyer” at the show’s exhibit auction gains ownership – The value of the livestock project may affect the allowable charitable contribution made by the buyer. If the buyer donates the animal back, the value of the contribution may be affected depending on whether the animal is donated to the show (value possibly deductible) or the exhibitor (value likely not deductible) and who benefits from the actual sale/disposition of the animal. **Bottom line...buyer’s eligible deduction may be impacted by the ownership and disposition of the animal.**
  - c. The show gains ownership and awards resale to the exhibitor – Should the animal become property of the show and is subsequently sold to a livestock barn for market or resale may affect the reporting requirements and applicability of issuing a 1099-MISC by the show. If the proceeds of the resale are returned to the exhibitor, that value must be added to any prize/premium money the exhibitor receives, which impacts 1099-MISC reporting. **Bottom line...resale value plus prize money in excess of \$600 may require the show to issue a 1099-MISC.**
  - d. The show gains ownership and retains value of animal – If the show gains ownership of the animal, sells the animal, and retains the value of the sale there may be exemptions of the show reporting that as income to the organization if the funds are used for certain purposes. **Bottom line...keeping the resale of animals within the show may affect the show’s reported income to IRS.**
4. If the show only “facilitates” the sale of the animal, meaning the show organizes the resale of the animal and redistributes the resale value to exhibitors, there are implications to the show’s report of income to the IRS. **Bottom line...serving as a “conduit” prevents the show from considering the value of the resale as income.**



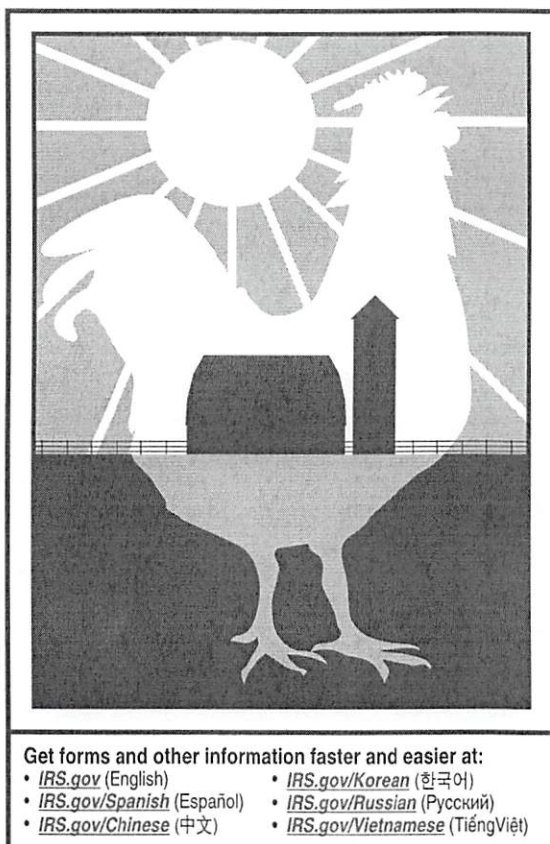
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# Farmer's Tax Guide

For use in preparing  
**2018** Returns

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## Introduction

You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant. A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards and groves.

This publication explains how the federal tax laws apply to farming. Use this publication as a guide to figure your taxes and complete your farm tax return. If you need more information on a subject, get the specific IRS tax publication covering that subject. We refer to many of these free publications throughout this publication. See [chapter 16](#) for information on ordering these publications.

The explanations and examples in this publication reflect the Internal Revenue Service's interpretation of tax laws enacted by Congress, Treasury regulations, and court decisions. However, the information given does not cover every situation and is not intended to replace the

employee of the landowner. This will depend on whether the landowner has the right to direct or control your performance of services.

**Example.** A share farmer produces a crop on land owned by another person on a 50-50 crop-share basis. Under the terms of their agreement, the share farmer furnishes the labor and half the cost of seed and fertilizer. The landowner furnishes the machinery and equipment used to produce and harvest the crop, and half the cost of seed and fertilizer. The share farmer is provided a house in which to live. The landowner and the share farmer decide on a cropping plan.

The share farmer is a self-employed farmer for purposes of the agreement to produce the crops, and the share farmer's part of the profit or loss from the crops is reported on Schedule F (Form 1040) and included in self-employment earnings.

The tax treatment of the landowner is discussed later under *Landlord Participation in Farming*.

**Contract farming.** Under typical contract farming arrangements, the grower receives a fixed payment per unit of crops or finished livestock delivered to the processor or packing company. Because the grower typically furnishes labor and bears some production risk, the payments are reported on Schedule F (Form 1040) and are therefore subject to self-employment tax.

**4-H Club or FFA project.** If an individual participates in a 4-H Club or National FFA Organization (FFA) project, any net income received from sales or prizes related to the project may be subject to income tax. Report the net income as "Other income" on Schedule 1 (Form 1040), line 21. If necessary, attach a statement showing the gross income and expenses. The net income may not be subject to SE tax if the project is primarily for educational purposes and not for profit, and is completed by the individual under the rules and economic restrictions of the sponsoring 4-H or FFA organization. Such a project is generally not considered a trade or business. For information on the filing requirements and other tax information for dependents, see Pub. 929.

**Partners in a partnership.** Generally, you are self-employed if you are a member of a partnership that carries on a trade or business.

**Limited partner.** If you are a limited partner, your partnership income is generally not subject to SE tax. However, guaranteed payments you receive for services you perform for the partnership are subject to SE tax and should be reported to you in box 14 of your Schedule K-1 (Form 1065).

**Community property.** If you are a partner and your distributive share of any income or loss from a trade or business carried on by the partnership is community property, treat your share as your self-employment earnings. Don't treat any of your share as self-employment earnings of your spouse.

**Business owned and operated by spouses.** If you and your spouse jointly own and operate

a farm as an unincorporated business and share in the profits and losses, you are partners in a partnership whether or not you have a formal partnership agreement. You must file Form 1065, instead of Schedule F (Form 1040). However, you and your spouse may still report income using Schedule F (Form 1040) instead of Form 1065 if either of the following applies.

- You and your spouse elect to be treated as a qualified joint venture. See *Qualified joint venture*, later.
- You and your spouse wholly own the unincorporated farming business as community property and you treat the business as a sole proprietorship. See *Community income*, later.



**CAUTION** If your spouse is your employee, not your partner, you must withhold and pay social security and Medicare taxes for him or her. For more information about employment taxes, see *chapter 13*.

**Qualified joint venture.** If you and your spouse each materially participate as the only members of a jointly owned and operated farm, and you file a joint tax return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership for the tax year. Making this election will allow you to avoid the complexity of Form 1065 but still give each spouse credit for social security earnings on which retirement benefits are based. For an explanation of "material participation," see the instructions for Schedule C, line G, and the instructions for Schedule F, line E.



**CAUTION** Only businesses that are owned and operated by spouses as co-owners (and not in the name of a state law entity) qualify for the election. Thus, a business owned and operated by spouses through a limited liability company does not qualify for the election of a qualified joint venture.

To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule F and a separate Schedule SE. For more information, see *Qualified Joint Ventures* in the Instructions for Schedule SE (Form 1040).

**Community income.** If you and your spouse wholly own an unincorporated business as community property under the community property laws of a state, foreign country, or U.S. possession, you can treat your wholly-owned, unincorporated business as a sole proprietorship, instead of a partnership. Any change in your reporting position will be treated as a conversion of the entity.

Report your income and deductions as follows.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.
- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.
- If you and your spouse elected to treat the business as a qualifying joint venture, see *Qualified joint venture*, earlier.

States with community property laws include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. See Pub. 555 for more information about community property laws.

## Figuring Self-Employment Earnings

**Farmer.** If you are self-employed as a farmer, use Schedule F (Form 1040) to figure your self-employment earnings.

**Partnership income or loss.** If you are a member of a partnership that carries on a trade or business, the partnership should report your self-employment earnings in box 14, code A, of your Schedule K-1 (Form 1065). Box 14 of Schedule K-1 may also provide amounts for gross farming or fishing income (code B) and gross nonfarm income (code C). Use these amounts if you use the farm or nonfarm optional method to figure net earnings from self-employment (see *Methods for Figuring Net Earnings*, later).

If you are a general partner, you may need to reduce these reported earnings by amounts you claim as a section 179 deduction, unreimbursed partnership expenses, or depletion on oil and gas properties.

If the amount reported is a loss, include only the deductible amount when you figure your total self-employment earnings.

For more information, see the Partner's Instructions for Schedule K-1 (Form 1065).

For general information on partnerships, see Pub. 541.

**More than one business.** If you have self-employment earnings from more than one trade, business, or profession, you generally must combine the net profit or loss from each to determine your total self-employment earnings. A loss from one business reduces your profit from another business. However, don't combine earnings from farm and nonfarm businesses if you are using one of the optional methods (discussed later) to figure net earnings.

**Community property.** If any of the income from a farm or business, other than a partnership, is community property under state law, it is included in the self-employment earnings of the spouse carrying on the trade or business.

**Payments for lost income.** Include in self-employment earnings any payments you receive from insurance or other sources to replace income lost because you reduced or stopped farming activities. These include USDA payments under the Margin Protection Program for Dairy (MPP-Dairy), which provides dairy producers with payments when dairy margins are below the margin coverage levels. Even if you aren't farming when you receive the payment, it is included in self-employment earnings if it relates to your farm business (even though it is temporarily inactive). A connection exists if it is clear the payment would not have been made but for your conduct of your farm business.