2010 FARM - QUIZ

1. T F Taxpayer has a sheep shearing business. It qualifies as a farm business.

2. Which of the following is **not** a farm business?

a. Truck farm
b. Sod farm
c. Plantation
d. Place where fish are harvested

3. T F Raising evergreen trees until they are 8 years old before cutting for Christmas trees is considered a farming business.

4. T F Raising poultry is considered a farm business

5. T F If you pasture someone else's cattle and take care of the livestock for a fee, you must report the income on Schedule F as farm income.

6. T F If you rent your pasture for a flat cash amount, you must report the income on schedule F as **farm** rental income

7. T F If rent payments received are based on farm production but are in the form of crop shares, you can report the income as **farm rental** income

8. T F If rent is not based on farm production and the landlord does not materially participate in operating or managing the farm, the rent is not from **farm business**

9. Taxpayer sold seed, fertilizer, pesticides, herbicides and farm hardware to farmers.

a. This is a farming business
b. This is a sales business
c. This is a hobby

10. T F Taxpayer provided a grain harvester and the service of cutting and hauling grain. This is a farming business.

11. T F Paul engaged in a nursery growing business. He grows plants to be sold only at wholesale and does not operate a public sales building. Paul qualifies as a farmer

FARM - QUIZ

12. T F You have worked really hard on your cattle ranch for the past eight years. Because you have had to purchase more stock, equipment and build feed sheds, you have never shown a profit from your farm operations. You have no other employment and neither does your wife. Under the IRS "presumption of profit" rules, you are operating a hobby, not a farm.

13. T F If your "farm" venture is ruled to be a hobby, you can not take any deductions against the "hobby" income.

14. You are trying to get a farm started but you are also employed full time at the local plywood plant. The "farm" has been going on for about ten years but you can't seem to get it going enough to quit your job. For the current year, you had the following:

Income from sale of hay	$ 500
Income from sale of calves	$1,000 (raised)
Income from custom hire work	$ 600
Cost of feed and fertilizer	$ 600
Mortgage interest on farm	$1000
Insurance on farm equipment	$ 200
Taxes on the farm property	$ 500
Depreciation on equipment/bldgs	$1000

You may

a) Deduct all of the expenses except depreciation on Sch. A
b) Deduct all of the expenses on schedule F
c) Deduct only the interest, taxes, and $600 of feed and insurance on Sch. A.
d) Deduct none of the expenses since this is still a hobby.

15. T F If your total depreciation expense for the year for your "hobby" farm was $1,500 and you were only allowed to deduct $1,000, you may allocate the $1000 to the assets in any way you wish.

16. T F A farm record keeping system should clearly show income and expenses for the year.

17. T F Farm travel expenses require the same kind of record keeping as any other business and must prove time, place, and business purposes.

18. T F General records should be kept the later of 3 years after date return is due and filed or 3 years after date tax is paid.

<u>FARM - QUIZ</u>

19. T F Employment tax records must be maintained at least 4 years after date tax return becomes due or is paid, whichever is later.

20. T F Farmers are not required to file 1099s.

21. Farmer John made the following payments during 2007.

Ace Veterinary Inc.	$1,000
Your Accountant (sole proprietor)	$1,000
Dr. Smith, Veterinary	$ 500
Mr Legal Smeegal, Attorney, P.C. (P.C. is Professional Corp)	$ 650
S Street Animal Hospital (partnership)	$ 700

Farmer John must

a) Issue 3 - 1099 forms
b) Issue 2 - 1099 forms
c) Issue 4 - 1099 forms.

22. T F When estimated tax is required, for farmers, depends on whether at least two thirds of total income is from farming in current or prior year.

23. T F For the 2/3 test, business income is not reduced by expenses.

24. T F For the 2/3 test, capital losses can not be netted against capital gains.

25. T F To compute whether farm gross income is at least two-thirds of total gross income you need to know what the **<u>gross</u>** income from a partnership was.

26. T F Gross income from farming includes gross farm income from schedule F after reduction for cost of livestock bought for resale.

27. T F Gross income from farming includes wages received as a farm employee.

28. T F Gross income from farming includes **<u>gains</u>** from sale of livestock used for breeding or dairy purposes that are reported on schedule D

FARM - QUIZ

29. James Jones had the following total gross income and farm gross income in 2007.

	Total	**Farm**
Taxable interest............	$ 43,000	
Dividends	500	
Rental income (Sch. E) ...	1,500	
Farm income (Sch. F.......	$ 75,000	$75,000
Schedule D	5,000	5,000
Total	$125,000	$80,000

Schedule D showed gains from the sale of dairy cows carried over from Form 4797 ($5,000) in addition to losses from the sale of corporate stock ($2,000).

Mr. Jones

a) Qualifies to use special estimated tax for 2/3 farmers only if 2/3 of his income was from farming in the **prior** year.

b) Qualifies to use special estimated tax for 2/3 farmers based on current year income.

c) Can not qualify for special estimated tax for farmers under any circumstances.

30. Assume the same facts as above except that Mr. Jones also received gross farm rental income (form 4835) of $15,000 and that he did not qualify last year for special estimated tax treatment

a. He qualifies for special estimated tax treatment based on current year

b. He still does not qualify for special estimated tax treatment

c. He can not qualify for current year since gross rents do not count.

31. T F If pool old Farmer John does qualify for special estimated tax treatment, he may avoid paying any estimates if he files and pays his tax due by March 1.

32. T F Jerry filed tax returns while in high school on calendar year basis. When he got out of school, he started a business (smart kid!) and wanted to elect a fiscal year for his business. The business is a sole proprietorship. He can not do this.

33. T F If Jerry had elected fiscal year when he first began filing returns, he could have selected March 15th as his fiscal year end.

34. T F You may not use crop method of accounting without IRS approval.

35. T F You may elect to use a combination method using elements of two or more of the various accounting methods.

FARM - QUIZ

36. You are a farmer who uses the cash method and a calendar year. You sell grain and deliver it 12/2010 under a bona fide arm's length contract that calls for payment in 2011. The payment is received in 2011 and you include the income:

a. In your 2010 income
b. In your 2011 income

37. If, in the above, the contract said you had the right to the proceeds from the buyer at any time after the grain is delivered, you must report the income

a. In your 2010 income
b. In your 2011 income

38. John is a farmer who uses a calendar year and an accrual method of accounting. In December of last year, John buys supplies for $200 that are not acquired for resale and that do not become a physical part of any items held for sale. He receives the supplies and the bill in December. However, he pays the bill in January of this year. He

a. May deduct the expense in last year
b. Must deduct the expense in this year
c. May only deduct the expense when supplies are used

39. T F Constructive receipt does not exist in year of sale for amounts deferred to next year unless seller has a right to receive income in year of sale.

40. T F If IRS approves use of crop method, you may deduct the entire cost of producing a crop, including expense of seed or young plants, in the year you realize income from the crop.

41. T F Crop method may be used for timber.

42. T F Farm income averaging is available only to individuals.

43. T F For farm income averaging, you must average all of your taxable income over 3 years

44. For farm income averaging, farm income includes

a. Income from sale of any property used for a substantial period in farming business
b. Income from sale of land used in farming business.
c. Income from nursery or sod farm

FARM - QUIZ

45. T F Sale of livestock held for draft, breeding, dairy or sporting purposes are not reported on Schedule F

46. T F Livestock "raised" for sale are reported on schedule F and gains subject to self employment tax.

47. T F Livestock 'bought" for resale are reported on schedule F and the cost is reported as an expense item.

48. T F Poultry are included in "livestock" references.

49. T F If you sell more livestock than normal because of drought, flood, or other weather related conditions you may choose to include gain from selling all animals in the following year.

50. T F To qualify for special treatment, the weather related condition must have resulted in an area being designated as eligible for assistance by the federal government.

51. T F Special treatment of sales due to weather related conditions require farmer to classify the stock according to age, sex, or breed.

52. You are a calendar year taxpayer and you normally sell 100 head of beef cattle a year. As a result of drought, you sell 135 head during year. You realize $35,100 from the sale. On August 9, as a result of drought, the affected area was declared a disaster area eligible for federal assistance. The income you can choose to postpone until next year is

a. $35,100
b. $ 9,100
c. -0-

53. T F To make the election for special treatment due to weather related conditions, you need only a statement to your return that tells the area in which you live and the date the area was designated as eligible for assistance by the federal government.

54. T F If you pasture someone else's cattle and take care of the livestock for a fee, the income is from your farming business and subject to S.E. tax.

55. T F You must include rent received in the form of crop shares in income in the year you convert the shares to money or equivalent of money regardless of the accounting method used.

FARM - QUIZ

56. A tenant farmed part of your farm land under a crop share arrangement. The tenant harvested and delivered the crop in your name to an elevator company. Before selling any of the crop, you instructed the elevator company to cancel your warehouse receipt and make out new warehouse receipts in equal amounts of the crop in the names of your children. They sell their crop shares in the following year and the elevator company makes payments directly to your children. You

a. Are considered to have received rental income and then made a gift of that income and must include the fair market value of crop shares in your income for the year you gave the shares to your children.
b. Are considered to have received rental income and then made a gift of that income and must include the cash received by the children in your income in the year they sold the shares.
c. Made a legitimate gift and the children will have to report the income from the crop shares when they sell them.

57. Crop shares received and fed to your livestock are

a. Considered converted and taxable when fed but allowable as a deduction for the cost of the feed if farming business
b. Considered converted and taxable when fed with no deduction
c. Considered taxable when deposited at the co op

58. Farmer Smith uses cash method of accounting and files his tax return on a calendar year basis. He participated in the malting barley production program and received a $2,850 payment in 2010. This is his $3,000 barley subsidy benefit less the malting barley assessment of $150 he had to pay for the barley produced. He receives a form 1099 in 2010 showing the $3,000 benefit. In 2011, he proved he did not sell the barley for malting purposes and received a refund of the $150 assessment. He receives 1099 forms: (2010) $3,000 and in (2011) for $150. He:

a. May report the entire $3,000 as income and deduct the $150 in 2010 if he reports the $150 in income in 2011 (subject to tax benefit rule).
b. Must report the entire $3,000 as income in 2010 but may not deduct the $150 assessment until 2011 when he determines whether it is a deposit or a payment.
c. May report just the $2,850 in gross income in 2009.

59. T F Refunds of dairy payment program price reduction withholdings are taxable under tax benefit rule

FARM - QUIZ

60. T F If a farmer pledges part or all of his cotton production to secure a Commodity Credit Corporation loan he can report the **loan proceeds** as income in the year they are received rather than for the year of sale.

61. T F Conservation reserve program payments for land conversion use are always farm rental income reportable on form 4835.

62. T F Crop insurance and disaster payments can be included in income in year received or in the following year.

63. T F Payments received under government programs for fertilizer and lime are included in income in year received.

64. T F Government payments based on improvements, such as pollution control facility, must be included in income and do not reduce basis of asset instead.

65. 100 acres of farmer's land was reclaimed under a contract with the Natural Resources Conservation Service of the USDA. Total cost of the improvement was $500,000. USDA paid $490,000. You paid $10,000. Value of the cost sharing improvement is $15,000. The excludable portion (computed by use of formula) is $1,550. The amount the farmer must include in income is:

a. $15,000
b. $5,000
c. $3,450

66. T F If an improvement which qualified for cost sharing exclusion is sold or disposed of within 20 years the taxpayer must include as **ordinary income** part or all of the cost sharing payment that was excluded.

67. T F Patronage dividends received are reportable on Schedule B as dividends.

68. T F Patronage dividends received from purchase of capital assets are reportable as income in year received

69. T F Patronage dividends received that are related to personal purchases are included in farm income.

FARM - QUIZ

70. Farmer Caleb owes his accountant for services. He is not bankrupt or insolvent but just has trouble paying his bills. The accountant forgives part of the amount he owes for the accounting services. If Caleb is a cash method farmer he:

a. Includes the debt relief as income and deducts the related fees as accounting expense
b. Does not include the debt cancellation in income because it would just be deductible anyhow.
c. Must include debt cancellation in income but is not entitled to a deduction since he did not pay it.

71. If Farmer Caleb, in above question, had used the accrual method of accounting, he

a. Must include the debt cancellation in income with no related deduction in year of debt relief.
b. Does not include the debt cancellation in income because it was a deductible expense anyhow.
c. Does not have to include the debt cancellation in income.

72. T F Canceled debt is not income if the debt was a qualified farm debt.

73. T F To be a qualified farm debt, the debt must have been incurred directly in operating a farm business.

74. T F Your total gross receipts from all sources for the past three years is $100,000. Your total farm receipts for the same three years is $60,000. You qualify for the qualified farm debt cancellation if all other conditions are met.

75. T F Joseph owed $100,000 on a land sales contract to Harold. The contract was for farm land Joseph purchased from Harold. The debt is a qualified farm debt if all other conditions are met.

76. T F If farm debt qualifies for exclusion from canceled debt taxable income, you must attach a written statement to your tax return which explains the details.

77. T F Prizes won at the county fair on farm livestock are taxable income (cash or fair market value of prize)

78. T F Funds received from illegal federal irrigation subsidy are taxable.

<u>FARM - QUIZ</u>

79. T F Feed not consumed in year of payment is subject to advance payment for feed rules as well as the limits on prepaid farm supplies.

80. T F Farmer had some extra cash (unusual) and had taxable income from his farming business as of December 15. He used the extra cash to buy feed which he stored for use the **<u>following</u>** winter. He wanted the deduction in the current year. He can take the deduction for the feed.

81. T F If farmer, in above, had purchased the feed in order to fix the price and secure the supply he knew he would need, he could deduct the prepayment, subject to prepaid farm supply limits.

82. T F Farmer deposited funds with the co op for purchase of feed in the following year. He may not deduct the costs until the year the livestock consume the feed.

83. T F Prepaid farm supplies rules apply to both cash and accrual basis taxpayers.

84. T F Prepaid farm supplies rules apply to poultry bought for resale and not resold until the next year.

85. During the tax year, you bought fertilizer ($4,000), feed ($1,000) and seed ($500) for use on your farm in the following year. Your total prepaid farm supplies expenses were 5,500. Your other deductible farm expenses totaled $10,000 for the tax year. Your deduction for prepaid farm supplies was

a. $5,500
b. $5,000
c. $10,000

86. T F You live on your farm. However, the farm has not been producing enough income for your family so you take a temporary job outside the farm. You use some of the funds from the job to buy advance supplies so you can quit the job and get back to farming. Your prepaid farm supplies expense will be subject to prepaid farm supply rules.

87. T F If your grown children live on the family farm and all other conditions are met, you are qualified for the exception to prepaid farm supply rules.

88. T F If farmer's child wages are deductible by the farmer the child must include the wages in income.

FARM - QUIZ

89. T F Farmer's child wages are subject to social security and medicare taxes if the child is age 18 or older.

90. T F Spouses wages are subject to social security and medicare tax.

91. T F Wages paid to household workers are deductible if their services are used to prepare meals or clean bunkhouses.

92. T F Wages paid to build a new barn are deductible in year paid if the barn is used in farming business.

93. T F Assume you have a farm employee for the entire tax year and the employee spends 5% of the time maintaining your home. The employee devotes the remaining time to work on your farm. You cannot deduct 5% of the wages and employment taxes you pay for that employee.

94. T F You operate a farm full time. You live on the farm and use your only telephone for farm business at least 50% of the time. You can deduct 50% of your basic phone bill plus farm related long distance calls as farm expense.

95. T F Replacement of a barn roof must be capitalized and depreciated.

96. T F Your farm truck had to have a major overhaul in the current year. You may deduct the overhaul as expense in current year

97. T F Interest paid in advance on a farm loan must be deducted over term of the loan even if cash basis accounting method is used.

98. T F You borrowed funds from your father (who is a cash basis taxpayer)to be used in the operations of your farm business. The interest rate is equal to the current bank rates in your area. You operate your farm on an accrual basis. During the current year there was $5,000 or interest accrued on the loan but you actually only paid $1,000. (Dad is a great guy!). You may deduct the total accrued interest in year accrued.

99. You secured a loan with property used in your farming business. You used the proceeds of the loan ($15,000) to purchase a baler ($10,000) and a used car for your daughter ($5,000).

a. You may deduct the full amount of the interest since it is secured by farm property
b. You may not deduct the interest since part of it is personal
c. You must allocate the interest and deduct 2/3 of it as farm expense.

<u>FARM - QUIZ</u>

100. You are **<u>required</u>** to use the accrual method for your farm accounting. You incur breeding fees for your cattle in 2010 in the amount of $4,000 for 400 head of cattle. During the year 2010, 250 of the cows delivered calves and the other 150 calves were not born until 2011. You

a. May deduct, as farm business expense $2,500 in 2010 and $1,500 in 2011
b. May deduct the entire $4,000 as farm business expenses
c. May not deduct any of the breeding fees as farm business expense in either year

101. T F You can choose to deduct costs of fertilizer and lime in year paid or incurred, including costs to apply.

102. T F If benefits of fertilizer or lime last substantially more than one year, you can choose to capitalize the costs and deduct a part each year that benefits last.

103. T F One half of self employment tax for farmers is deductible on Sch. F.

104. T F State sales tax on purchase of a farm tractor is a current deduction as taxes expense.

105. T F Advance premiums for qualified farm business insurance are deductible in year paid if on cash basis.

106. T F Business interruption insurance premiums are deductible but proceeds on any claims received are not taxable

107. T F Self employed health insurance is deductible as farm expense at a rate of 100% for 2010.

108. On June 28, 2010, you paid a premium of $3,000 for fire insurance on your barn. The policy covers a period of 3 years beginning on July 1, 2010.

a. Your can deduct the entire $3,000 if you are cash basis taxpayer
b. You can deduct $500 in 2010, $1,000 in 2011; $1,000 in 2012 and $500 in 2013..
c. You can deduct $1000 each year (2009, 2010, 2011)

109. T F Rent paid in crop shares is deductible in the year the crop is harvested.

110. T F Advance rent payments are deductible only in year to which they apply regardless of the accounting method.

FARM - QUIZ

111. T F You lease farm equipment from a dealer who both sells and leases. The lease payments and specified option price equal the sales price plus interest. This lease is considered a purchase for tax purposes.

112. T F If you will acquire title to the equipment at end of the lease, the payments are payments for purchase of the equipment to the extent they are not interest.

113. T F Intent - is the determining factor in whether a transaction is a lease or a purchase.

114. During 2010, you drove your personal pickup 5,000 miles for farm business use and a total (including the 5,000) miles for the year of 15,000 miles. Interest on the pickup was $1,000 for the year. Your deduction for the pickup (under standard mileage rate) is:

a. $2,358.
b. $2,425.
c. $2,167.

115. T F You leased your farm pickup (100% business use) on a qualified lease arrangement. You may use standard mileage rate for 2009

116. Your farm is located out in the middle of Texas. You traveled to Dallas for a meeting with buyers for your cattle and meetings with your accountant and attorney. None of the trip was for personal. Your expenses were $500 plane fare; $300 for motel; $25 for cab fares; and $150 for meals. Your farm business deduction for the trip is:

a. $975
b. $900
c. $875

117. T F You sent your farm employee on a cattle buying trip and gave him $500 for his expenses. You did not request an accounting for the $500. You must include the payment in his wages on his W2

118. T F If you are assessed a marketing quota penalty for marketing crops in excess of quotas, you may deduct the **<u>penalty</u>** when paid.

119. T F You furnish a mobile home for your farm employee so that he will be on the property in event of emergency. This is taxable income to your farm employee.

FARM - QUIZ

120. You report on the cash method, in 2010, you buy 50 steers you will sell in 2011 You will

a. Deduct the cost in 2010 and report the sale in 2011 on Schedule F
b. Report the sales price minus the purchase price in 2011 on Schedule F
c. Report the sales price and cost on Schedule D in 2011

121. You use the cash method of accounting. In 2010 you buy 500 baby chicks to raise for resale in 2011. You also buy 50 bushels of winter seed wheat in 2010 that you sow in the fall.

a. You can deduct the cost of the seed wheat in 2010 and the cost of the baby chicks in 2011 when you sell them
b. You can deduct the cost of both the chicks and the seed in 2010
c. You can deduct cost of baby chicks in 2010 and seed in 2011 when you harvest the crop.

122. T F Business start up costs are capital expenditures

123. T F Breeding, dairy and draft livestock are capital expenditures

124. T F You cleared 100 acres of land so that you could use it for farming. You may deduct the expense of land clearing in year you incur the costs.

125. T F Building irrigation canals and ditches is a current year expenditure.

126. T F You have a tract of timber on 50 acres of your farmland. You bought the 50 acres 40 years ago for $500 and planted the trees. When you sell the trees you must allocate a portion of the $500 land costs to the basis of the trees.

127. Which of the following is **not** a capital expenditure:

a. Leveling and conditioning land
b. Purchase and planting costs of trees
c. Laying irrigation pipes
d. Building roads
e. Maintaining roads

128. T F Shearing, pruning, weeding and cleaning Christmas tree farm are current expenses.

FARM - QUIZ

129. T F Costs of road grading, ditching and fire breaks on a Christmas tree farm are added to basis of the trees.

130. T F Bill had a great crop of wheat growing this spring. However, someone came along and tossed out a burning cigarette and he lost the whole crop. He can take a casualty loss deduction for the fair market value of the crop.

131. T F Sandy raised horses for resale. This year, a three month old foal died of sleeping sickness. The foal had been promised to a buyer at six months for a price of $1,000. Sandy may deduct $1,000 as a loss in current year.

132. During 2010, you sold the farm. You had owned the land for 25 years. At the time of sale you had an unharvested corn crop which was included in the sale.

a. You may deduct the cost of raising the unharvested crop as a schedule F deduction
b. You may deduct the cost or raising the unharvested crop from the sale of the land
c. You can not deduct the cost or raising the unharvested crop since you did not harvest it

133. You bought a farm with unharvested crop of wheat on it at time of purchase. You

a. May deduct cost of the crops at time of purchase
b. May deduct cost of crops in year crops are sold
c. Must add cost of crops to basis of land

134. T F Farm losses are limited by the “at risk” rules

135. T F Farm losses are limited by passive activity rules.

136. T F A net operating loss from farming can be carried back 5 years and forward 20 years for 2010.

137. T F **General** rules for “non farm”: NOL carry back are back 2 years and forward 20 years.

138. T F If NOL occurs because of fire, storm, shipwreck or other casualty or from theft, it may be carried back **for farm losses** 3 years and forward 20 years.

139. T F Soil and water conservation expenses may be expensed or capitalized if they meet certain requirements.

<u>FARM - QUIZ</u>

140. T F You must be the owner of the farm to be eligible for special soil and water conservation treatment.

141. Which of the following is **<u>not</u>** a deductible soil and water conservation expense?

a. Construction of diversion channels and drainage ditches
b. Planting of windbreaks and eradication of brush
c. Construction of cement dams

142. T F Water wells, pipe, tile must be capitalized and depreciated and are not deductible soil and water conservation expenses.

143. T F Expenses to drain or fill wetlands are deductible as soil and water conservation expenses

144. T F Expenses to prepare land for center pivot irrigation are not deductible as soil and water conservation expenses.

145. T F If a conservation district construction builds diversion channels and drainage ditches and then assess an allocated portion of the cost to you, a farmer, you may deduct the assessment in year paid.

146. This year, the soil conservation district levies an assessment of $2,400 against your farm. Of the assessment $1,500 is for digging drainage ditches. The remaining $900 is for depreciable equipment to be used in the district's irrigation activities. Total amount assessed by the district against all its members for the depreciable equipment is $7000.

a. You may deduct as current year expense $1,500 and capitalize the $900 for depreciation
b. You may deduct as current year expense the full $2,400
c. You may deduct as current year expense $2,200 and capitalize the excess $200 to basis of the farm.
d. You may deduct as current year expense $2,200 and capitalize the excess $200 as equipment costs for depreciation.
e. You may deduct as current year expense $1,570 and deduct the balance over the next 9 years

FARM - QUIZ

147. Assume the same facts as in the above example except that $1,850 of the $2400 was for digging drainage ditches and $550 is for depreciable equipment. Total assessed by the district against all members for depreciable equipment is $5,500.

a. The entire $2400 assessment is deductible as soil and water conservation expenses this year, subject to overall limits on deductions (25% of gross from farming)
b. $1,850 is deductible in current year and the balance must be depreciated over 9 years
c. $1,925 is deductible in current year, the balance must be depreciated over 9 years.

148. In 2009, you have gross income of $16,000 from two farms. During the year, you incurred $5,300 of deductible soil and water conservation expenses for one of the farms. Your soil and water conservation expenses are:

a. Deductible all in 2010
b. $4,000 deductible in 2009 and $1,300 is lost
c. $4,000 deductible in 2009 and $1,300 carried back 3 years
d. $4,000 deductible in 2009 and $1,300 carried forward to future years.

149. T F For the 25% of gross income from farming limits,(for conservation expense deductions) gains from sales of livestock reported on form 4797 are included in gross income.

150. T F For the 25% of gross income from farming limits, (for conservation expense deductions) gains from sales of farm equipment are included in gross income.

151. T F If you sell your Farm and discontinue farming the unused carry over of soil and water conservation expenses are added to basis of the farm.

152. T F Soil and water conservation expenses are subject to full recapture if held less than 10 years but more than 5

153. T F Expense in connection with production of animals in a farm business are subject to uniform capitalization rules.

154. T F Uniform capitalization rules do not apply to any animal or plant that has a pre-productive period of 2 years or less that is produced in a farming business

<u>FARM - QUIZ</u>

155. T F Entities that are **<u>required</u>** to use accrual method of accounting must use the uniform capitalization rules regardless of preproductive period or whether raising animals.

156. T F "Producing property" for Uniform Capitalization rules includes raising or growing crops.

157. T F If Uniform Capitalization rules are applicable, you must allocate indirect costs to the capitalized item including depreciation and insurance.

158. T F Marketing, selling, advertising and distribution expenses are examples of indirect costs that must be capitalized under Uniform capitalization rules.

159. T F Uniform capitalization rules apply to costs incurred for replanting, maintenance and development of plants bearing an edible crop for human consumption that were lost or damaged because of disease, drought, pests or casualty.

160. T F You may **<u>not</u>** elect out of U C rules if for pistachio trees, or citrus or almond groves within the first 4 years that trees were planted.

161. T F You bought farm equipment that totaled $850,000 cost in 2010. Assuming you qualify for maximum section 179 expense, you may deduct a maximum of $200,000.

162. T F For farm property used in farming business, you must use the 150% declining balance method or an alternate method.

163. T F In general, you can not depreciate dams, ponds, and terraces.

164. T F Raised cattle to be used for breeding purposes must be depreciated.

165. T F You bought a harvester and returned it in the same year because it did not work right for you. You can depreciate the harvester for the months you held it.

166. T F Cattle and horses held for draft, breeding, dairy or sporting purposes must be held for 18 months to qualify for capital gains treatment.

167. T F Sales of hogs held for breeding purposes must be held for 18 months to qualify for capital gains treatment

FARM - QUIZ

168. You sold the farm after taking soil and water conservation expense deductions six years ago. You must report as ordinary income

a. 100% of the soil and water conservation expenses taken
b. 80% of the soil and water conservation expenses taken
c. None of the soil and water conservation expenses because they are now added to basis of the land.

169. You acquired farm land on January 19, 2002. On October 3, 2010, you sold the land at a $30,000 gain. Between January 1 and October 3, 2010, you make soil and water conservation expenditures of $15,000 that are fully deductible in 2010. The soil and water conservation **expenses you must recapture at ordinary income are**:

(remember that it is the **land** you must have held, not the conservation items)
a. $15,000
b. $ 9,000
c. $ 6,000

170. T F Mr and Mrs Farmer operate a farm and share the profits 50 -50. They must file two separate Self Employment tax forms.

171. T F If you elect an optional farm method for S E tax, you must file long form SE

172. T F Profit from standing crops held more than 6 months and sold with land are not subject to S E. tax.

173. T F Gain from sale of livestock held for dairy purposes is generally not SE taxable income.

FARM - QUIZ

174. 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 how much of the tract should be planted in cotton and how much in other crops. In addition, the landowner is in the hog business and the share farmer agrees to take care of the landowner's hogs in return for ten hogs. The landowner furnishes the feed and other necessities and supervises the care of the hogs.

a. The share farm is self employed and subject to SE tax on his share of the cotton and other crops and the value of the ten hogs
b. The share farmer is self employed only for the share of profit from the crops and the value of the ten hogs is employee wages
c. The share farmer is self employed only for the share of profit from the crops and the value of the ten hogs is non taxable which leaves him with no basis when they are sold

175. T F If gross profit from farming is $2,400 or less you may report 2/3 of the net earnings as from self employment.

176. T F If gross income from farming is more than $2,400 and net farm profits are $1,733 or more, you can not use the optional method.

177. T F In question #174, the land owner has materially participated in both the crop raising and the hog business and is subject to SE tax

178. T F Taxpayer is landowner and leases the farmland to a tenant farmer. The land owner agrees to work for three months during planting season and works a total of 150 hours. Landowner is subject to SE tax on his income from farm..

179. Matt agrees to produce a crop of Jim's cotton farm with each getting half of the proceeds. Jim furnishes all the necessary equipment and advises Matt when to plant the cotton and when it needs to be chopped, plow, sprayed and picked. During the growing season Jim inspects the crop every few days to determine whether Matt is properly taking care of the crop. Matt furnishes all labor needed to grow and harvest the crop.

a. Jim has materially participated in the farm operation and income he receives from his cotton farm is included in computing net earnings from self employment.
b. Jim's share of income is a hobby and not subject to SE tax.
c. Jim's share of net income is rental income reduced by depreciation.

FARM - QUIZ

180. Farm owner Nancy hired a custom operator Harry to prepare the soil on her farm for planting. Under contract, she paid for 200 gallons of gasoline to be used by Harry in cultivating the soil on her farm. In addition, she hired contractor Brown to pack and store her apple crop. Brown bought 25 gallons of gasoline to use in packing the apples and was not reimbursed by Nancy.

a. Nancy may claim fuel credit for 225 gallons
b. Nancy may claim fuel credit for 200 gallons and Brown may claim credit for 25 gallons
c. Nancy may claim fuel credit for 200 gallons and no one may claim credit for 25 gallons.

181. T F An owner of a farm and his tenant share the cost of gasoline used on the farm 50-50. Each can claim a credit for the tax on half the fuel used for farming.

182. T F You may not claim fuel credit on undyed diesel fuel or undyed kerosene

183. T F Farmers are special people. They often have very involved tax returns and show no profit so can't understand why your fee is so high.

TRANSFERS YOUR ANSWERS TO THE ANSWER SHEET
SUBMIT ONLY THE ANSWER SHEET

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