

DUPLICATE

EXTENSION BULLETIN 257

FEBRUARY 1944

Farmers and the Income Tax

By E. B. HILL, C. O. MAY
and ARTHUR H. HAIST

MICHIGAN STATE COLLEGE
EXTENSION DIVISION

FARM MANAGEMENT DEPARTMENT

EAST LANSING

Michigan State College of Agriculture and Applied Science and U. S. Dept. of Agriculture co operating. R. J. BALDWIN, DIRECTOR EXTENSION DIVISION, Michigan State College, East Lansing. Printed and distributed under acts of Congress, May 8 and June 30, 1914.

Farm Expenses Used in Calculating Net Farm Profit

<p>Labor, hired and cash cost of board \$ _____</p> <p>Feed purchases</p> <p style="padding-left: 20px;">Hay \$ _____</p> <p style="padding-left: 20px;">Grain _____</p> <p style="padding-left: 20px;">Concentrates _____</p> <p style="padding-left: 20px;">Grinding _____</p> <p style="padding-left: 20px;">Salt _____</p> <p style="padding-left: 20px;">Minerals _____</p> <p style="padding-left: 20px;">Pasture rent _____</p> <p style="padding-left: 40px;">Total feed purchases . \$ _____</p> <p>Taxes on farm real estate \$ _____</p> <p>Interest on farm business debts \$ _____</p> <p>Cash rent of farm or part of farm \$ _____</p> <p>Automobile upkeep (farm share) \$ _____</p> <p>Crop expenses</p> <p style="padding-left: 20px;">Seed \$ _____</p> <p style="padding-left: 20px;">Fertilizer _____</p> <p style="padding-left: 20px;">Lime _____</p> <p style="padding-left: 20px;">Spray material _____</p> <p style="padding-left: 20px;">Twine _____</p> <p style="padding-left: 20px;">Threshing _____</p> <p style="padding-left: 20px;">Combining _____</p> <p style="padding-left: 20px;">Baling _____</p> <p style="padding-left: 20px;">Silo-filling _____</p> <p style="padding-left: 20px;">Certification _____</p> <p style="padding-left: 20px;">Containers _____</p> <p style="padding-left: 20px;">Insurance _____</p> <p style="padding-left: 20px;">Maple syrup supplies .. _____</p> <p style="padding-left: 40px;">Total crop expenses . \$ _____</p> <p>Building, fence, tile drain, repairs, etc.</p> <p style="padding-left: 20px;">Buildings: Roof repairs \$ _____</p> <p style="padding-left: 40px;">Lumber _____</p> <p style="padding-left: 40px;">Nails _____</p> <p style="padding-left: 40px;">Lumber-sawing _____</p> <p style="padding-left: 20px;">Fences: Posts for repair \$ _____</p> <p style="padding-left: 40px;">Wire for repair _____</p> <p style="padding-left: 20px;">Tile drain repairs _____</p> <p style="padding-left: 20px;">Water system repairs .. _____</p> <p style="padding-left: 20px;">Fire insurance (except dwelling) _____</p> <p style="padding-left: 40px;">Total for buildings, etc. \$ _____</p>	<p>General machinery and equipment</p> <p style="padding-left: 20px;">Repairs \$ _____</p> <p style="padding-left: 20px;">Harness _____</p> <p style="padding-left: 20px;">Cans _____</p> <p style="padding-left: 20px;">Electric fence _____</p> <p style="padding-left: 20px;">Small tools _____</p> <p style="padding-left: 20px;">Hardware _____</p> <p style="padding-left: 20px;">Strainer pads _____</p> <p style="padding-left: 20px;">Oil and grease _____</p> <p style="padding-left: 40px;">Total machinery and equipment \$ _____</p> <p>Tractor fuel</p> <p style="padding-left: 20px;">Oil \$ _____</p> <p style="padding-left: 20px;">Grease _____</p> <p style="padding-left: 20px;">Anti-freeze _____</p> <p style="padding-left: 20px;">Repairs _____</p> <p style="padding-left: 20px;">Tires _____</p> <p style="padding-left: 40px;">Total for tractor \$ _____</p> <p>Truck</p> <p style="padding-left: 20px;">Gas \$ _____</p> <p style="padding-left: 20px;">Oil _____</p> <p style="padding-left: 20px;">Grease _____</p> <p style="padding-left: 20px;">Anti-freeze _____</p> <p style="padding-left: 20px;">Repairs _____</p> <p style="padding-left: 20px;">Tires _____</p> <p style="padding-left: 20px;">License _____</p> <p style="padding-left: 20px;">Insurance _____</p> <p style="padding-left: 40px;">Total for truck \$ _____</p> <p>Livestock expense</p> <p style="padding-left: 20px;">Breeding fees \$ _____</p> <p style="padding-left: 20px;">Veterinary _____</p> <p style="padding-left: 20px;">Medicine _____</p> <p style="padding-left: 20px;">Fly spray _____</p> <p style="padding-left: 20px;">Sheep-shearing _____</p> <p style="padding-left: 20px;">Shoeing _____</p> <p style="padding-left: 20px;">Brooder fuel _____</p> <p style="padding-left: 20px;">Livestock insurance ... _____</p> <p style="padding-left: 20px;">D.H.I.A. fees _____</p> <p style="padding-left: 20px;">Breed association fees . _____</p> <p style="padding-left: 40px;">Total livestock or pence \$ _____</p> <p>Miscellaneous</p> <p style="padding-left: 20px;">Farm share electricity . \$ _____</p> <p style="padding-left: 20px;">Farm share telephone .. _____</p> <p style="padding-left: 20px;">Advertising _____</p> <p style="padding-left: 20px;">Farm organization dues _____</p> <p style="padding-left: 20px;">Farm papers _____</p> <p style="padding-left: 20px;">Attending farm meetings _____</p> <p style="padding-left: 20px;">Farm dog license _____</p> <p style="padding-left: 20px;">Stamps and stationery . _____</p> <p style="padding-left: 20px;">Account books _____</p> <p style="padding-left: 40px;">Total miscellaneous expense \$ _____</p>
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Farmers and the Income Tax

By E. B. Hill, C. O. May, and Arthur H. Haist*

Large numbers of Michigan farmers, on or before March 15, 1944, will need to file a final Federal Income and Victory Tax return on their 1943 income. This income tax report is quite similar to the report required of farmers in 1943, except for the inclusion of the Victory Tax and the provisions to get the income tax collections on a current basis.

Farmers in general will find it to their advantage to become informed in regard to the provisions of the income tax and thus be able to make out their own income tax reports. In any event, before seeking outside assistance in making out their income tax report, farmers should first have assembled all of the figures that are necessary to the proper filling out of the income tax report. Farmers will continue as in the past to compute and report their net farm profits on Form 1040F. They will also use Form 1040 for the purpose of computing their own Federal Income and Victory Tax.

In the preparation of this bulletin, it was thought that one of the best ways to provide information to farmers with reference to filling out Forms 1040F and 1040 would be to present an example showing how both these forms were filled out on a Michigan farm. These examples do not present all of the situations which may be encountered on farms but will be helpful enough so that a farmer will get an idea as to how to handle the usual situations.

THE EXAMPLE

The 160-acre farm business on which this example is based is owned by Adam E. Smith and Mary Smith, his wife. The farm is owned jointly by the husband and the wife. There are two children under 18 years of age. Their farm was purchased in 1928, and the new machine shed was built in 1938. Their income in 1943 was entirely from the farm business except for \$12 received as interest

*The authors wish to express their appreciation to the office of the Collector of Internal Revenue at Detroit for their careful review of the income tax matters of this bulletin. The authors, however, assume all responsibility for the correctness of the figures and calculations used in connection with the example presented in the bulletin.

on a savings account. During the year they gave \$100 to the church and \$5 to the American Red Cross. Farm financial records were kept in the Michigan Farm Account Book.

The Smiths' first task in making out their income tax report was to determine their net farm profit for Federal income tax purposes. This was done by filling out, in pencil, Form 1040F. The information needed to fill out the form used in the example was taken from the Michigan Farm Account Book.

Since the Smiths file their income tax report on a Calendar Year Basis (starting January 1), they did not need to fill in the date-line on page 1 of Form 1040F and Form 1040. If their taxable year had been on a Fiscal Year Basis, however, it would have been very important for them to have indicated the beginning and ending of their taxable year, for example "For the year beginning February 1, 1943, and ending January 31, 1944."

The example illustrates both methods, the Cash Basis on page 5 and the Accrual Basis on page 6, of computing the net farm profits. Farmers must follow the same basis of reporting year after year unless permission is obtained to make the change. The recording and computation of farm expenses for the taxable year on page 3 of Form 1040F is illustrated on page 7 of this bulletin. In this example, the Smiths' farm expenses would be the same on either the cash or the accrual basis since they paid cash for all farm expenses during the year. On page 2 of this bulletin is a check list which may be used in computing the farm expenses to be used in calculating the net farm profits for the year.

The depreciation table of the Smiths' report on page 7 of this bulletin would be the same for either the Cash or the Accrual Basis since they had no purchased work stock or breeding stock on hand at the end of the year. The depreciation account on such items would have been listed in the depreciation table if reporting on the Cash Basis. When reporting on the Accrual Basis, the depreciation of the work and breeding stock is automatically taken care of on page 2 of Form 1040F.

Some of the Year's Business Transactions

The Smiths in 1943 sold 2 horses for \$100. One of the horses was raised on the farm and one was purchased in 1938 for \$125. A total of \$60 depreciation had been taken during past years on the purchased horse that was sold for \$40. Thus there was a loss of \$20 on the transaction. A bull, purchased in 1941, was sold during the year for a gain of \$125, and a young bull was purchased for \$100. The three cows sold during the year were all raised on the farm. Three

FORM 1040 F
Treasury Department
Internal Revenue Service

UNITED STATES
SCHEDULE OF FARM INCOME AND EXPENSES
For Calendar Year 1943

Page 1
1943

Attach This Form to Your Income Tax Return Form 1040 and File It With the Collector of Internal Revenue for Your District

Or for year beginning, 1943, and ending, 1944

Name *Adam E. Smith and Mary Smith*
Address *R. 2 Michigan*
Location of farm or farms *One mile north of*
Number of acres in each farm *160 acres*

Fill in Pages 1 and 3 if Your Accounts Are Kept on a Cash Basis.
If You Keep Books on an Accrual Basis and Desire to Use This Form, Fill in Pages 2 and 3 Instead

FARM INCOME FOR TAXABLE PERIOD

1. SALE OF LIVESTOCK RAISED			2. SALE OF PRODUCE RAISED			3. OTHER FARM INCOME		
Kind	Quantity	Amount	Kind	Quantity	Amount	Items	Amount	
Cattle	12	\$ 480	Grain		\$ 360	Mdso. rec'd for produce	\$	
Horses	1	60	Hay			Machine work		
Mules			Cotton			Hire of teams		
Sheep			Tobacco			Breeding fees		
Swine	74	2400	Potatoes			Rent rec'd in crop shares		
Chickens			Sugar beets			Work off farm		32
Turkeys			Vegetables			Wood and lumber		
Ducks			Fruits			Other forest products		
Goats			Nuts			Agricultural program pay- ments		180
Bees			Dairy products		2100	Other (specify):		
Other (specify):			Eggs		1180			
			Meat products					
			Poultry, dressed					
			Wool and mo- hair					
			Honey					
			Sirup and sugar					
			Other (specify):					
TOTAL		\$ 2940	TOTAL		\$ 3640	TOTAL		\$ 212
		(Enter on line 1 of summary below)			(Enter on line 2 of summary below)			(Enter on line 3 of summary below)

4. SALE OF LIVESTOCK AND OTHER ITEMS PURCHASED

1. Description	2. Date acquired	3. Gross sales price (contract price)	4. Cost or other basis	5. Depreciation allowed (or allowable since acquisition or March 1, 1913)	6. Profit (column 3 plus column 5 minus column 4)
<i>Bull</i>	1941	\$ 225	\$ 100		\$ 125
<i>Horse</i>	1938	40	130		80
<i>Chickens</i>	1943	615	84	60	531
TOTAL (enter on line 4 of summary below)					\$ 636

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON A CASH RECEIPTS AND DISBURSEMENTS BASIS

1. Sale of livestock raised	\$ 2940	6. Expenses (from page 3)	\$ 3432
2. Sale of produce raised	3640	7. Depreciation (from page 3)	524
3. Other farm income	212		
4. Profit on sale of livestock and other items purchased	636		
5. GROSS PROFITS	\$ 7428	8. TOTAL DEDUCTIONS	\$ 3956
9. Net farm profit (line 5 minus line 8) to be reported in item 8 on Form 1040			\$ 3472

15-30868-1

Fig. 1. Computation of Net Farm Profits on the Cash Basis, page 1 of Form 1040F.

FARM INVENTORY FOR INCOME COMPUTED ON AN ACCRUAL BASIS

Page 2

Description (Kind of livestock, crop, or other product)	ON HAND AT BEGINNING OF YEAR		PURCHASED DURING YEAR		RAISED DURING YEAR		CONSUMED OR LOST DURING YEAR		SOLD DURING YEAR		ON HAND AT END OF YEAR	
	Quan- tity	Inventory value	Quan- tity	Amount paid	Quan- tity	Inventory value	Quan- tity	Inventory value	Quan- tity	Amount received	Quan- tity	Inventory value
Horses	2	\$ 150		\$		\$		\$	2	\$ 150		\$
Cows	12	1500							3	330	12	1600
Heifers	5	325									7	525
Calves	7	210			13				9	160	6	240
Bulls	1	200	1	100					1	225	1	125
Swine	6	300							6	360	5	150
Pigs	1	40									1	40
Pigs	30	360	30	150	45		2		68	2040	30	240
Hens	300	325						70	200	290	280	350
Chickens			600	84	530		100		280	325		
Milk										260		
Eggs										1180		
Corn	1200	960			1600						35	1500
Oats	600	360			480						300	270
Hay	50	500			60						5	665
Silage	40	160			50						15	260
Straw	10	50			12						8	48
Mill feed	37	150									27	130
Wheat					400				240	360		
TOTALS		\$5890		\$ 334		\$		\$		\$7460		\$6023

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON AN ACCRUAL BASIS

1. Inventory of livestock, crops, and products at end of year	\$ 6023	7. Expenses (from page 3)	\$ 3432
2. Sales of livestock, crops, and products during year	7460	8. Depreciation (from page 3)	524
2a. Other miscellaneous receipts (specify):			
Work off farm	320		
O.W.O. payments	180		
3. TOTAL	\$ 13695		
4. Inventory of livestock, crops, and products at beginning of year	\$ 5690		
5. Cost of livestock and products purchased during year	334	6024	
6. Gross profits (line 3 minus the sum of lines 4 and 5)	\$ 7671	9. TOTAL DEDUCTIONS	\$ 3956
10. Net farm profit (line 6 minus line 9) to be reported in item 8 on Form 1040			\$ 3715

(A-3083)-1

Fig. 2. Computation of Net Farm Profits on the Accrual Basis, page 2 of Form 1040F.

FARM EXPENSES FOR TAXABLE YEAR (See Instructions)				Page 3
1. ITEM	2. AMOUNT	3. ITEMS (Continued)	4. AMOUNT (Continued)	
Labor hired.....	\$ 1220	Other farm expenses (specify):		
Feed purchased.....	230	Crops expense	\$ 315	
Seed, plants, and trees purchased.....		Building and fence repairs	116	
Machine hire.....		Machinery repairs	124	
Supplies purchased.....		Tractor expense	178	
Cost of repairs and maintenance.....		Truck expense	132	
Breeding fees.....		Livestock expense	95	
Fertilizers and lime.....		Miscellaneous	138	
Veterinary and medicine for livestock.....				
Gasoline, other fuel and oil for farm business.....				
Storage and warehousing.....				
Taxes.....	110			
Insurance on property (except your dwelling).....				
Interest on farm notes and mortgages.....	12			
Water rent, electricity, and telephone.....				
Rent of farm, part of farm, or pasturage.....				
Freight, yardage, express, and trucking.....				
Automobile upkeep (farm share).....	112			
TOTAL OF COLUMNS 2 AND 4 (enter on line 6 of summary on page 1 (cash basis) or line 7, page 2 (accrual basis))			\$ 3432	

DEPRECIATION (See Instructions)								
1. Kind of property (if buildings, stair material of which constructed)	2. Date acquired	3. Cost or other basis (do not include land or other nondepreciable property)	4. Assets fully depreciated in use at end of year	5. Depreciation allowed (or allowable) in prior years	6. Remaining cost to be recovered	7. Estimated life used in accumulating depreciation	8. Estimated remaining life from beginning of year	9. Depreciation allowable this year
Dairy barn	1928	2400	0	900	1500	40	25	60
Silo	1928	500	0	100	400	25	10	20
Granary	1928	600	0	360	240	25	10	24
Hens house	1928	750	0	375	375	30	15	25
Machine shed	1928	400	0	240	160	25	20	16
Hog house	1928	300	0	150	150	30	15	10
Tractor, old	1926	900	0	620	270	—	—	—
Tractor, new	1943	1170	0	0	1170	10	10	117
Other machinery		3600 ^x	0					252
TOTAL (enter on line 7 of summary on page 1 (cash basis) or line 8, page 2 (accrual basis))								\$ 524

REMARKS: ^x All machinery is listed on a detailed depreciation schedule in Michigan Farms Account Book. Old tractor was traded for new one and \$900 difference was paid.

Fig. 3. Farm Expenses and Depreciation, page 3 of Form 1040F.

of the 5 heifers freshened during the year, and 5 heifer calves were raised making two more heifers on hand at the end of the year than at the beginning.

There were 6 sows, a boar, and 30 feeder pigs on the farm at the beginning of the year. The 6 sows raised 45 spring pigs, and the sows and pigs were all sold except 2 that were butchered for home use. Five gilts were saved out of the 30 feeder pigs on hand at the beginning of the year and the balance were sold. Thirty feeder pigs were bought during early winter and were on hand at the close of the year.

There were 300 hens on hand at the beginning of the year; 200 were culled out, 70 consumed or lost, and 30 were kept over and included with 250 pullets to make the 280 hens at the end of the year. Of the 600 baby chicks purchased, 250 were sold as broilers, 100 were consumed or lost and 250 were kept as pullets.

The cost of baby chicks was \$84 for 1943, so a total of \$84 was deducted from the \$615 chicken sales, leaving a "profit" of \$531.

The Smiths did not make any major improvements on the buildings and fences, during 1943 so the depreciation on them was calculated as in previous years. The repairs on them were, of course, included in the farm expenses.

An old tractor was traded-in during 1943. It cost \$900 in 1936 and had been depreciated \$90 a year for 7 years. This left a remaining cost of \$270 to be recovered. It was traded for a new tractor for \$900 difference. Thus the \$270 plus the \$900 would represent the cost of \$1170 for new tractor.

The Net Farm Profit

The Smiths' net farm profit for the year amounted to \$3472 on the Cash Basis, and to \$3715 on the Accrual Basis. The difference was due to the higher value of the inventory of livestock and feed at the end than at the beginning of the year. This higher inventory value is classed as income under the Accrual Basis. With the Cash Basis, the additional livestock and feed will not be listed as income until the products are sold.

THE FEDERAL INCOME AND VICTORY TAX CALCULATIONS ON FORM 1040

The Smiths calculated their Federal income tax and Victory Tax as shown on pages 10 and 11 of this bulletin in the reproductions of the first and fourth pages of Form 1040.

The \$3472 net farm profit, as calculated on the Cash Basis, has been transferred from Form 1040F to line 8 on page 1 of Form 1040. If the Accrual Basis had been used, then the \$3715 on page 2 line 10 of Form 1040F would have been transferred to line 8 of Form 1040.

The \$12 of income received as interest on a savings account has been entered in both columns 1 and 2 of line 3 on page 1 of Form 1040 and added to the net farm profit of \$3472, giving a total income of \$3484.

The Smiths have a deduction of \$105 for contributions to the church and Red Cross and \$48 for the 3-percent state sales tax and the personal share of auto license and state gasoline tax. These deductions, amounting to a total of \$153, leave an income tax net income of \$3331 (line 18, page 1, Form 1040). The contributions to church and Red Cross and the personal tax expenses are not deductible in calculating the Victory Tax, since Victory Tax deductions are only those connected with the production of income. Thus the Victory Tax net income is \$3484 (line 19, page 1, Form 1040).

The income tax net income of \$3331 was then transferred to line 1 of page 4, of Form 1040 as reproduced on page 11 of this bulletin. Since the Smiths were married and had two children under 18 years of age, they had a personal exemption of \$1,200 and a credit of \$700 for dependents. Subtracting these amounts from their income tax net income of \$3331 leaves a surtax net income of \$1431.

The earned income credit is \$300. Subtracting this amount from the surtax net income of \$1,431 leaves a balance of \$1,131 subject to the normal tax of 6 percent. This means a normal tax of \$67.86 (line 8, page 4, Form 1040). The first \$2000 of the surtax net income is taxable at 13 percent. This makes a surtax of \$147.03 (line 9, page 4, Form 1040). The instruction sheet for Form 1040 shows the different tax rates on the various incomes. Adding the surtax of \$147.03 and the normal tax of \$67.86 gives a total income tax of \$214.89 to be entered in line 10.

The Victory Tax Calculations on Form 1040

The Victory Tax calculations are shown in Schedule K in the lower half of page 4 of Form 1040. From the Victory Tax net income of \$3484 (line 19, page 1, Form 1040), the specific exemption of

FORM 1040
Treasury Department
Internal Revenue Service

UNITED STATES
INDIVIDUAL INCOME AND VICTORY TAX RETURN

Page 1
1943

OPTIONAL FORM 1040A MAY BE FILED INSTEAD OF THIS FORM IF GROSS INCOME IS REPORTED ON THE CASH BASIS FOR THE CALENDAR YEAR, IS NOT MORE THAN \$1,000, AND CONSISTS WHOLLY OF SALARY, WAGES, OTHER COMPENSATION FOR PERSONAL SERVICES, DIVIDENDS, INTEREST OR ANNUITIES

FOR CALENDAR YEAR 1943

or fiscal year beginning 1943, and ending 1944

PRINT NAME AND ADDRESS PLAINLY. (See Instruction C)

Adam E. Smith and Mary Smith

(Name) (Use given names of both husband and wife, if this is a joint return)

R

(Street and number, or rural route)

(City or town)

Michigan

(State)

Occupation: Farmer Social Security number, if any

(Do not use these spaces)

Filer's

Code

Social

No.

District

(Cashier's Stamp)

COMPUTATION OF NET INCOME

INCOME		Column 1 Income Tax Net Income	Column 2 Victory Tax Net Income
1. Salary, Wages, and Compensation for Personal Services (Members of armed forces see Instruction I)	Employer's Name _____ City and State _____ Total _____ Less: Deductible expenses. (Attach itemized statement). Compensation after deductible expenses.	\$ _____ \$ _____ \$ _____	\$ _____ \$ _____ \$ _____
2. Dividends			
3. Interest on corporation bonds, bank deposits, notes, etc.		12	12
4. Interest on Government obligations, etc.: (c) From line A (8), Schedule A (d) From line B (5) and (3), Schedule A			XXXXXX XX
5. Annuities			
6. (a) Net gain (or loss) from sale or exchange of capital assets. (From Schedule B) (b) Net gain (or loss) from sale or exchange of property other than capital assets. (From Schedule H)			XXXXXX XX
7. Rents and royalties. (From Schedule C (1))			
8. Net profit (or loss) from business or profession. (From Schedule C (2)) (State total receipts, from line 1, Schedule C (2) \$ _____)		3472	3472
9. Income (or loss) from partnerships; fiduciary income; and other income. (From Schedule C (3))			
10. Total income in items 1 to 9		\$ 3484	\$ 3484
DEDUCTIONS			
11. Contributions. (Explain in Schedule D)		\$ 105	XXXXXX XX
12. Interest. (Explain in Schedule E) (See Instructions 12 and 16 for Victory Tax deduction)			XXXXXX XX
13. Taxes. (Explain in Schedule F) (See Instructions 13 and 16 for Victory Tax deduction)		48	XXXXXX XX
14. Losses from fire, storm, shipwreck, or other casualty, or theft. (Explain in Schedule G)			XXXXXX XX
15. Medical, dental, etc., expenses. (Explain in Schedule H)			XXXXXX XX
16. Other deductions authorized by law. (Explain in Schedule G)			\$ _____
17. Total deductions in items 11 to 16		\$ 153	\$ _____
18. Income Tax net income (item 10, col. 1, less item 17, col. 1)		\$ 3331	XXXXXX XX
19. Victory Tax net income (item 10, col. 2, less item 17, col. 2)		XXXXXX XX	\$ 3484
INCOME AND VICTORY TAX			
20. Unpaid balance of 1943 Income and Victory Tax (from line 22, page 4)			\$ 82.50
21. You may postpone, until not later than March 15, 1945, payment of the amount you owe up to one-half of item 19 (c), page 4. Enter the amount postponed. (For persons whose surtax net income for 1942 or 1943 exceeded \$20,000, see Schedule L-2).			\$ 27.50
22. Amount paid with this return (item 20 less item 21)			\$ 55.00
23. Refund or Credit	If the total of your payments (line 21 (d) on page 4) is larger than your tax (line 20 on page 4), enter the difference. Indicate by a check mark (✓) what you want done with this overpayment: Refund it to me <input type="checkbox"/> ; Apply it on my 1944 estimated tax <input type="checkbox"/>		\$ _____
I declare under the penalty of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.			
Signature of person (other than taxpayer or agent) preparing return		(Date)	(Date)
Adam E. Smith			March 10, 1944
Mary Smith			
(If this is a joint return (not made by agent), it must be signed by both husband and wife. A return made by an agent must be accompanied by power of attorney. (See Instructions G))			

Fig. 4. Computation of Net Income, page 1 of Form 1040.

COMPUTATION OF INCOME AND VICTORY TAX. (See Tax Computation Instructions)		Page 4
1. Income Tax net income (item 18, page 1).....		\$ 323.91
2. Less: Personal exemption. (From Schedule 1-(C)).....	\$ 1200	
3. Credit for dependents. (From Schedule 1-(C)).....	700	1900
4. Balance (surtax net income).....		\$ 143.91
5. Less: Certain interest on Government obligations (item 4 (a), page 1).....	\$ 300	
6. Earned income credit. (From Schedule J-(C) or J-(D)).....	300	300
7. Balance subject to normal tax.....		\$ 113.91
8. Normal tax (6% of line 7).....		\$ 6.74
9. Surtax on amount in line 4. (See Surtax Table, page 3 of Instructions).....		147.03
10. Total Income Tax (line 8 plus line 9). (If Schedule B is used and alternative tax computation made, enter line 16, Schedule B).....		\$ 214.87
11. Less: Income Tax paid to a foreign country or U. S. possession. (Attach Form 1110).....		62.61
12. BALANCE OF INCOME TAX.....		\$ 277.50
13. NET VICTORY TAX (line 6 of Victory Tax Schedule, below).....		\$ 277.50
14. Total of lines 12 and 13.....		\$ 277.50
15. Income Tax paid at source on tax-free covenant bond interest. (See Footnote 1).....		\$ 277.50
16. Line 14 less line 15.....		\$ 277.50
17. Income Tax for 1942. (See Statement, Form 1125, from Collector) (First, see page 4 of Instructions).....		\$ 277.50
18. Enter line 16 or 17 whichever is LARGER. (Members of the armed forces see page 4 of Instructions).....		\$ 277.50
19. FORGIVENESS FEATURE (Don't fill in (a), (b), and (c) below, if either line 16 or 17 is \$50 or less):		
(a) Enter line 16 or 17, whichever is SMALLER.....	\$ 280	
(b) Enter \$50 or three-fourths of (a), immediately above, whichever is LARGER. This is the FORGIVEN part of the tax.....	165	
(c) Enter the UNFORGIVEN part of the tax which is the BALANCE (subtract (b) from (a)). (See Footnote 2).....		55.00
20. TOTAL INCOME AND VICTORY TAX. (Total of lines 18 and 19 (c)).....		\$ 332.50
21. Less: (a) Income and Victory Tax withheld by employer.....	\$ 110	
(b) Income Tax paid on 1942 income.....	140	
(c) Tax paid on 1943 income on account of Declaration of Estimated Tax.....		250
(d) Total payments.....		250
22. UNPAID BALANCE OF INCOME AND VICTORY TAX. (If line 20 is larger than line 21 (d), enter the difference here and also as item 20, page 1; if not, see item 23, page 1).....		\$ 82.50

FOOTNOTE 1—If you claim a credit in line 15, disregard lines 19 (a) and (b), complete Schedule L-1 on page 4 of Instructions, and enter result in line 19 (c). Attach completed schedule.

FOOTNOTE 2—If your surtax net income for 1942 or 1943 exceeded \$20,000, requiring you to complete a Schedule L-2, enter here the amount shown on line 10 or 27 of such schedule, \$..... and increase 19 (c) by such amount.

Schedule K—VICTORY TAX. (See Tax Computation Instructions)	
1. Victory Tax net income (item 19, page 1).....	\$ 348.41
2. Less: Specific exemption (\$624 if return reports income of only one person; otherwise, see Instructions, page 3).....	1245
3. Income subject to Victory Tax (line 1 less line 2).....	\$ 2836
4. Victory Tax before credit (5% of line 3).....	\$ 141.80
5. Victory Tax credit:	
(a) Single person, or married person not living with husband or wife: 25% (plus 2% for each dependent) of line 4, but not more than \$500 (plus \$100 for each dependent).....	
(b) Married person living with husband or wife if separate returns are filed: 40% (plus 2% for each dependent) of line 4, but not more than \$500 (plus \$100 for each dependent).....	
(c) Married person living with husband or wife if only one return or a joint return is filed, or head of a family: 40% (plus 2% for each dependent) of line 4, but not more than \$1,000 (plus \$100 for each dependent). (See Schedule 1-(2), for exclusion of one dependent by head of a family).....	49.19
6. Net Victory Tax (line 4 less line 5).....	\$ 82.61

Schedule L—To be used only by individuals whose surtax net income for 1942 or 1943 exceeded \$20,000. Schedule to determine whether Section 6 (c) of the Current Tax Payment Act of 1943 is applicable

1. Surtax net income for 1942 (item 23, Form 1040 (1942)).....	\$.....
2. Surtax net income for 1943 (line 4, above).....	\$.....
3. Surtax net income for base year, \$..... plus \$20,000: \$..... (Check year used: 1937.....; 1938.....; 1939.....; 1940.....)	

If either line 1 or 2 is greater than line 3, separate Schedule L-2 should be secured from the collector and filed with and as a part of this return.

Note.—If a joint return is filed for either 1942 or 1943 and separate returns for the other of such years, enter the aggregate of the separate surtax net incomes for the separate return year. The surtax net income to be entered in line 3 shall be determined in the same manner as the surtax net income entered in line 1 or 2, whichever is the lesser.

Fig. 5. Computation of Income and Victory Tax, page 4 of Form 1040.

\$1,248 is subtracted since the farm property is owned jointly by husband and wife. This leaves an income of \$2,236 subject to the Victory Tax. Multiplying this by 5 percent gives a Victory Tax of \$111.80. Since they are married and have two children, they have a Victory Tax credit of 44 percent (the Victory Tax credit for a married person living with husband or wife is 40 percent with an additional credit of 2 percent for each dependent) of \$111.80 or \$49.19, which subtracted from \$111.80 leaves a net Victory Tax of \$62.61 to be entered on line 13 of page 4 of Form 1040 to be added to the balance of Income Tax of \$214.89. This gives a total of \$277.50 for the normal income tax, the surtax, and the Victory Tax.

The Forgiveness Feature

The Smiths' Federal income tax for 1942 was \$220 (line 17, page 4, Form 1040), and when they filed their return in March 1943, they paid a fourth of it, or \$55, and in June 1943, they paid another fourth. The 1943 Federal income tax law provides that when the 1943 tax is greater than the 1942 tax all payments made on the 1942 tax shall be moved ahead and credited on the 1943 tax. The two payments, totaling \$110 which they had made on their 1942 tax bill were moved ahead and credited on their 1943 tax, leaving the 1942 tax bill of \$220 temporarily with no credits on it.

The law provides that if the 1942 tax was \$50 or less, the entire amount will be forgiven; if between \$50 and \$66.67, a flat \$50 will be forgiven; and if \$66.67 or more, then 75 percent will be forgiven. Forgiveness is therefore given on 75 percent, or \$165 of Smiths' original 1942 tax bill of \$220, leaving \$55 to be paid; half of which, or \$27.50, is due on or before March 15, 1944, and the other half by March 15, 1945 (item 19, page 4, Form 1040).

Adding the unforgiven amount of \$55 to the 1943 income and Victory Tax of \$277.50 gives \$332.50 as a grand total for the Smiths' combined Federal Tax bills for 1942 and 1943 (line 20, page 4, Form 1040).

Credit for Payments Already Made

In December 1943, when the Smiths filed their Declaration of Estimated Income and Victory Tax (form 1040 ES), they estimated their 1943 income and Victory Tax at \$250. From this estimated tax of \$250 they deducted the \$110 they had paid on their old 1942 tax bill and paid the balance of \$140 when they filed form 1040 ES (item 21, page 4, form 1040). In March 1944 when they figure their business for the final return on form 1040, they find that the actual amount of the 1943 income and Victory Tax is \$277.50 or that they had

underestimated their tax in December by \$27.50 (line 14, page 4, form 1040). This means that they owe the Federal Government this balance of \$27.50 plus the \$55.00 unforgiven part of their 1942 tax, or a total of \$82.50 (line 22, page 4, and line 20, page 1, form 1040).

Payment of one-half of the \$55.00 unforgiven part of the 1942 tax, or \$27.50, could be postponed until not later than March 15, 1945: the balance of the \$82.50, of \$55.00, must be paid on or before March 15, 1944, when the Smiths file their 1943 income and Victory Tax return.

Had the Smiths overestimated their income and Victory Tax in December 1943 and, therefore, paid more than their final return showed to be due, any overpayment would first be applied on the unforgiven portion of their 1942 tax. If the overpayment was more than enough to cover more than the unforgiven portion of the 1942 tax, the Smiths could have the balance of their credit applied on their 1944 tax or could ask to have it refunded to them (item 23, page 1, form 1040).

QUESTIONS AND ANSWERS ABOUT THE FEDERAL INCOME AND VICTORY TAX

1. **Who Must File a Return?** Every single person with a gross income of \$500 or more. Every married person living with husband or wife if his gross income is \$624 or more or if their combined gross income was as much as \$1,200 for the year. Every individual who paid or owed a tax on 1942 income. Not every person who is required to "file a return," however, may be required to pay a tax.

2. **What Is Meant by Gross Income?** The gross income of a farmer includes his total income from all sources. It includes the receipts from the sale of livestock and produce raised on the farm, the profits from purchased livestock or produce sold, plus any other farm income such as pay for work off the farm, miscellaneous receipts and income from non-farm sources.

3. **What Period Should be Included in the Return?** Most persons are required to report their income tax on a calendar year (January 1) basis. If, however, their farm records have been kept on a fiscal year basis for the years in which returns were required, they should file their returns for the period which coincides with their farm account book. For example, if the farm records started as of February 1, the income tax report should be made out on the fiscal year basis, starting February 1 and ending January 31. The taxpayer needs to be careful, however, that he indicates the correct date on the

date-line on page 1 of Forms 1040F and 1040. A taxpayer must follow the same plan each year unless he receives permission to make the change.

4. **When is the Return Due?** Income tax returns are due two and one-half months after the close of the taxable year, calendar or fiscal, for which the return is made. If the report is made on the calendar year basis, the return is due on March 15.

5. **What are the Two Bases for Determining the Net Farm Profits?** Farmers may compute their income either on the Cash Basis or on the Accrual Basis, but whichever method is or has been adopted must be followed until the consent of the Commissioner of Internal Revenue is received to compute the income on a new basis.

(a) **The Cash Basis**—For farmers reporting on the Cash Basis, the gross income shall include (1) the cash or the value of merchandise received from the sale of any livestock and produce raised, (2) the profits from the sale of any livestock or other items which were purchased, and (3) the gross income from all other sources. To obtain the net farm profit, deduct from the gross income, the actual farm expenses paid out and the depreciation allowances. (See pages 1 and 3 of Form 1040F.) The farm expenses will be the actual amounts paid out during the year. Under this basis a farmer makes use of the "inventories" of farm buildings (except the farm dwelling), fences, tile drains, machinery, purchased breeding animals and purchased work stock in determining the depreciation allowances. The farmer on this basis, however, does not make use of the inventory of the livestock raised on his farm, and of the feed, crops and supplies in determining the net farm profit.

The information needed to report on the Cash Basis is a classified list of farm cash receipts (see page 1 of Form 1040F) and farm cash expenses (see page 2 of this bulletin) and the inventories of buildings, fences, tile drains, machinery, and purchased work and breeding stock.

(b) **The Accrual Basis**—For farmers reporting on the Accrual Basis, the net farm profit is obtained by (1) adding to the inventory value of livestock and products on hand at the end of the year, the amount received from the sale of livestock and products, and from miscellaneous receipts for the hire of teams, machinery and the like during the year and then (2) deducting from this sum the inventory value of livestock and products on hand at the beginning of the year, the cost of livestock and products purchased during the year, the farm expenses incurred during the year (whether paid or

not), and the depreciation allowances. (See pages 2 and 3 of Form 1040F.)

The accrual basis is recommended for farmers who have been keeping farm account books which included the inventories of the livestock, feed, and crops on hand. On many farms, as an average over a period of years, it would not make much difference which basis is followed as long as the business is conducted about the same from year to year.

6. What Farm Record Books Will be Helpful in Making Income Tax Returns? Most any type of a record book will be helpful if kept carefully. The Michigan Farm Account Book has been designed especially for Federal Income Tax purposes and is available at cost to Michigan farmers from county agricultural agents and from the Farm Management Department, Michigan State College, East Lansing, Michigan.

7. What Is a Good Procedure to Follow in Making the Income Tax Report? A farmer should obtain two copies each of Form 1040F and Form 1040. Also see item 23 of this bulletin in regard to the forms to use in reporting wages and cash rent. If copies are not available locally, send a postcard request to the Collector of Internal Revenue, Federal Building, Detroit 31, Michigan and ask for two copies each of the forms needed. Study these forms and the instructions on each. Learn what information is needed. Assemble the information that is needed about your farm business and also about your personal business. Here is where farm, personal, and household records are helpful.

One copy of each form (1040F and 1040) should be filled out in pencil. After the pencil copy is made out, check all figures carefully, noting the accuracy of each. Re-compute all calculations. Note whether all dates and questions have been filled in and answered correctly. The pencil copy of each form should be retained by the farmer for future reference. It will be needed in preparing his next income tax report.

The other copy of each form should then be made out in ink and filed, along with the payment called for, with the Collector of Internal Revenue, Federal Building, Detroit 31, or with a Deputy Collector at one of the local Zone or Field Offices.

FARM EXPENSES

8. What Expense Items Are Deductible in Preparing the Income Tax Report? The expense items that may be included in the income tax report are the items required in the regular operation of the

farm business as shown on page 7 of this bulletin. Expenditures on a farm must be classified into two groups for income tax purposes: (1) the current operating expenses as listed on page 2 which are deductible the year purchased, and (2) the capital expenditures such as for machinery, buildings, etc., which must be included in the Depreciation Table and the purchase price recovered during a period of years which represents the expected life of the item.

9. Must Farm Expenses be Classified According to the Headings on Page 3 of Form 1040F? No. These headings are merely suggestions. Any other equally descriptive headings may be used. As a matter of fact many of the expense headings in 1040F are not logical divisions of farm expenses from many standpoints. See the classifications on page 2 of this bulletin and also in the Michigan Farm Account Book.

10. How Are the Deductions Computed for the Depreciation Allowance? The DEPRECIATION TABLE on page 3 of Form 1040F is filled in in much the same manner for the Cash as it is for the Accrual Basis except that animals purchased for breeding purposes and for work stock should be included when reporting on the Cash Basis. Depreciation on these livestock items is automatically taken care of in the inventory section on page 2 of Form 1040F when reporting on the Accrual Basis.

One procedure is to prepare, on ruled sheets of paper, one supplementary depreciation table for the farm buildings, one for machinery, one for fences, one for tile drains. When reporting on a Cash Basis, prepare also a separate schedule for purchased animals held for breeding purposes and for work stock. The table headings, on the ruled sheets of paper should read the same as do the headings on the Depreciation Table on page 3 of Form 1040F.

A farmer, when reporting on the Cash Basis, is not entitled to claim as a death loss the value of animals born on the farm. Neither is he permitted to deduct any depreciation on livestock born on his farm. Both the death loss and depreciation are reflected in the inventories, however, when reporting on the Accrual Basis.

As a start in filling out the depreciation table, the date at which each item was acquired should be indicated in column 2, (if built or acquired before March 1, 1913, the year of 1913 must be considered as the date acquired); the cost should be entered in column 3. Enter in column 7, the estimates of the length of the expected life of the various items. The "depreciation allowable for this year," column 9, is obtained by dividing the years of estimated length of life, column 7, into the cost of the item, column 3. Enter in column 8 the estimated

life remaining from beginning of year, which for a tractor with an estimated life of 10 years and purchased in 1936 would be 3 years in 1943. Column 6 is determined by multiplying the annual yearly depreciation, column 9, by the number of years of remaining life from the beginning of the taxable year, column 8. Column 5 is column 3 minus column 6. Column 4 will be zero in most cases for the first few years' reports at least.

Depreciation rates apply to the cost of the item rather than to its present value. The following suggestions as to estimated life which may be used in filling in column 7 of the depreciation table, may be helpful: Main farm buildings 40 to 50 years; other farm buildings, 20 to 50 years; fencing 10 to 20 years; tile drains 20 to 40 years; and machinery from 5 to 20 years. It is to the taxpayer's advantage to estimate the actual length of life or depreciation rate as closely as possible.

Calculate the depreciation at a constant rate from year to year, unless (1) a major repair is made which will prolong the useful life, or (2) it becomes evident that the useful life has been underestimated. In either case the estimated length of life may be increased but not decreased.

When the taxpayer is preparing his second and subsequent income tax reports, he is often confronted with the problem of handling in the depreciation table new capital improvements such as a new roof, a new foundation, or a new addition to the barn; new buildings; new or used machinery; new tile drains; a new well, and the like. For example, a new roof costing \$500 is added to the dairy barn. In the depreciation table, the \$500 may (1) be placed on a separate line and depreciated by itself over the remaining life of the building, or (2) the value of the barn itself may be readjusted by adding the \$500 to the "remaining cost" column 6 and then substituting this figure for the "original cost" figure in column 3 and changing the other figures in columns 2, 5, 7, 8 and 9 accordingly. If this is done, a footnote of explanation should be written in the "remarks" section on page 3 of Form 1040F.

When a machine, for example a tractor, is traded for a new tractor, the "original" cost of the new tractor to be entered in the income tax report is the difference paid in the trade added to the remaining cost in the depreciation table of the old machine. Then the depreciation of the new tractor is calculated from this new value. This adjustment is necessary because the regulations state that a gain or loss on items traded for a similar kind of new equipment is adjusted in the cost of the new item; the gain or loss is not to be reported either as income or expense. If, however, a machine is sold outright for more than

the remaining cost, enter the difference as income; if it is sold for less than the depreciated value, report the difference as an expense.

11. How Should the Problem of Orchard Depreciation be Handled?

The problem of orchard depreciation is a difficult one at the best. The difficulty is in determining the cost basis for depreciation. The problem is much simpler when the orchard or vineyard is purchased than it is when developed by the grower.

When the orchard or vineyard is purchased, its cost would be obtained by deducting the estimated value of the land and other capital improvements from the purchase cost of the property. The remaining sum would be the cost of the trees or vines, and this cost could then be depreciated over a period of years, based on estimates of the remaining period of productive life.

When the orchard or vineyard is developed by the grower, the problem of determining the cost to be depreciated is quite different. Most fruit growers, in filing their Federal Income Tax reports, have not been following the depreciation procedure on their orchards and vineyards. These growers instead, have been deducting annually their development costs such as the cost of young trees or vines, the cost of labor, spray materials, fertilizers, and other supplies; as a result, they have no capital expenditures to depreciate at the time the orchard or vineyard reaches maturity. This procedure is allowable, it is simpler, and is the one followed by most fruit growers.

On the other hand, however, the expenditures necessary to bring orchard trees and vines to a producing stage may be capitalized and thereafter an annual allowance for depreciation may be deducted in order to return to the grower the capital invested free of income taxation. The grower in this instance, however, would have to have a special record of such expenditures so that the total capitalized costs could be computed for income tax purposes. In this case, of course, items included in the capitalized cost could not also be included in the annual farm operating expenses.

The following figures are estimates of the average number of years of productive life of trees and vines in Michigan after reaching maturity: Apples 20 to 30 years; cherries 15 to 20, peaches 5 to 8, pears 20 to 25, plums 15 to 20, and vineyards 20 to 25 years. The number of years of productive life would, of course, vary much from farm to farm depending on the variety, the local soil and climatic conditions, the care the trees and vines receive, etc.

GENERAL QUESTIONS

12. **If a Growing Crop Is Lost by Weather or Other Damage May a Loss be Claimed?** No.

13. **If an Insurance Company Pays a Farmer for Hail Loss on a Crop Must This Sum be Included in His Income?** Yes.

14. **How Are Receipts From Fire and Windstorm Losses on Buildings and Machinery Handled?** The income tax regulations with respect to "gain from involuntary conversion" is as follows: "The difference between the cost basis (as shown on the depreciation schedule for the current year) of the property converted (i.e. by fire or wind) and the amount received (i.e. by insurance or sale of junk) although actually realized as a profit is excluded from the gross income except to the extent of any amount which is neither forthwith expended for replacement of the property nor placed in a replacement fund pursuant to the Regulations." The word "forthwith" has been given a liberal interpretation which held that reinvestment by the taxpayer of a condemnation award nearly two years after its receipt was in compliance with the statute where the taxpayer exercised due diligence in searching for suitable property during that period.

15. **If Timber Is Sold, Is the Entire Amount Received Considered as Taxable Income?** Most farmers will report income from the sale of timber and woodland products as income less the expenses such as labor, saw bills, trucking and the like. This is by far the most simple way to handle the matter because if depletion is deducted from the gross income, separate timber accounts must be kept. In such a case, the timber inventories must be kept separate from the land and also must be inventoried by individual blocks or tracts of timber. Farmers with small tracts of timber will not save an appreciable amount on the income tax by deducting timber depletion. If the farm is sold later there will be no saving since the timber will have been inventoried separate from the land and this amount of the original investment will have already been recovered as depletion.

If, however, there is considerable amount of timber or if the farm was purchased with the intention of lumbering off part of it to reduce the cost of the farm it may be well to allow the depletion. In such cases, it would be advisable for the taxpayer to consult with a representative of the Bureau of Internal Revenue in his region.

16. **Is a Gift of Money or Property Taxable as Income to the Beneficiary?** No, that is if it is a true gift and not compensation for services.

17. **Is an Inheritance or the Proceeds from a Life Insurance Policy Paid on the Death of the Insured Subject to Income Tax?** No. Only the income earned from the principal is taxable.

18. **Is Income from Workman's Compensation for Personal Injuries or Sickness Included in the Income Tax Report?** No.

19. **May Any Losses on the Farm Business in Previous Years be Deducted When Computing the 1943 Income and Victory Tax Net Incomes on Form 1040?** Yes. Losses resulting from the operation of the farm business in previous years may be carried forward two years, provided they can be substantiated by income tax returns filed in previous years or by other records. This statement assumes that the farm business is the sole source of income. If, however, a taxpayer has a net loss on his farm business, but has sufficient income from other sources to offset the loss on the farm business, he cannot deduct the loss on his farm business in the following years.

Space is not provided in Form 1040 for the reporting of losses indicated in items 19 and 20 of this bulletin. Such losses must be explained and reported on a separate sheet and attached to Form 1040.

20. **May Losses on the Farm Business in 1943 be Deducted from Income Earned in Succeeding Years?** Yes. Losses for 1943 may be carried back two years but not beyond January 1, 1941. Losses not made use of in this way may be carried forward two years. The qualification presented under item 19, however, applies to use of such losses.

21. **How do Farm Partnerships Report Income Tax Returns?** In filing a farm partnership report, figure out the net farm profits from the entire business on Form 1040F. Attach this 1040F to Form 1065 (the partnership form). The only items that then need to be filled in on 1065 are the name and address of the partnership and the date of the taxable year. Each partner should use forms 1040F and 1040 to report his share of the partnership income and expense. One of the partners also sends in the Form 1065 along with his individual report.

22. **How Should the Sale of a Farm be Reported?** The method of calculating and reporting the gain or loss from the sale of real estate is highly complicated. The sale of a farm may affect the income tax obligations of the taxpayer by hundreds of dollars. It is therefore suggested that any person who sells a farm should get the assistance of an Internal Revenue official or an accountant or lawyer skilled in income tax matters, in making his income tax return.

23. How About the Hired Man's Income and Victory Tax? The law does not require a farmer to withhold Federal Income or Victory Taxes from wages paid farm help. It is the hired man's responsibility to make his own return and pay his own tax. The gross income of a hired man consists of his cash wages plus a fair value for board and lodging, use of house, and products furnished him, plus any other income not specifically exempted by law.

Farmers employing hired men whose yearly earnings (gross incomes) are \$500 or more if single or \$624 or more if married are required to fill out for each hired man two copies of Form 1099, one of which must be given to the hired man, and the other copy or copies accompanied by Form 1096 must be mailed to the Collector of Internal Revenue, Federal Building, Detroit 31, Michigan, or to the local Division Office. Form 1099 should also be made out and filed with the Collector when cash rent of \$500 or more to a single person or \$624 to a married person is paid. This should normally be done on or before February 15, 1944.

24. What Are the Arrangements for Taxpayers Who Are in the Armed Services with Respect to their Income Tax? The first \$1,500 of service pay, effective January 1, 1943, is nontaxable. A person in the armed services is also entitled to the regular civilian exemptions and credits for dependents. These are \$500 if single, \$1,200 if married, and \$350 for each dependent. The wife of a service man who had no taxable income can claim the full personal exemption of \$1,200 for a married person. Dependency allowances received by a wife or other dependents are not subject to the income tax. Pensions, annuities, or other allowances for personal injuries or sickness incurred during active service are non-taxable. Any unpaid income taxes of a service man dying on or after December 7, 1941, are cancelled. Members of the armed forces serving abroad do not have to file a return until the fifteenth day of the fourth month following their return to the country or until the fifteenth day of the third month following the termination of the war. Neither do their wives unless they have income of \$1,200 or more of their own.

CALCULATING THE REGULAR INCOME TAX

25. What is the Personal Exemption for the Federal Income Tax? For a single person, \$500. For a married person or head of family, \$1,200. (See item 24 for persons in the armed services.)

26. What is the Credit for Dependents for the Federal Income Tax? For each child under 18 years of age, \$350, and for each adult

incapable of self-support, \$350. Earnings from personal services of minor children, however, must be included with the income of the parents for income tax purposes, if the minor children are to be considered as dependents.

If the minor has been emancipated then it is not necessary for the parents to include the income from the personal services of the minor. In this case, however, if the minor's earnings are sufficient he must file his own return and consequently the parents do not take credit for the dependent.

27. What About Deductions for Medical Expenses? Medical expenses in excess of 5 percent of net income, as computed without benefit of this provision, may be deducted on line 15, page 1 of Form 1040 in calculating the income tax net income, to a maximum of \$2500 for head of family and \$1250 for a single person.

28. How is the Earned Income Credit of a Farmer Computed? See schedule J of page 3 of Form 1040. The earned income credit is 10 percent of the "Income Tax net income" (line 18, page 1 of Form 1040) up to \$3,000. For incomes of more than \$3,000, the earned income credit is 10 percent of the "Income Tax net income," or 10 percent of the "earned net income" whichever amount is smaller, but not less than \$300. For farmers, the "earned net income" is the wages, salaries, and fees or other payments less expenses incidental thereto, for personal services not done in connection with the farm business, plus not more than 20 percent of the net farm profit from line 8, page 1 of Form 1040.

29. What is the Normal Income Tax Rate? Six percent. This rate applies to that portion of the "Income Tax net income" remaining after deducting personal exemption, credit for dependents, and the earned income credit. It is always the same regardless of the size of the income taxed.

30. What is the Surtax Net Income? The surtax net income is the "Income Tax net income" less the deductions for personal exemption and credit for dependents.

31. What are the Surtax Rates?

<i>If the surtax net income is:</i>	<i>Surtax shall be:</i>
Not over \$2,000.....	13% of the surtax net income.
Over \$2,000 but not over \$4,000.....	\$260, plus 16% of excess over \$2,000.
Over \$4,000 but not over \$6,000.....	\$580, plus 20% of excess over \$4,000.
Over \$6,000 but not over \$8,000.....	\$980, plus 24% of excess over \$6,000.
Over \$8,000 but not over \$10,000.....	\$1,460, plus 28% of excess over \$8,000.
Over \$10,000 but not over \$12,000.....	\$2,020, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000.....	\$2,660, plus 36% of excess over \$12,000.
Over \$14,000 but not over \$16,000.....	\$3,380, plus 40% of excess over \$14,000.
Over \$16,000 but not over \$18,000.....	\$4,180, plus 43% of excess over \$16,000.
Over \$18,000 but not over \$20,000.....	\$5,040, plus 46% of excess over \$18,000.

THE VICTORY TAX

32. What is the Victory Tax Rate? The Victory Tax rate is 5 percent on the "Victory Tax net income".

33. What is the Victory Tax Net Income? The Victory Tax net income (line 19, page 1 of Form 1040) is the net income of the taxpayer without the inclusion of certain items of income and deductions used in computing the regular income tax net income.

34. What is the Personal Exemption on the Victory Tax? Every individual taxpayer is entitled to an exemption of \$624 regardless of marital status. An exemption of \$1,248 is allowed a husband and wife filing a joint return unless the Victory Tax net income of one spouse is less than \$624 in which case the total exemption is limited to \$624 plus the Victory Tax net income of such spouse. On farms where the real estate is owned jointly and the income legally divisible between husband and wife, each spouse is allowed an exemption of \$624, or \$1248 for both of them in a joint return.

The "standard" specific exemption for the Victory Tax is \$624 per person. If the husband and wife are filing a joint return and claim an exemption of \$1,248, the reason for such a claim should be explained either in the blank space at the bottom of page 4 of Form 1040, or on a separate sheet attached to Form 1040.

35. What About the Victory Tax Credit? The Victory Tax credit is explained in item 5 of schedule K on page 4 of Form 1040.

IN SUMMARY

It is recommended that the taxpayer start early and take his time at the job of filling out his income tax report. He should fill out the report to the best of his ability. He will not be penalized by "honest" mistakes. File the report on time.

Briefly, the 10 steps for a farmer to follow are:

1. Get two copies each of Forms 1040F and 1040.
2. Assemble the information needed to fill out Form 1040F. Farm records are helpful here.
3. Fill out Form 1040F in pencil and compute the net farm profit for the year.
4. Transfer the net farm profit for the year to line 8 on page 1 of Form 1040.
5. Proceed to fill out Form 1040 in pencil.
6. On the pencil copy of Forms 1040F and 1040 check all items carefully, noting the accuracy of each. Re-compute all calculations. Check the dates on page 1 of each form.
7. Transfer in ink the information from the forms in pencil to the forms which are to be sent in to the Collector of Internal Revenue.
8. Mail or give the ink copies of the forms together with full payment of tax due to the Collector of Internal Revenue, Federal Building, Detroit 31, Michigan, or to a deputy collector at one of the local Zone or Field Offices.
9. Retain for your future reference the pencil copies of Forms 1040F and 1040.
10. If you are not already keeping farm records, start now to do so in order that you may have the needed information with which to make out your December 15, 1944, Declaration of Estimated 1944 Income.