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Farmers and the Income Tax

(TAX YEAR 1944)

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

MICHIGAN STATE COLLEGE

EXTENSION SERVICE

FARM MANAGEMENT DEPARTMENT

EAST LANSING

Michigan State College and U. S. Dept. of Agriculture cooperating, R. J. BALDWIN, DIRECTOR EXTENSION SERVICE, 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

Labor, hired and cash cost of board .... $______

Feed purchases
- Hay .... $______
- Grain .... ______
- Concentrates .... ______
- Grinding .... ______
- Salt .... ______
- Minerals .... ______
- Pasture rent .... ______

Total feed purchases . $______

Taxes on farm real estate $______

Interest on farm business debts .... $______

Cash rent of farm or part of farm .... $______

Automobile upkeep (farm share) .... $______

Crop expenses
- Seed .... $______
- Fertilizer .... ______
- Lime .... ______
- Spray material .... ______
- Twine .... ______
- Threshing .... ______
- Combining .... ______
- Baling .... ______
- Silo-filling .... ______
- Certification .... ______
- Containers .... ______
- Insurance .... ______
- Maple syrup supplies .. ______

Total crop expenses . $______

Building, fence, tile drain, repairs, etc.
- Buildings: Roof repairs $______
  - Lumber .... ______
  - Nails ...... ______
  - Lumber-sawing ...... ______
- Fences: Posts for repair $______
  - Wire for repair ______
- Tile drain repairs ..... ______
- Water system repairs .. ______
- Fire insurance (except dwelling) .... ______

Total for buildings, etc. .... $______

General machinery and equipment
- Repairs .... $______
- Harness .... ______
- Cans .... ______
- Electric fence .... ______
- Small tools .... ______
- Hardware .... ______
- Strainer pads .... ______
- Oil and grease .... ______

Total machinery and equipment .... $______

Tractor fuel
- Oil .... $______
- Grease .... ______
- Anti-freeze .... ______
- Repairs .... ______
- Tires .... ______

Total for tractor .... $______

Truck
- Gas .... $______
- Oil .... ______
- Grease .... ______
- Anti-freeze .... ______
- Repairs .... ______
- Tires .... ______
- License .... ______
- Insurance .... ______

Total for truck ..... $______

Livestock expense
- Breeding fees .... $______
- Veterinary .... ______
- Medicine .... ______
- Fly spray .... ______
- Sheep-shearing .... ______
- Shoeing .... ______
- Brooder fuel .... ______
- Livestock insurance ... ______
- D.H.I.A. fees .... ______
- Breed association fees . ______

Total livestock expense .... $______

Miscellaneous
- Farm share electricity . $______
- Farm share telephone .. ______
- Advertising .... ______
- Farm organization dues ______
- Farm papers .... ______
- Attending farm meetings .... ______
- Farm dog license ..... ______
- Stamps and stationery . ______
- Account books .... ______

Total miscellaneous expense .... $______

Farmers and the Income Tax

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

Practically all farmers will have to file a federal income tax return for 1944. The final return will be due on or before March 15, 1945, the same as last year. The "Declaration of Estimated Income Tax" for 1944 is due January 15, 1945. Farmers, however, who can make their final return on or before January 15 do not need to make the "Declaration of Estimated Income Tax." The income tax report is quite similar to the report required of farmers last year, except for a few minor changes which simplify the return.

Farmers in general will find it to their advantage to become informed in regard to the provisions of the income tax regulations 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 reports, 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 (either the long or short form) for the purpose of computing their federal income tax. Those farmers who are not in a position to make their final return on January 15, 1945 (or 15 days after the close of the year) must file Form 1040ES, "Declaration of Estimated Income 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 of 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.

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*The authors wish to express their appreciation to those in the office of the Collector of Internal Revenue at Detroit for their careful review of the income tax matters of this bulletin and for their valuable suggestions. It should be remembered that new interpretations may be given to some of the matters from time to time. The information contained in this bulletin is as up-to-date and as accurate as could be obtained on November 1, 1944.

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 dependent children. Their farm was purchased in 1929, and the new machine shed was built in 1939. Their income in 1944 was entirely from the farm business except for $12 received as interest on a savings account. During the year they gave $200 to the Community Church, $5 to the American Red Cross and $10 to the United War Fund. 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 their Michigan Farm Account Book.

Since the Smiths file their tax report on a calendar year basis (January 1 to December 31) 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, 1944 and ending January 31, 1945."

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 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 on 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.

Page 1

FORM 1040 F
Treasury Department
Internal Revenue Service

UNITED STATES
SCHEDULE OF FARM INCOME AND EXPENSES
For Calendar Year 1944

1944

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 ...., 1944, and ending ...., 1945
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

Kind	Quantity	Amount
Cattle	12	$ 480 —
Horses	1	60 —
Mules		
Sheep		
Swine	74	2400 —
Chickens		
Turkeys		
Ducks		
Goats		
Bees		
Other (specify):		
Total		$ 2940 — (Enter on line 1 of summary below)

2. SALE OF PRODUCE RAISED

Kind	Quantity	Amount
Grain		$ 360 —
Hay		
Cotton		
Tobacco		
Potatoes		
Sugar beets		
Vegetables		
Fruits		
Nuts		
Dairy products		2100 —
Eggs		1180 —
Meat products		
Poultry, dressed		
Wool and mohair		
Honey		
Sirup and sugar		
Other (specify):		
Total		$ 3640 — (Enter on line 2 of summary below)

3. OTHER FARM INCOME

Items	Amount
Mdse. rec'd for produce	$
Machine work	
Hire of teams	
Breeding fees	
Rent rec'd in crop shares	32 —
Work off farm	
Wood and lumber	
Other forest products	
Agricultural program payments	180 —
Other (specify):	
Total	$ 212 — (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)
Bull	1942	$ 225 —	$ 100 —	$	$ 125 —
Horse	1939	40 —	120 —	60 —	− 20 —
Chickens	1944	615 —	84 —		531 —
Total (enter on line 4 of summary below)					$ 636 —

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

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 —	8. Net operating loss deduction (attach statement)	
4. Profit on sale of livestock and other items purchased	636 —		
5. Gross Profits	$ 7428 —	9. Total Deductions	$ 3956 —

10. Net farm profit (line 5 minus line 9) to be reported on line 22, Schedule C, page 3, Form 1040 .... $ 3472 —

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FARM INVENTORY FOR INCOME COMPUTED ON AN ACCRUAL BASIS Page 2

Description (Kind of livestock, crops, or other products)	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	
	Quantity	Inventory value	Quantity	Amount paid	Quantity	Inventory value	Quantity	Inventory value	Quantity	Amount received	Quantity	Inventory value
Horses	2	$150 —		$		$		$	2	$100 —		$
Cows	12	1500							3	320	12	1600 —
Heifers	5	375									7	525
Calves	7	210			13				9	160	6	240
Bull	1	200							1	225		
Sows	6	300							6	360	5	150
Boar	1	40									1	40
Pigs	30	360	30	150 —	45		2		68	2040	30	240
Hens	300	375					70		260	290	280	350
Chicks			600	84			100		250	325		
Milk										2100		
Eggs										1180		
Corn	1200	1200			1600						1400	1500
Oats	600	360			450						300	270
Hay	50	500			60						55	605
Silage	40	160			50						40	200
Straw	10	50			12						8	48
Mill feed	3T.	150									2T.	130
Wheat					400				240	360		
TOTALS		$5930 — (Enter on line 4)		$234 — (Enter on line 5)		$ —		$ —		$7460 — (Enter on line 2)		$5898 — (Enter on line 1)

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON AN ACCRUAL BASIS

1. Inventory of livestock, crops, and products at end of year		$5898 —	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		32	9. Net operating loss deduction (attach statement)	
a. a. a. Payment		180		
3. TOTAL		$13570 —		
4. Inventory of livestock, crops, and products at beginning of year	$5930 —			
5. Cost of livestock and products purchased during year	234	6164 —		
6. Gross profits (line 3 minus the sum of lines 4 and 5)		$7406 —	10. TOTAL DEDUCTIONS	$3956 —
11. Net farm profit (line 6 minus line 10) to be reported on line 22, Schedule C, page 3, Form 1040				$3450 —

FARM EXPENSES FOR TAXABLE YEAR (See Instructions) Page 3

1. Items	2. Amount	3. Items (Continued)	4. Amount (Continued)
Labor hired	$ 1220 —	Other farm expenses (specify):	
Feed purchased	830 —	Crop expense	$ 315 —
Seed, plants, and trees purchased		Building and fence repair	116
Machine hire		Machinery repair	124
Supplies purchased		Tractor expense	178
Cost of repairs and maintenance		Truck expense	182
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, state 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 or other basis 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	1929	$ 2400 —	$ 0	$ 900 —	$ 1560 —	40	25	$ 60 —
Silo	1929	500	0	300	260	25	10	26
Granary	1929	600	0	360	240	25	10	24
Hen house	1929	750	0	375	375	30	15	25
Machine shed	1939	400	0	80	320	25	20	16
Hog house	1929	300	0	150	150	30	15	10
Tractor (old)	1937	900	0	630	270	—	—	—
Tractor (new)	1944	1170	0	0	1170	10	10	117
Other machinery		3600 X						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 Farm Account Book.

Old tractor was traded for a new one and $900 difference was paid.

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Some of the Year's Business Transactions

The Smiths in 1944 sold 2 horses for $100. One of the horses was raised on the farm and one was purchased in 1939 for $120. 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 1942, was sold for beef during the year for a gain of $125. The 3 cows culled out and sold during the year were all raised on the farm. Three of the 5 heifers freshened during the year, and 5 heifer calves were raised, making 2 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 rest were sold. Thirty feeder hogs 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 the 250 pullets to make 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 the baby chicks was $84 for 1944, 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 or fences during 1944, 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 1944. It cost $900 in 1937 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 $1,170 for the new tractor.

The Net Farm Profit

The Smiths' net farm profit for the year amounted to $3,472 on the cash basis, and to $3,450 on the accrual basis. This difference is due to a lower inventory of livestock and feed at the end than at the beginning of the year.

THE FEDERAL INCOME TAX CALCULATION OF FORM 1040

The Smiths calculated their federal income tax as is shown on pages 10, 11 and 13 of this bulletin in the reproduction of the first, second and fourth pages of Form 1040.

The $3,472 net farm profit, as calculated on the cash basis, has been transferred from Form 1040F to item 4 page 1 of Form 1040. If the accrual basis had been used, then the $3,450 net farm profit would have been transferred to item 4 page 1 of Form 1040.

The $12 of income received as interest on a savings account has been entered as item 3 on page 1 of Form 1040 and added to the net farm profit of $3,472, making a total income of $3,484. In this particular case their farm is owned jointly and their business is conducted as such, thus each is legally entitled to one-half of the profits as is indicated in the space provided under item 5 page 1.

The Short Form

This year any taxpayer with an "adjusted gross income" of less than $5,000 may use the tax table on page 2 instead of calculating the tax on page 4 of Form 1040. This method is more simple and if the deductions allowed on page 4 are less than 10 percent of the "adjusted gross income," it is advantageous for the taxpayer to use the short form.

The Smiths decided to use the tax table as their deductions were less than 10 percent of their adjusted gross income. Following the instructions on page 2, Form 1040, (their income of $3,484 is over $3,450 but less than $3,500) the amount of their tax seems to be $304 as there are 4 persons listed, as item 1 on page 1. However, this is a joint return for the husband and wife, so the special rule at the bottom of page 2 applies. The income of each is the same ($1,742), and 3 percent of this amount is considerably more than $15, so the amount of the tax as indicated in the tax table ($304) is reduced by $15. Consequently, the amount of the tax is $289 as is shown in item 6 page 1 of Form 1040.

This return was made before January 15, so there would be nothing to enter in item 7 as no "estimate" has been made. The entire amount of $289 must accompany this return. If this return were made between January 15 and March 15, the "Declaration of Estimated Income Tax" would have been made prior to January 15. This estimate would have been accompanied by a payment based on the estimate and then only the balance due would accompany this return.

File this return with Collector of Internal Revenue on or before March 15, 1945. Any balance of tax due (item 8, below) must be paid in full with return. See separate Instructions for filling out return.

Page 1

FORM 1040
Treasury Department
Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN
FOR CALENDAR YEAR 1944

1944

or fiscal year beginning ...., 1944, and ending ...., 1945

Do not write in these spaces
File Code
Serial No.
District
(Cashier's Stamp)

EMPLOYEES.—Instead of this form, you may use your Withholding Receipt, Form W-2 (Rev.), as your return, if your total income was less than $5,000, consisting wholly of wages shown on Withholding Receipts or of such wages and not more than $100 of other wages, dividends, and interest.

NAME Adam E. Smith and Mary Smith
(PLEASE PRINT If this return is for a husband and wife, use both first names)

ADDRESS R 2
(PLEASE PRINT Street and number or rural route)

— Michigan Social Security No. (if any) ....
(City or town, postal zone number) (State)

Your Exemptions

1. List your own name. If married and your wife (or husband) had no income, or if this is a joint return of husband and wife, list name of your wife (or husband). List names of other close relatives with 1944 incomes of less than $500 who received more than one-half of their support from you. If this is a joint return of husband and wife, list dependent relatives of both.

NAME (Please print)	Relationship	NAME (Please print)	Relationship
Your name Adam E. Smith	x x x x x x x x x		
Mary Smith	Wife		
John Smith	Son		
Betty Smith	Daughter		

Your Income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1944, BEFORE PAY-ROLL DEDUCTIONS for taxes, dues, insurance, bonds, etc. Members of armed forces and persons claiming traveling or reimbursed expenses, see Instruction 2.

PRINT EMPLOYER'S NAME	WHERE EMPLOYED (CITY AND STATE)	AMOUNT
		$

Enter total here → $

3. Enter here the total amount of your dividends and interest (including interest from Government obligations unless wholly exempt from taxation) 12 00

4. If you received any other income, give details on page 3 and enter the total here (1040 F) 3472 00

5. Add amounts in items 2, 3, and 4, and enter the total here .... $ 3484 00

If item 5 includes income of both husband and wife, show husband's income here, $ 1742 ; wife's income here, $ 1742

How to Figure Your Tax

IF YOUR INCOME WAS LESS THAN $5,000.—You may find your tax in the tax table on page 2. This table, which is provided by law, is based on the same tax rates as are used in the Tax Computation on page 4. The table automatically allows about 10 percent of your total income for charitable contributions, interest, taxes, casualty losses, medical expenses, and miscellaneous expenses. If your expenditures and losses of these classes amount to more than 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 4.

IF YOUR INCOME WAS $5,000 OR MORE.—Disregard the tax table and compute your tax on page 4. You may either take a standard deduction of $500 or itemize your deductions, whichever is to your advantage.

HUSBAND AND WIFE.—If husband and wife file separate returns, and one itemizes deductions, the other must also itemize deductions.

Tax Due or Refund

6. Enter your tax from table on page 2, or from line 15, page 4 .... $ 289 00

7. How much have you paid on your 1944 income tax?

(A) By withholding from your wages (Attach Withholding Receipts, Form W-2) $

(B) By payments on 1944 Declaration of Estimated Tax ....

Enter total here → 0

8. If your tax (item 6) is larger than payments (item 7), enter BALANCE OF TAX DUE here .... $ 289 00

9. If your payments (item 7) are larger than your tax (item 6), enter the OVERPAYMENT here .... $

Check (✓) whether you want this overpayment: Refunded to you ☐; or Credited on your 1945 estimated tax ☐

If you filed a return for a prior year, what was the latest year? 1943
To which Collector's office was it sent? Detroit
To which Collector's office did you pay amount claimed in item 7 (B), above? —

Is your wife (or husband) making a separate return for 1944? no ("Yes" or "No")
If "Yes," write below:
Name of wife (or husband) ....
Collector's office to which sent ....

I declare under the penalties 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)

.... (Name of firm or employer, if any)

Adam E. Smith (Signature of taxpayer) Jan. 5, 1945 (Date)

Mary Smith (If this is a joint return of husband and wife, it must be signed by both)

(SEE TAX TABLE BELOW)
↓

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Page

If you use this table, tear off this page and file only pages 1 and 3

TAX TABLE—FOR INCOMES UNDER $5,000

Read down the shaded columns below until you find the line covering the total income you entered in item 5, page 1. Then read across to the column headed by the number corresponding to the number of persons listed in item 1, page 1. Enter the tax you find there in item 6, page 1.
Husband and wife see Special Rule at end of table.

If total income in item 5, page 1, is—		And the number of persons listed in item 1, page 1, is—				
At least	But less than	1	2	3	4	5 or more
		Your tax is—				
80	$550	$0	$0	$0	$0	$0
550	575	1	0	0	0	0
575	600	7	1	1	1	1
600	625	12	2	2	2	2
625	650	17	2	2	2	2
650	675	22	3	3	3	3
675	700	27	4	4	4	4
700	725	32	4	4	4	4
725	750	38	5	5	5	5
750	775	43	6	6	6	6
775	800	48	6	6	6	6
800	825	53	7	7	7	7
825	850	58	8	8	8	8
850	875	64	8	8	8	8
875	900	69	9	9	9	9
900	925	74	10	10	10	10
925	950	79	10	10	10	10
950	975	84	11	11	11	11
975	1,000	89	12	12	12	12
1,000	1,025	95	12	12	12	12
1,025	1,050	100	13	13	13	13
1,050	1,075	105	14	14	14	14
1,075	1,100	110	14	14	14	14
1,100	1,125	115	15	15	15	15
1,125	1,150	120	20	16	16	16
1,150	1,175	126	26	16	16	16
1,175	1,200	131	31	17	17	17
1,200	1,225	136	36	18	18	18
1,225	1,250	141	41	18	18	18
1,250	1,275	146	46	19	19	19
1,275	1,300	152	52	20	20	20
1,300	1,325	157	57	20	20	20
1,325	1,350	162	62	21	21	21
1,350	1,375	167	67	22	22	22
1,375	1,400	172	72	22	22	22
1,400	1,425	177	77	23	23	23
1,425	1,450	183	83	24	24	24
1,450	1,475	188	88	24	24	24
1,475	1,500	193	93	25	25	25
1,500	1,525	198	98	26	26	26
1,525	1,550	203	103	27	27	27
1,550	1,575	208	108	27	27	27
1,575	1,600	214	114	28	28	28
1,600	1,625	219	119	29	29	29
1,625	1,650	224	124	29	29	29
1,650	1,675	229	129	30	30	30
1,675	1,700	234	134	34	31	31
1,700	1,725	239	139	39	31	31
1,725	1,750	245	145	45	32	32
1,750	1,775	250	150	50	33	33
1,775	1,800	255	155	55	33	33
1,800	1,825	260	160	60	34	34
1,825	1,850	265	165	65	35	35
1,850	1,875	271	171	71	35	35
1,875	1,900	276	176	76	36	36
1,900	1,925	281	181	81	37	37
1,925	1,950	286	186	86	37	37
1,950	1,975	291	191	91	38	38
1,975	2,000	296	196	96	39	39
2,000	2,025	302	202	102	39	39
2,025	2,050	307	207	107	40	40
2,050	2,075	312	212	112	41	41
2,075	2,100	317	217	117	41	41
2,100	2,125	322	222	122	42	42
2,125	2,150	327	227	127	43	43
2,150	2,175	333	233	133	43	43
2,175	2,200	338	238	138	44	44
2,200	2,225	343	243	143	45	45
2,225	2,250	348	248	148	48	45
2,250	2,275	353	253	153	53	16
2,275	2,300	359	259	159	59	47

If total income in item 5, page 1, is—		And the number of persons listed in item 1, page 1, is—								
At least	But less than	1	2	3	4	5	6	7	8	9 or more
		Your tax is—								
$2,300	$2,325	$364	$264	$164	$64	$47	$47	$47	$47	$47
2,325	2,350	369	269	169	69	48	48	48	48	48
2,350	2,375	374	274	174	74	49	49	49	49	49
2,375	2,400	379	279	179	79	49	49	49	49	49
2,400	2,425	384	284	184	84	50	50	50	50	50
2,425	2,450	390	290	190	90	51	51	51	51	51
2,450	2,475	395	295	195	95	51	51	51	51	51
2,475	2,500	400	300	200	100	52	52	52	52	52
2,500	2,525	405	305	205	105	53	53	53	53	53
2,525	2,550	410	310	210	110	54	54	54	54	54
2,550	2,575	415	315	215	115	54	54	54	54	54
2,575	2,600	421	321	221	121	55	55	55	55	55
2,600	2,625	426	326	226	126	56	56	56	56	56
2,625	2,650	431	331	231	131	56	56	56	56	56
2,650	2,675	436	336	236	136	57	57	57	57	57
2,675	2,700	441	341	241	141	58	58	58	58	58
2,700	2,725	446	346	246	146	58	58	58	58	58
2,725	2,750	452	352	252	152	59	59	59	59	59
2,750	2,775	457	357	257	157	60	60	60	60	60
2,775	2,800	462	362	262	162	62	60	60	60	60
2,800	2,825	468	367	267	167	67	61	61	61	61
2,825	2,850	473	372	272	172	72	62	62	62	62
2,850	2,875	479	378	278	178	78	62	62	62	62
2,875	2,900	485	383	283	183	83	63	63	63	63
2,900	2,925	490	388	288	188	88	64	64	64	64
2,925	2,950	496	393	293	193	93	64	64	64	64
2,950	2,975	502	398	298	198	98	65	65	65	65
2,975	3,000	507	403	303	203	103	66	66	66	66
3,000	3,050	516	411	311	211	111	67	67	67	67
3,050	3,100	527	422	322	222	122	68	68	68	68
3,100	3,150	538	432	332	232	132	69	69	69	69
3,150	3,200	549	442	342	242	142	71	71	71	71
3,200	3,250	561	453	353	253	153	72	72	72	72
3,250	3,300	572	463	363	263	163	73	73	73	73
3,300	3,350	583	473	373	273	173	75	75	75	75
3,350	3,400	594	484	384	284	184	84	76	76	76
3,400	3,450	606	496	394	294	194	94	77	77	77
3,450	3,500	617	507	404	304	204	104	79	79	79
3,500	3,550	628	518	415	315	215	115	80	80	80
3,550	3,600	639	529	425	325	225	125	82	82	82
3,600	3,650	651	541	435	335	235	135	83	83	83
3,650	3,700	662	552	446	346	246	146	84	84	84
3,700	3,750	673	563	456	356	256	156	86	86	86
3,750	3,800	684	574	466	366	266	166	87	87	87
3,800	3,850	696	586	477	377	277	177	88	88	88
3,850	3,900	707	597	487	387	287	187	90	90	90
3,900	3,950	718	608	498	397	297	197	97	91	91
3,950	4,000	729	619	509	408	308	208	108	92	92
4,000	4,050	741	631	521	418	318	218	118	94	94
4,050	4,100	752	642	532	429	329	229	129	95	95
4,100	4,150	763	653	543	439	339	239	139	96	96
4,150	4,200	774	664	554	449	349	249	149	98	98
4,200	4,250	786	676	566	460	360	260	160	99	99
4,250	4,300	797	687	577	470	370	270	170	100	100
4,300	4,350	808	698	588	480	380	280	180	102	102
4,350	4,400	819	709	599	491	391	291	191	103	103
4,400	4,450	831	721	611	501	401	301	201	104	104
4,450	4,500	842	732	622	512	411	311	211	111	106
4,500	4,550	853	743	633	523	422	322	222	122	107
4,550	4,600	864	754	644	534	432	332	232	132	109
4,600	4,650	876	766	656	546	442	342	242	142	110
4,650	4,700	887	777	667	557	453	353	253	153	111
4,700	4,750	898	788	678	568	463	363	263	163	113
4,750	4,800	909	799	689	579	473	373	273	173	114
4,800	4,850	921	811	701	591	484	384	284	184	115
4,850	4,900	932	822	712	602	494	394	294	194	117
4,900	4,950	943	833	723	613	504	404	304	204	118
4,950	5,000	954	844	734	624	515	415	315	215	119

1742,
.03
52.26

Less $15.00

SPECIAL RULE FOR HUSBAND AND WIFE

If item 5, page 1, includes the incomes of both husband and wife, reduce the tax you found in the table by 3 percent of the smaller of the two incomes but not by more than $15. For an example, see last paragraph of page 2 of Instructions.

The Long Form

If the Smiths had chosen to compute their tax instead of using the tax table this computation would have been like the example on page 4, Form 1040, shown on page 13 of this bulletin.

Since they gave $200 to the Community Church, $10 to the United War Fund and $5 to the American Red Cross, their total contributions were $215.

They paid out no interest except that on the farm mortgage and that was deducted as a farm expense. They did, however, pay some taxes in addition to those deducted on Form 1040F. These taxes included $35, Michigan State Sales Tax; $5 for the personal (non-farm) share of the Michigan auto license fee, and $2.50 for the personal (non-farm) share of the Michigan gasoline tax (the farm share of the auto expense has already been taken care of in the farm expense section of Form 1040F); thus making a total of $42.50.

The Smiths belong to a group hospitalization plan that costs $18 per year and in addition paid $62 to the dentist, $20 to the family physician, and $5 for medicine at the local drug store. The total medical and dental expenses amount to $105. There was no medical deduction since in their case only that amount over $174.20 could be deducted.

The next step is to subtract the deduction ($257.50) from the "adjusted gross income" ($3,484); this gives a net income of $3,226.50. As there are four persons listed on page 1 of Form 1040, the surtax exemption is $2,000 ($500 per person). Subtracting gives the surtax net income of $1,226.50, which according to the surtax table (see page 25 of this bulletin) is taxed at the rate of 20 percent. In other words the surtax amounts to $245.30.

The next job is figuring the normal-tax. The normal-tax deduction is $500 per taxpayer and no deduction for dependents. In this particular illustration Mr. and Mrs. Smith own the farm jointly and conduct their business as such, thus each are federal income taxpayers and the first $500 of income for each is deductible. Since each one's income was over $500 the combined deduction is $1,000. The net income ($3,226.50) less the normal-tax deduction ($1,000) leaves the amount ($2,226.50) subject to the normal-tax rate of 3 percent. Three percent of $2,226.50 makes the normal-tax $66.80.

The surtax of $245.30 plus the normal-tax of $66.80 makes their total federal income tax liability of $312.10 when figured the long way. Actually, the tax in this example is less when the short-form or tax table is used, as the deductions amounted to less than 10 percent of the "adjusted gross income."

Page 3

Do not itemize deductions if—(1) You determine your tax from the tax table on page 2, or
(2) Your total income is $5,000 or more and you claim the $500 standard deduction.
If husband and wife living together at end of year file separate returns and one itemizes deductions, the other must file his or her return on Form 1040, and must also itemize deductions.

DEDUCTIONS

	Describe deductions and state to whom paid. If more space is needed, list deductions on separate sheet of paper and attach to this return			Amount	
Contributions	Community Church	$ 200	00		
	United War Fund	10	00		
	American Red Cross	5	00		
	Allowable Contributions (not in excess of 15 percent of item 5, page 1)	215	00	$ 215	00
Interest		$			
	Total Interest				
Taxes		$			
	Michigan Sales Tax on				
	non-farm purchases	35	00		
	Personal share auto license	5	00		
	Personal share gas tax	2	50		
	Total Taxes	42	50	42	50
Losses from fire, storm, shipwreck, or other casualty, or theft		$			
	Total Allowable Losses (not compensated by insurance or otherwise)				
Medical and dental expenses	Group Hospitalization	$ 18	00		
	Dr. Jones (Dentist)	62	00		
	Dr. Brown (Family doctor)	20	00		
	Prescription	5	00		
	Net Expenses (not compensated by insurance or otherwise)	$ 105	00		
	Enter 5 percent of item 5, page 1, and subtract from Net Expenses	174	20		
	Allowable Medical and Dental Expenses. See Instruction for limitation				
Miscellaneous (including alimony, amortizable bond premium, special deduction for the blind, etc.)		$			
	Total Miscellaneous Deductions				
	TOTAL DEDUCTIONS			$ 257	50

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 2

1. Enter amount shown in item 5, page 1. This is your Adjusted Gross Income		$ 3484	00
2. Enter DEDUCTIONS (if deductions are itemized above, enter the total of such deductions; if adjusted gross income (line 1, above) is $5,000 or more and deductions are not itemized, enter the standard deduction of $500)		257	50
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income		$ 3226	50
4. Enter your Surtax Exemptions ($500 for each person listed in item 1, page 1)		2000	00
5. Subtract line 4 from line 3. Enter the difference here. This is your Surtax Net Income		$ 1226	50
6. Use the Surtax Table in instruction sheet to figure your Surtax on amount entered on line 5. Enter the amount here		$ 245	30
7. Copy the figure you entered on line 3, above. (If line 3 includes partially tax-exempt interest, see Tax Computation Instructions)		$ 3226	50
8. Enter your Normal-Tax Exemption ($500 if return includes income of only one person; otherwise see Tax Computation Instructions)		1000	00
9. Subtract line 8 from line 7, and enter the difference here		$ 2226	50
10. Enter here 3 percent of line 9. This is your Normal Tax		$ 66	80
11. Add the figures on **lines 6 and 10**, and enter the total here. (If alternative tax computation is made on separate Schedule D, enter here tax from line 15 of Schedule D)		$ 312	10
If you used the $500 standard deduction in line 2, disregard lines 12, 13, & 14, and copy on line 15 the same figure you entered on line 11			
12. Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116)	$		
13. Enter here any income tax paid at source on tax-free covenant bond interest			
14. Add the figures on lines 12 and 13 and enter the total here			
15. Subtract line 14 from line 11. Enter the difference here and in item 6, page 1. This is your tax		$ 312	10

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QUESTIONS AND ANSWERS ABOUT THE 1944 FEDERAL INCOME TAX

1. **Who Must File a Return?** Under the new law a return must be filed by every individual, whether married, single or under age, who has a gross income of $500 or more. This filing requirement is based on gross 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 Is Meant By a Farmer's Adjusted Gross Income?** This is a term used for the first time this year and is simply an individual's gross income after deducting all business expenses. For a typical farmer it would consist of the net profit from his farm business, plus the net profit from other business activity, plus any other personal income.

4. **What Period Should Be Included in the Return?** Most persons are required to report their income 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 from the collector to make the change.

5. **When Is the Report Due?** Final 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. This would be March 15 for those reporting on the calendar year basis. The "estimate" is due 15 days after the close of the year rather than the 15th day of the last month of the taxable year as was true last year. This would be January 15 for those reporting on the calendar year basis.

6. **Must Both the Estimate and the Final Return Be Made This Year?** No. Since the "estimate" is not due until 15 days after the

year's business is completed, the final return may be filed at that time, thus eliminating the "estimate." If, for some reason, the final return cannot be filed at that time, the "estimate" must then be filed and the final must be filed within the next two months.

7. **What Forms Are to Be Used This Year?**

1040ES (if an "estimate" is made)
1040F (to show source of net farm profit)
1040 (individual income tax return)

8. **Is a Farmer Permitted to Use Either the Long or the Short Form This Year?** Yes. Any individual, including a farmer, may use the short Form 1040 if his "adjusted gross income" (see question 3) is less than $5,000. Keep in mind, however, that all farmers must also fill out 1040F, the farm return.

9. **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 which ever 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 profit shall include (1) the sale of livestock* raised, (2) the sale of produce raised, (3) other farm income and (4) the profits on the sale of any livestock* or other items which were purchased. To obtain the net farm profit, deduct from the gross profits, 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 gross farm profits are obtained by (1) adding to the in-

*Except breeding stock, dairy and draft stock that is reported on Form 1040, Schedule D (see item 29 of this bulletin).

ventory value of livestock,* crops and products on hand at the end of the year; the amount received from the sale of livestock,* crops and products during the year; the miscellaneous receipts such as the hire of teams, machinery and the like during the year and then (2) deducting from this sum the inventory value of livestock,* crops and products on hand at the beginning of the year; the cost of livestock* and products purchased during the year. The net farm profits are obtained by deducting the farm expenses incurred during the year (whether paid or not), and the depreciation allowances from the gross profits. (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.

10. 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.

11. What Is a Good Procedure to Follow in Making the Income Tax Report? A farmer should obtain two copies each of Form 1040F, Form 1040 (also 1040ES if an estimate is to be made) and also such other forms as he may need (see items 23, 25 and 27 of this bulletin).

Two copies each of Form 1040F and Form 1040 and one copy of Form 1040ES will be mailed to each farmer who made a return last year. These forms will be mailed during the early part of December. If you do not receive your copies and 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. 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 cor-

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*Except breeding stock, dairy and draft stock that is reported on Form 1040, Schedule D (see item 29 of this bulletin).

rectly. 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 accompanied by the payment due 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

12. **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.

13. **Must Farm Expenses Be Classified According to the Headings on Page 3 of Form 1040F?** No. The Collector of Internal Revenue from Detroit states these headings are merely suggestions and that 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.

14. **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 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 at death 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 1937 would be 3 years in 1944. The entry for 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. The entry for column 5 is that of column 3 minus that of column 6. The amount in column 4 will be zero in most cases for the first few years' reports at least.

Depreciation rates apply on the cost of the item rather than on 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 advantageous for the taxpayer 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 kept more than 6 months and is sold outright or traded for some other kind of property for more than the remaining cost, enter the difference as income on Schedule D, Form 1040; if it is sold for less than the undepreciated value, report the difference as a loss on Schedule D, Form 1040. Note: If the foregoing income is handled as a long term capital gain, only 50 percent is taxable. Permission to do this is given in Section 117 (j) of the Internal Revenue Code.

15. 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 more simple 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 will, 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

16. If a Growing Crop Is Lost by Weather or Other Damage May a Loss Be Claimed? No.

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

18. How Are Receipts from Fire and Windstorm Losses on Buildings and Machinery Handled? The income tax regulation regarding "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 2 years after its receipt was in compliance with the statute where the taxpayer exercised due diligence in searching for suitable property during that period.

19. If Timber Is Sold, Is the Entire Amount Received Considered as Taxable Income? No. If standing timber is sold outright the owner of the timber is allowed to deduct the original capital represented by the timber cut. The profit is taxable as a gain from the sale or exchange of a capital asset. Consequently, if held more than 6 months only one-half is taxable.

For timber that is cut and sold as logs, lumber, cordwood or any other like product, the situation is quite different and may be handled by either of the two following methods. If the second method is followed it must be continued until special permission is granted by the commissioner to change.

(1) Under the old provision, which may still be used, the farm woodland owner who sells logs, wood or any other woodland products includes the receipts as ordinary business income and deducts the business expenses and the original capital represented by the timber cut. He then pays income taxes at current rates on **all of** the profit. For the ordinary small woodlot owner this may still be the best procedure as it is less complicated.

(2) If the farm woodlot owner elects to use the new provision the procedure is as follows: First determine the fair market value (on the stump) at the first of the year. From this figure deduct the original capital represented by the timber cut and the resulting amount is handled the same as gains or losses from the sale or exchange of capital assets.

Then, the taxpayer must determine the "operating profit" from the processing of the stumpage into the timber and timber products which he sells. The first-of-year fair market value of the stumpage becomes the cost of the cut timber for all further business purposes. The difference between the amount received for the timber or timber products and the sum of the "cost" (first-of-year fair market value) of the stumpage plus subsequent expenses for cutting, transportation, etc., would constitute the operation profit. Such profits, of course, would be taxable as ordinary business income received during the year.

For further details, consult the local Bureau of Internal Revenue Office.

20. 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.

21. 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.

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

23. May Any Losses on the Farm Business in Previous Years Be Deducted When Computing the 1944 Income on Form 1040? Yes.

Losses resulting from the operation of the farm business in previous years may be carried forward two years, (if first carried back two years) provided they can be substantiated by income tax returns filed in previous years or by other records (see question 24). 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 23 and 24 of this bulletin. Such losses must be explained and reported on a separate sheet and attached to Form 1040 or on Form 843.

24. **May Losses on the Farm Business in 1944 Be Deducted from Income Earned in Succeeding Years?** Yes. Losses for 1944 may be carried back two years. Losses **not made use of in this way** may be carried forward two years. The qualification presented under item 23, however, applies to use of such losses.

25. **How Do Farm Partnerships (or joint ventures in farming) Report Income Tax Returns?** (1) In filing a report for a farm partnership or a joint venture in farming, 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 should send in the Form 1065 along with his individual report. (2) Another procedure is to fill out partnership Form 1065. This form shows the gross income and farm deductions and also the share of the profit to each partner. Then each partner would file his individual return (Form 1040) entering his share of the profit in Schedule E. This would eliminate the necessity of each partner filing Form 1040F showing his share.

26. **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.

27. **How About the Hired Man's Income?** The law does not require a farmer to withhold federal income tax 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) on their farms are $500 or more 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 person is paid. This should normally be done on or before February 15, 1945.

28. **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 is nontaxable. A person in the armed forces is also entitled to the regular civilian exemption and credit for dependents. Dependency allowances received by a wife or other dependents is not taxable income to the recipient. That portion contributed to dependents by the service man is considered as taxable income to him. Pensions, annuities, or other allowances for personal injury or sickness incurred during active service are nontaxable. 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. These provisions apply to their wives unless they have income of $500 or more of their own.

29. **May Livestock Sold for Breeding, Dairy or Draft Purposes Be Handled as Long-Term Capital Gain if Kept More Than 6 Months?** Yes. Livestock whether raised or purchased when sold for breeding, dairy or draft purposes is considered as property used in trade or business and may be handled on Schedule D, Form 1040 instead of on 1040F. Consequently if kept more than 6 months, only 50 percent of the gain is taxable. This may result in a considerable saving to persons selling breeding, dairy or draft stock. Farmers are allowed to use this provision whether making their return on cash or accrual basis. For further details see Section 117 (j) of the Internal Revenue Code or local revenue offices.

CALCULATING THE REGULAR INCOME TAX

30. What Is the Personal Exemption from the Normal Tax? Every individual taxpayer is entitled to an exemption of $500 regardless of marital status. An exemption of $1,000 is allowed a husband and wife filing a joint return unless the adjusted gross income (see question 3) of one spouse is less than $500, in which case the total exemption is limited to $500 plus the adjusted gross income of such spouse. On farms where the real estate is owned jointly and the income is legally divisable between husband and wife, each spouse is allowed an exemption of $500 or $1,000 for both in a joint return.

The "standard" specific exemption for the normal tax is **$500 per taxpayer.** If the husband and wife are filing a joint return and claiming an exemption of $1,000, the reason for such claim should be explained either on Form 1040, or on a separate sheet to be attached to Form 1040.

31. What Is the "Normal Tax" Rate? Three percent. This rate applies to the "net income" less the "normal tax exemption" as is discussed in question 30.

32. What Are the Personal Exemptions from the Surtax? A "surtax exemption" of $500 for the taxpayer, $500 for his spouse if a joint return is filed or if a separate return and the spouse has no gross income and is not a dependent of another person, and $500 for each dependent whose gross income is less than $500.

33. What Is the New Definition of Dependent? Under the new law there are three tests to be met before a surtax exemption for a dependent is allowed. These are:

(1) The claimed dependent must have less than $500 gross income for the calendar year in which the taxable year of the taxpayer begins.

(2) More than half of his support for that calendar year must have been received from the taxpayer.

(3) The dependent must be one of the following relatives: children, grandchildren, great-grandchildren, etc.: stepchildren (but not their children); brothers and sisters; step-brothers and sisters; half-brothers and sisters; parents, grandparents, great-grandparents, etc.; step-father or step-mother (but not their parents); nephews and nieces; uncles and aunts; and "in-laws"—son, daughter, father, mother, brother or sister.

(Note: The 18-year age limit on dependents is not in effect this year.)

34. Should the Income for Minor Children Be Included with the Parent's Income for Tax Reporting Purposes? No. This provision has been revised this year so that the minor's income, even though received by the parent, should not be included with the parent's gross income. It is in all cases considered income for the minor and if more than $500 he must file a separate return.

35. What Are the Surtax Rates? If the surtax net income is:

Not over $2,000......................	20% of Surtax net income.
Over $2,000 but not over $4,000........	$400 plus 22% of excess over $2,000
Over $4,000 but not over $6,000........	$840 plus 26% of excess over $4,000
Over $6,000 but not over $8,000........	$1,360 plus 30% of excess over $6,000
Over $8,000 but not over $10,000.......	$1,960 plus 34% of excess over $8,000
Over $10,000 but not over $12,000......	$2,640 plus 38% of excess over $10,000
Over $12,000 but not over $14,000......	$3,400 plus 43% of excess over $12,000
Over $14,000 but not over $16,000......	$4,260 plus 47% of excess over $14,000
Over $16,000 but not over $18,000......	$5,200 plus 50% of excess over $16,000

36. Is There Any Deduction for Medical Expenses? Yes, when the long Form 1040 is used. Medical expenses in excess of 5 percent of the "adjusted gross income" may be deducted on page 4 of Form 1040 in calculating the surtax net income, to a maximum of $2,500 where more than one surtax exemption is allowed. If only one surtax exemption is allowed the maximum deduction is $1,250.

37. How Much Can Be Deducted for Charitable Contributions? Not more than 15 percent of the "adjusted gross income" can be deducted (only on long Form 1040).

38. Would It Be Advantageous for a Farmer Whose Adjusted Gross Income Is Less Than $5,000 to Use the Short Form 1040? It would be advantageous only if the personal deductions for contributions, taxes, medical expenses, etc. (see page 4, Form 1040) were less than 10 percent of the "adjusted gross income" as that is the approximate rate used in computing the tax table. If the farmer's personal deductions would amount to more than 10 percent of the "adjusted gross income" it would be to his advantage to use the long Form 1040.

SUMMARY

It is recommended that the taxpayer start early and take his time at the job of filling out his income tax report. One way to make the job of determining the "net farm profit" seem less time consuming is to add up the expenses and income in the farm account book at the end of each month. He should fill out the report to the best of his ability. He will not be penalized for "honest" mistakes. File the report on time.

It is further suggested that most farmers prepare and file their final return before January 15, 1945 so that it will not be necessary to file the "estimate" that is due at that time. If the final return for some reason cannot be made by that time, the Declaration of Estimated Income Tax (Form 1040ES) is due then and the final return (Forms 1040F and 1040) is due on or before March 15, 1945.

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 4 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 next year's tax return and to aid in studying your farm business.

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