

Hobby farming frowned upon by IRS

By JERRY WEBB
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NEWARK, Del. - If you farm for fun, not for profit, you're not a farmer in the eyes of Uncle Sam. The Internal Revenue Service takes a dim view of hobby farmers who try to qualify for the usual farm deductions, according to W. T. McAllister, Extension farm management specialist at the University of Delaware.

Despite extensive changes in the tax laws brought about by the Tax Reform Act of 1976, the specialist points out that hobby farming rules were revised very little. The real test of the situation, he says, is whether a farm is operated for profit or for the pleasure of recreation of the owner. If

the taxpayer has a profit motive in his farming activities, IRS says he may deduct farming losses from non-farm income. But he must prove his intention to be a profit-producing farmer. The best way to do that is make a profit, according to McAllister.

Past practice indicated that IRS has allowed a taxpayer to deduct farming expenses when a profit is actually made. But if there has been a loss, both hobby farm expenses and receipts are ignored. Some expenses are deductible even for a hobby farm, the specialist points out. Those include casualty losses, interest and real estate taxes.

Quoting the IRS manual, McAllister says Section 183 provides a presumption that a taxpayer is engaged in an activity for profit if gross income exceeds deductions for that activity in two or more of the five consecutive years which end with the taxable year. A two out of seven year rule applies to breeding, training, racing and showing horses.

If the taxpayer meets the two-year requirement, McAllister says, it's up to the IRS to demonstrate that the taxpayer does not have a profit motive for engaging a farming activity.

In making the election to have a period of years show a profit motive, he says the taxpayer consents to an

extension of the three-year statute of limitations for years in the five-year period until two years following due date of the last year in the period.

Even if the taxpayer does not elect or cannot meet "two out of five year" presumption, the specialist says can still provide evidence of a true profit motive.

The Internal Revenue Service considers a number of factors in arriving at a decision. Some of these include the farm expertise of the taxpayer or his advisors, (2) time and effort devoted to the operation and maintenance of farm records, (3) whether the activity is conducted in a businesslike manner, (4) use of a professional manager, (5) size of operation, (6) efforts by the taxpayer to acquire knowledge related to the activity, (7) expectation that the farm assets will appreciate in value and (8) the taxpayer's history of income or loss from farming.

A number of court cases have shown that a taxpayer needs to have a genuine, but not necessarily reasonable, intention of profiting in a farming activity.

This point is important, particularly for taxpayers with little or no farming experience who begin certain operations with the mistaken belief that there is a reasonable profit opportunity, according to the management expert.

Milk per cow at all-time high

WASHINGTON, D.C. - Milk production in the United States keeps on going up, and the main reason is that each individual cow keeps on improving in her output.

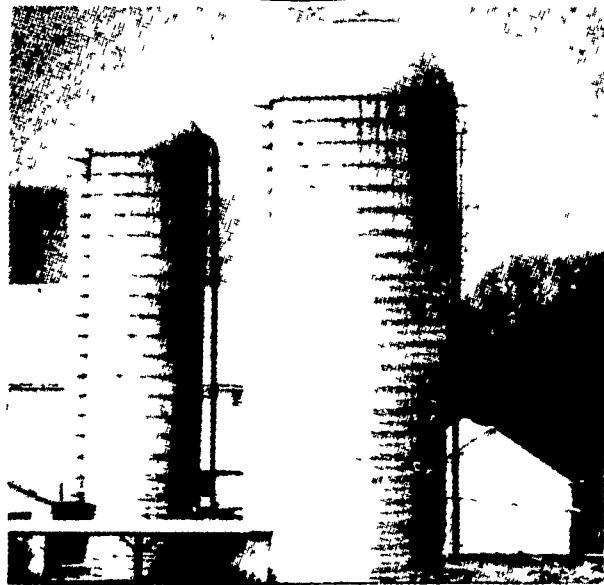
Last month, for example, 11.3 billion pounds of milk were produced in the United States, according to figures released by USDA. That was up by 1.7 per cent over the previous year. Moreover, this marked the 21st straight month that production has been above that of a corresponding month a year earlier.

During that period, the number of milk cows on farms has decreased; not sharply, but the trend has continued down. Those on farms during May, for example, totaled 11,978 head, down only six-tenths of one per cent from a year earlier, down only 11,000 head from a month earlier.

Production per cow has been above a year earlier for 21 straight months. Last month, it averaged 1029 pounds per cow. That's the highest for any month, ever. For the record, it topped the former high, set in May 1976, of 1,006 lbs.

Also, for the record, May output in Wisconsin was up two per cent from a year earlier. It was up fractionally from a year ago in California; up two per cent in Minnesota, up four per cent in Pennsylvania; down one per cent from May 1976 in New York. The five accounted for a fraction under 50 per cent of the U.S. total.

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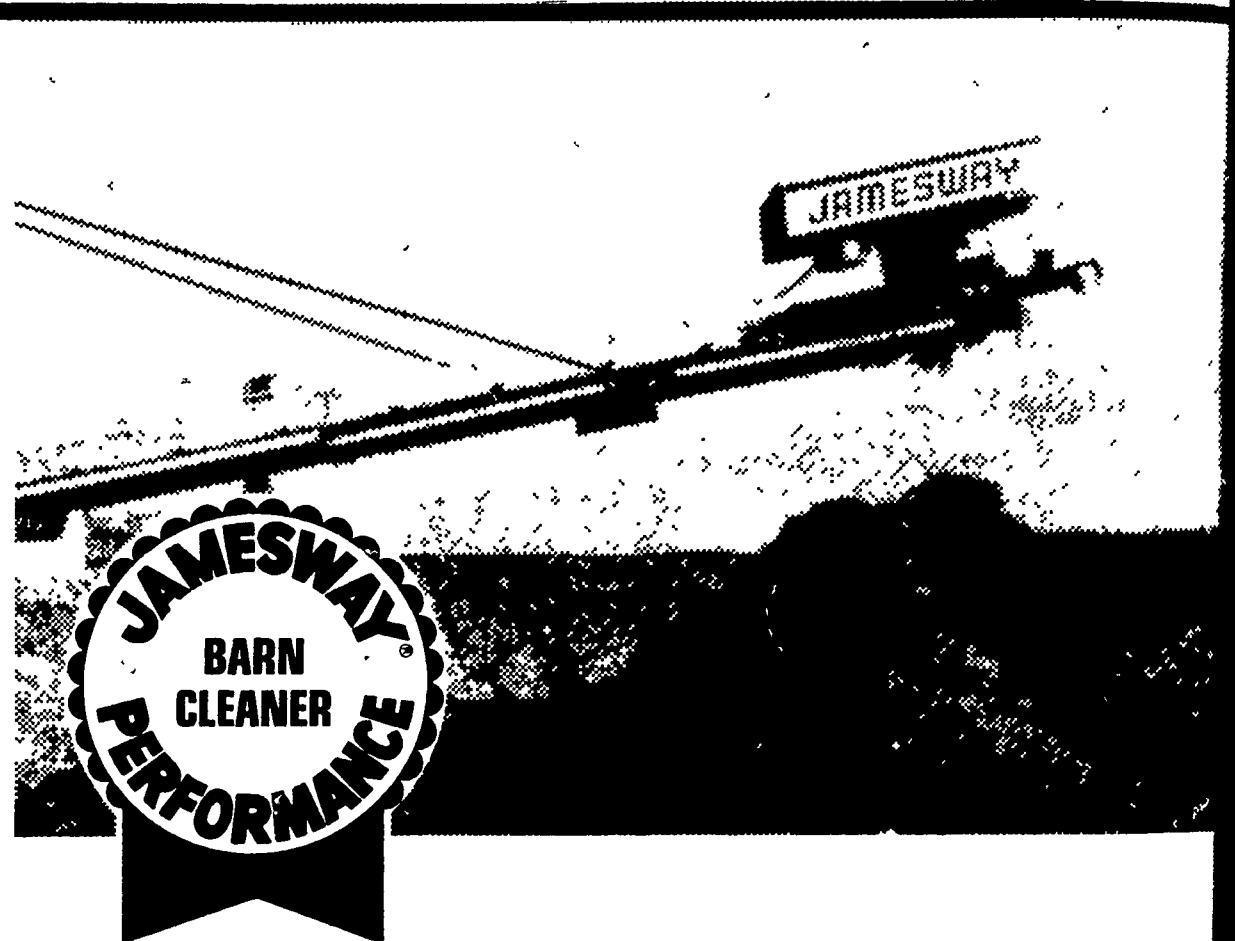
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