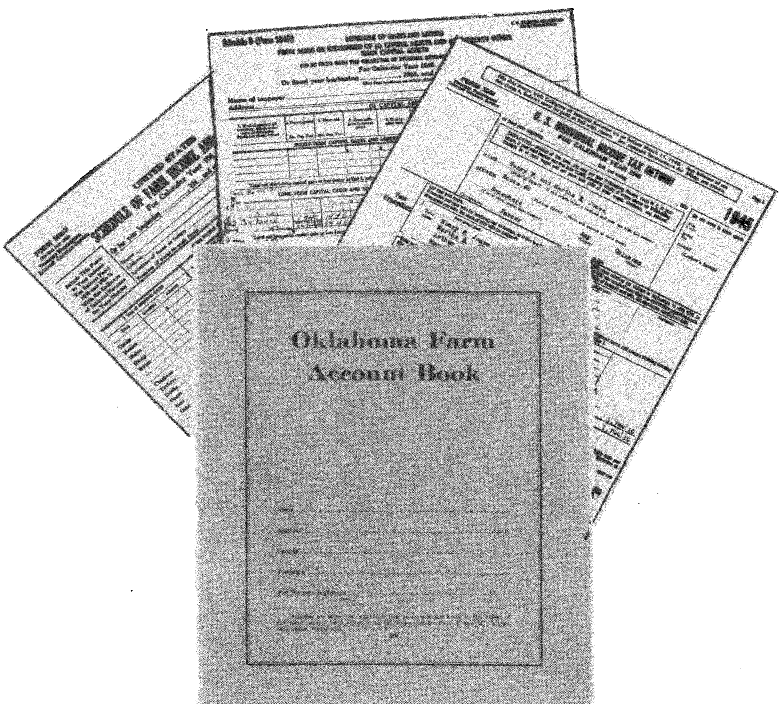
PREPARATION OF FARM INCOME TAX RETURNS



Circular No. 421 — 1946

Oklahoma Agricultural and Mechanical College
Cooperating with
United States Department of Agriculture
Extension Service
Shawnee Brown, Director
Stillwater, Oklahoma

PREPARATION OF FARM INCOME TAX RETURNS

You folks on the farm can make your own federal income tax returns. The main part of the job is the figuring out or caluculation of your net farm profit. This is properly done for farmers on form 1040-F, Schedule of Farm Income and Expenses, prepared by the Treasury Department, Internal Revenue Service. Although changes in federal income tax laws may have been frequent, examination of form 1040-F as used during the last ten years shows no important changes at all. The 1040-F forms now being provided for 1945 and succeeding years leave a blank space in which to indicate the year. This indicates no expected changes in this form in the near future. Its use can be readily learned.

The Federal Income Tax law of 1944 provided a simple tax table for the determination of the amount of tax due on your net farm income. The same tax rates and table will apply on your 1945 federal income tax. This table, which is made a part of your federal income tax return form 1040, can be used by anyone whose income is not over $5,000. By using this method, unless you have had unusual family medical expenses, you can determine the amount of tax due without the necessity of knowing any special deductions that can "save you more taxes than the cost of hiring someone to make out your return."

Since your main task when preparing a farm federal income tax return is the determination of the net farm profit, some examples of completed forms 1040-F, A Schedule of Farm Income and Expenses, are being offered in this circular as your guide in preparing your own income tax return. Those who are required to make state income tax returns may use a copy of the same form 1040-F for reporting their net farm income to the Oklahoma Tax Commission.

ILLUSTRATIONS

A. Cash Basis of Reporting

Mr. Jones reports his farm income upon the cash basis on pages 1 and 3 of form 1040-F, Schedule of Farm Income and Expenses, as given in Example A. He reports sales of livestock raised in section 1, page 1, form 1040-F, showing sales of cattle, sheep, swine, and chickens. Notice that when reporting upon the cash basis a sale of any livestock that had been previously purchased is not reported in section 1 but in section 4.

Mr. Jones reports sales of produce raised in section 2. He lists sales of wheat, hay, cotton, dairy products, eggs and wool in the amounts indicated for each.

Under section 3 Mr. Jones reports other farm income, which in this case includes income from doing custom work with machinery, and also various kinds of AAA income. Examples of different kinds of AAA income are used here to illustrate the difference in reporting performance

FORM 1040 F
(Revised July 1945)
Treasury Department
Internal Revenue Service

Page 1

UNITED STATES
SCHEDULE OF FARM INCOME AND EXPENSES
For Calendar Year 1945

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 ____________, 194__, and ending ____________, 194__

Name Henry F. and Martha E. Jones
Address Route #2, Somewhere, Oklahoma
Location of farm or farms 6 miles North, Somewhere, Oklahoma
Number of acres in each farm 720

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	27	$1,893	
Horses			
Mules			
Sheep	16	243	
Swine	20	513	
Chickens		58	
Turkeys			
Ducks			
Goats			
Bees			
Other (specify):			
Total		$2,707	00

(Enter on line 1 of summary below)

2. SALE OF PRODUCE RAISED

Kind	Quantity	Amount	
Grain Wheat		$1,860	00
Hay		420	00
Cotton		630	00
Tobacco			
Potatoes			
Sugar beets			
Vegetables			
Fruits			
Nuts			
Dairy products		1,232	00
Eggs		318	00
Meat products			
Poultry, dressed			
Wool and mohair		98	00
Honey			
Sirup and sugar			
Other (specify):			
Total		$4,558	00

(Enter on line 2 of summary below)

3. OTHER FARM INCOME

Items	Amount	
Mdse. rec'd for produce	$	
Machine work	213	00
Hire of teams		
Breeding fees		
Rent rec'd in crop shares		
Work off farm		
Wood and lumber		
Other forest products		
Agricultural program payments	93	00
Other (specify):		
AAA Committee	36	00
AAA Phosphate	100	00
AAA Lime	27	50
Total	$ 469	50

(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)	
1 Bull	1938	$ 143	00	$ 75	00	$ 56	25	$ 124	25
7 Cows	1938	453	00	350	00	262	50	365	50
1 Cow	1942	73	00	90	00	22	50	5	50
4 Ewes	1943	49	00	40	00	8	00	17	00
10 Hogs	1945	366	00	120	00			246	00
Total (enter on line 4 of summary below)								$ 758	25

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

1. Sale of livestock raised	$2,707	00	6. Expenses (from page 3)	$4,825	25
2. Sale of produce raised	4,558	00	7. Depreciation (from page 3)	548	15
3. Other farm income	469	50	8. Net operating loss deduction (attach statement)		
4. Profit on sale of livestock and other items purchased	758	25			
5. Gross Profits	$8,492	75	9. Total Deductions	$5,373	40
10. Net farm profit (line 5 minus line 9) to be reported on line 22, Schedule C, page 2, Form 1040				$3,119	35

16—41204-2

pay under AAA, committee service pay, and commodities received. A special announcement was made early in 1944 by the Bureau of Internal Revenue and the AAA that all commodities received by farmers under the AAA program must be reported as income. This would include payments made for pond and terrace construction. If work of this type has been done by a contractor and the payment made by AAA direct to the contractor, the payment need not be reported by the farmer.

EXAMPLE A - CASH BASIS OF REPORTING

FARM EXPENSES FOR TAXABLE YEAR (See Instructions)

1. Items	2. Amount		3. Items (Continued)	4. Amount (Continued)	
Labor hired	$465	00	Other farm expenses (specify):		
Feed purchased	1,265	00	Truck Repairs	$213	00
Seed, plants, and trees purchased	128	00	Tractor Repairs	330	00
Machine hire	20	00	Other Machinery Repairs	65	00
Supplies purchased (small tools)	48	00	Cotton Picking	216	00
Cost of repairs and maintenance Bldgs.	110	00	Chicks Purchased	24	00
Breeding fees			Death Loss: 1 cow Purchased		
Fertilizers and lime	165	00	1942: Cost $85 less depreciation		
Veterinary and medicine for livestock	49	00	for 2 years @ 12½% (8 yr. useful		
Gasoline, other fuel and oil for farm business	825	00	life) $85 - $21.25 =	63	75
Storage and warehousing			Meals Purchased while		
Taxes	194	00	on trips to market	35	00
Insurance on property (except your dwelling)	22	00	Dues to Farm Organization	5	00
Interest on farm notes and mortgages	240	00	Farm Books, Papers, Magazines	3	50
Water rent, electricity, and telephone	24	00			
Rent of farm, part of farm, or pasturage	215	00			
Freight, yardage, express, and trucking					
Automobile upkeep (farm share)	100	00			
Total of Columns 2 and 4 (enter on line 6 of summary on page 1 (cash basis) or line 7, page 2 (accrual basis))				$4,825	00

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	
Barn	1930	$1,800	00	$	$	$	30		$60	00
Poultry House	1933	360	00				25		14	40
Brooder House	1935	180	00				20		9	00
Machine Shed	1940	400	00				20		20	00
Garage	1938	300	00				25		12	00
Tractor	1940	900	00				10		90	00
Plow	1940	215	00				10		21	50
Cultivator	1940	175	00				10		17	50
Planter	1940	190	00				10		19	00
Mower	1942	125	00				10		12	50
Truck	1939	850	00				10		85	00
Total (enter on line 7 of summary on page 1 (cash basis) or line 8, page 2 (accrual basis))									$	

Remarks:

Auto (Farm Share)	1937	3/4 ($1,000.00)	10	75 00
1 Mare	1942	125 00	10	12 50
1 Bull	1943	320 00	8	40 00
3 Cows	1942	270 00	8	33 75
8 Ewes	1943	80 00	5	16 00
1 Sow	1941	50 00	5	10 00
Total				$548 15

16—31881-1

Section 4 requires considerable special attention by farmers reporting upon the "cash" basis. Sales of livestock which have been purchased by the farmer should be reported in this section. From the sale price should be deducted the original cost price of the animal, less depreciation since the date of purchase. Five different examples are used by Mr. Jones showing that regardless of the year a farmer buys an animal that the cost price is not a farm expense or deduction until the animal is finally sold. (For a discussion of the depreciation that should be reported in column 5 of section 4 see a discussion and comparison of examples on page 13.) Under present rulings regarding sales of capital assets, sales such as these reported here in section 4 may under certain conditions be reported instead on schedule D, form 1040. For a discussion of this proposition see succeeding discussion and sample entries on schedule D, pages 17 to 21.

Mr. Jones reports his cash farm expenses and depreciation allowances on page 3 of form 1040-F. Note that the classification of cash expenses need not follow exactly the headings given on form 1040-F. The blank spaces under "Other farm expenses" may be used to list all farm expenses as they may be classified in your farm account book. Note also that Mr. Jones has reported a death loss of a cow purchased in a preceding year. From the purchase price of the cow has been deducted a depreciation allowance in determining the amount of the death loss which is deductible.

The annual depreciation allowance for Mr. Jones is listed on the depreciation table at the bottom of page 3. Usually this table is not large enough to list all of the depreciable buildings, equipment and livestock purchased that would be found on a farm of this size. An additional sheet should therefore be used to list all depreciable property. (See succeeding discussion and examples of depreciation rates and tables on pages 10 to 15.) Note that Mr. Jones lists on his depreciation schedule some breeding animals. When reporting upon the cash basis, only animals *purchased* for breeding, dairy or work stock may be placed upon the depreciation schedule.

The totals of Mr. Jones' cash farm expenses and depreciation allowance are carried from page 3 back to the Summary of Income and Deductions computed on a cash Receipts and Disbursements Basis at the bottom of page 1. The totals of farm income from sections 1, 2, 3, and 4 are entered on the appropriate lines in the summary table and the total of $8,492.75 entered on line 5 for Gross Profits. Cash expenses (line 6) and Depreciation (line 7) are added to get the total deductions (line 9) of $5,373.40. By subtracting the total deductions from the Gross Profits Mr. Jones has his net farm profit of $3,119.35 which is entered on line 10. This figure is then to be entered in schedule C, page 2, form 1040 when calculating the individual income tax due.

B. Accrual Basis of Reporting

Mr. Jones' net farm profit for the same year's business is figured on the accrual or inventory basis on pages 2 and 3 of form 1040-F. Page 1 is used only for the recording of the name and address as was shown on page 1 of Example A. In reporting on the accrual basis, Mr. Jones must keep an annual record of inventory of livestock in addition to the usual records of investment in buildings and machinery, and the farm income and expenses.

The farm income and livestock inventory at the beginning and end of the year are listed on page 2. A separate line is used for each kind of livestock kept and for each different kind of product sold. Those farmers using the Oklahoma Farm Account Book, or any other book providing space for livestock inventories, should easily find the figures for the beginning of the year and the end of the year for each class of livestock on those inventory pages. The Oklahoma Farm Account Book also gives on the summary pages of sales and expenses the other figures needed for showing purchases and sales of each class of livestock. Sales of other farm commodities are also summarized in appropriate columns. Columns are provided on page 2 of form 1040-F for listing the number and value of animals raised and the number and value of animals consumed or lost during the year. Entries in these two columns are not necessary. Entries in these two columns are helpful, however, at least for the number of head of each kind of livestock in accounting for the total number of animals. The total number of animals on hand at the beginning of the year plus the number purchased plus the number raised should equal the number consumed or lost plus the number sold plus the number on hand at the end of the year. This balance or accounting for number of head may have been already made in the regular farm livestock inventory. Entries might therefore be limited to the dollar valuation in the first two and last two columns on page 2 since these are the only columns from which totals are used at the bottom of he page in preparing the summary of farm income.

The entry of one cow lost at inventory value of $85 shows how Mr. Jones receives the deduction for the death loss for the same cow that was reported as a death loss on page 3, form 1040-F, when reporting on the cash vasis. When reporting upon the accrual basis, Mr. Jones, or any other farmer, receives a reduction in net income in the same manner on death losses of all animals whether raised or purchased. Death loss deductions under the cash basis of reporting are allowable only on animals purchased.

Mr. Jones' farm expenses are reported on page 3 on the accrual basis with almost the same identical figures used as when reporting on the cash basis. The following specific differences may be noted in this instance. (1) The purchase price of baby chicks when reporting on accrual basis is more properly entered on page 2 under the column "Purchased During Year" and on the line used for reporting on chickens. (2) The death loss of the cow is reported on page 2 resulting in a decrease in closing inventory instead of reporting as a loss on page 3. Other expense items that may be different when reporting on accrual basis are: (1) Any expense incurred whether paid or not. (2) Advalorem tax assessed for year only, whether paid or not. (3) Interest accrued for the year only, whether paid or not. A difference in the depreciation schedule should also be noted in that no livestock are listed upon that schedule. In this example all livestock have been listed in the inventory. It is possible for farmers reporting upon the accrual basis to carry all dairy, breeding or work stock, whether raised or purchased, on a depreciation schedule. To do so requires a special

EXAMPLE B - ACCRUAL BASIS OF REPORTING

FARM INVENTORY FOR INCOME COMPUTED ON AN ACCRUAL BASIS

Description (Kind of livestock, crops, or other products)	On Hand at Beginning of Year: Quantity	On Hand at Beginning of Year: Inventory value	Purchased During Year: Quantity	Purchased During Year: Amount paid	Raised During Year: Quantity	Raised During Year: Inventory value	Consumed or Lost During Year: Quantity	Consumed or Lost During Year: Inventory value	Sold During Year: Quantity	Sold During Year: Amount received	On Hand at End of Year: Quantity	On Hand at End of Year: Inventory value
Horses	3	$325 00		$		$		$		$	3	$325 00
Cattle	75	4780 00	20	1190 00	37		1	85 00	36	2562 00	95	4450 00
Sheep	41	350 00	3	18 00	16				20	292 00	40	313 00
Hogs	23	363 00	10	120 00	12		3		30	879 00	12	180 00
Chickens	125	125 00	240	24 00					48	58 00	126	126 00
Wheat										1860 00		
Hay										420 00		
Cotton										630 00		
Dairy Products										1232 00		
Eggs										318 00		
Wool										98 00		
Totals		$5943 00 (Enter on line 4)		$1352 00 (Enter on line 5)		$		$		$8349 00 (Enter on line 2)		$5394 00 (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		$5,394 00	7. Expenses (from page 3)	$4,737 50
2. Sales of livestock, crops, and products during year		8,349 00	8. Depreciation (from page 3)	435 90
2a. Other miscellaneous receipts (specify):			9. Net operating loss deduction	
Machine Hire		213 00	(attach statement)	
ACP Payments and Committee Service		129 00		
AAA Lime and Phosphate		127 50		
3. Total		$14,212 50		
4. Inventory of livestock, crops, and products at beginning of year	$5,943 00			
5. Cost of livestock and products purchased during year	1,352 00	7,295 00		
6. Gross profits (line 3 minus the sum of lines 4 and 5)		$6,917.50	10. Total Deductions	$5,173 40
11. Net farm profit (line 6 minus line 10) to be reported on line 22, Schedule C, page 2, Form 1040				$1,744 10

16—41364-2

bookkeeping procedure of listing sucn animals in a separate account and omitting them from the inventory of livestock kept for sale.

Mr. Jones' gross profit for the year is calculated by the use of the summary table at the bottom of page 2 and by following insructions at the bottom of the columns. The total of the last column on the right, "On Hand at End of Year" is entered on line 1. The total of the column, "Sold During Year" is entered on line 2. The extra space under line 2a

EXAMPLE B - ACCRUAL BASIS OF REPORTING

FARM EXPENSES FOR TAXABLE YEAR (See Instructions)

1. Items	2. Amount		3. Items (Continued)	4. Amount (Continued)	
Labor hired	$ 465	00	Other farm expenses (specify):		
Feed purchased	1,265	00	Truck Repairs	$ 213	00
Seed, plants, and trees purchased	128	00	Tractor Repairs	330	00
Machine hire	20	00	Other Machinery Reapirs	65	00
Supplies purchased (Small Tools)	48	00	Cotton Picking	216	00
Cost of repairs and maintenance Buildings	110	00	Meals Purchased while on trips		
Breeding fees			to market	35	00
Fertilizers and lime	165	00	Dues to Farm Organization	5	00
Veterinary and medicine for livestock	49	00	Farm Books, Papers and Magazines	3	50
Gasoline, other fuel and oil for farm business	825	00			
Storage and warehousing					
Taxes	194	00			
Insurance on property (except your dwelling)	22	00			
Interest on farm notes and mortgages	240	00			
Water rent, electricity, and telephone	24	00			
Rent of farm, part of farm, or pasturage	215	00			
Freight, yardage, express, and trucking					
Automobile upkeep (farm share)	100	00			
Total of Columns 2 and 4 (enter on line 6 of summary on page 1 (cash basis) or line 7, page 2 (accrual basis))				$ 4,737	50

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	
Barn	1930	$1,800	00	$		$		$		30		$ 60	00
Poultry House	1933	360	00							25		14	40
Brooder House	1935	180	00							20		9	00
Machine Shed	1940	400	00							20		20	00
Garage	1938	300	00							25		12	00
Tractor	1940	900	00							10		90	00
Plow	1940	215	00							10		21	50
Cultivator	1940	175	00							10		17	50
Planter	1940	190	00							10		19	00
Mower	1942	125	00							10		12	50
Truck	1939	850	00							10		85	00
Total (enter on line 7 of summary on page 1 (cash basis) or line 8, page 2 (accrual basis))												$	

Remarks: Auto (Farm Share) 1937 3/4($1,000.00) 10 75 00

Total 435 90

16—41264-1

is used to record the same other farm income that was reported in section 3, page 1, form 1040-F when reporting upon the cash basis. The figures on lines 1, 2 and 2a are then added and the total entered on line 3. Next, the total of the column, "On Hand at Beginning of Year" is entered on line 4 and the total of the column, "Purchased During Year" is entered on line 5. These two figures are then added and the total extended to the right on line 5 directly beneath the total on line 3. By subtraction (line

3 less sum of lines 4 and 5) we get the "Gross Profit" which in this case is $6,917.50.

In order to compelte the calculation of Mr. Jones' net farm profit on the accrual basis, the total of expenses as listed on page 3 is entered on line 7 and the total of the annual depreciation allowance, from page 3, is entered on line 8. The sum of these two deductions is then entered on line 10 in the amount of $5,173.40. By subtraction of this amount from the gross profit of $6,917.50 we get the net farm profit of $1,744.10. This amount is entered on line 11 and is to be reported on line 22 schedule C, page 2, form 1040 in determining the amount of tax due.

DETERMINATION OF TAX DUE AND COMPLETION OF FORM 1040

If we assume that the Jones' Income Tax return has been filed in previous years on the accrual basis, we may proceed to determine the amount of tax due and fill out form 1040.

Using the net farm profit from Example B, we enter the amount $1,744.10 on line 22, Schedule C, page 2, form 1040 as follows:

Schedule C.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION. (Farmers should obtain Form 1040F)

(State (1) nature of business Farming; (2) business name)

1. Total receipts See Form 1040-F attached $

COST OF GOODS SOLD (To be used where inventories are an income-determining factor) (Enter the letters "C," or "C or M," on line 2 and 8 if inventories are valued at either cost, or cost or market whichever is lower)			OTHER BUSINESS DEDUCTIONS		
2. Inventory at beginning of year	$		11. Salaries and wages not included as "Labor"	$	
3. Merchandise bought for sale			12. Interest on business indebtedness		
4. Labor			13. Taxes on business and business property		
5. Material and supplies			14. Losses (explain in Schedule G)		
6. Other costs (explain in Schedule G)			15. Bad debts arising from sales or services		
7. Total of lines 2 to 6	$		16. Depreciation, obsolescence and depletion (explain in Schedule F)		
8. Less inventory at end of year			17. Rent, repairs, and other expenses (explain in Schedule G)		
9. Net cost of goods sold (line 7 less line 8)	$		18. Amortization of emergency facilities (attach statement)		
10. Gross profit (line 1 less line 9)	$		19. Net operating loss deduction (attach statement)		
			20. Total of lines 11 to 19	$	
			21. Total of lines 9 and 20	$	

22. Net profit (or loss) (line 1 less line 21)	$1,744	10

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1. Net gain (or loss) from sale or exchange of capital assets (from separate Schedule D)		
2. Net gain (or loss) from sale or exchange of property other than capital assets (from separate Schedule D)		

We may next prepare page 1 of Form 1040 by entering names and addresses at the top of the form, and names of members of the family in Section 1, "Your Exemptions". Assuming that farming is the only source of income for the Jones', the net farm profit of $1,744.10 is entered on line 4 and again on line 5. Since this example is to be treated as a joint return the income should be divided under item 5 showing $872.05 income each for husband and wife. By referring to the tax table on page 4, it is seen that the tax on an income of $1,725 to $1,750 where there are 4 persons listed in Section 1, page 1, is $32. By reference to the

If you use this table, tear off this page and file only pages 1 and 2

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—				
$0	$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	46
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

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.

U. S. GOVERNMENT PRINTING OFFICE 16—45757-1

special rule given at the bottom of the page for Husband and Wife, the amount of the tax is reduced by $15. This leaves a tax of $17 due. This amount is then entered on line 6, page 1. A farmer would have nothing to report under item 7-A. If this report is completed before January 15, item 7-B will also be left blank. The amount of tax due would then be entered as item 8.

This form is finally completed by answering the questions in small

File this return with Collector of Internal Revenue on or before March 15, 1946. 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 1945

1945

or fiscal year beginning ...., 1945, and ending ...., 1946

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, 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 Henry F. and Martha E. Jones
(PLEASE PRINT. If this return is for a husband and wife, use both first names)

ADDRESS Route #2
(PLEASE PRINT. Street and number or rural route)

Somewhere (City or town, postal zone number) Any (County) Oklahoma (State)

Occupation Farmer Social Security No. ....

Your Exemptions

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 (as defined in Instruction 1) with 1945 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.

1.

Name (please print)	Relationship	Name (please print)	Relationship
Your name Henry F. Jones	x x x x x x x x x		
Martha E. "	Wife		
Arthur "	Son		
Mary "	Daughter		

Your Income

Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1945, BEFORE PAY-ROLL DEDUCTIONS for taxes, dues, insurance, bonds, etc. Members of armed forces and persons claiming traveling or reimbursed expenses, see Instruction 2.

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) ....

4. If you received any other income, give details on page 2 and enter the total here 1,744 10

5. Add amounts in items 2, 3, and 4, and enter the total here ...... $ 1,744 10

If item 5 includes incomes of both husband and wife, show husband's income here, $ 872.05; wife's income here, $ 872.05

How to Figure Your Tax

IF YOUR INCOME WAS LESS THAN $5,000.—You may find your tax in the tax table on page 4. This table, which is provided by law, 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 3.

IF YOUR INCOME WAS $5,000 OR MORE.—Disregard the tax table and compute your tax on page 3. 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 4, or from line 15, page 3 ...... $ 17 00

7. How much have you paid on your 1945 income tax?
(A) By withholding from your wages ...... $
(B) By payments on 1945 Declaration of Estimated Tax ......
Enter total here →

8. If your tax (item 6) is larger than payments (item 7), enter **BALANCE OF TAX DUE** here ...... $ 17 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 1946 estimated tax ☐

If you filed a return for a prior year, what was the latest year? 1944
To which Collector's office was it sent? Oklahoma City
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 1945? 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)

Henry F. Jones (Signature of taxpayer) 1/10/46 (Date)

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

Martha E. Jones 1/10/46
(If this is a joint return of husband and wife, it must be signed by both)

print at the bottom of the page and signing and dating of the signatures of Henry F. Jones and Martha E. Jones.

ABOUT DEPRECIATION

The depreciation schedule on page 3, form 1040-F, is designed for use in recording cost and depreciation rates of buildings, machinery and similar equipment of a permanent nature. Even though Internal Revenue rulings specify that the total or "aggregate" of the amounts of annual depreciation ***plus the salvage value*** at the end of the useful life of any depreciable property cannot exceed the cost of the property, no space is provided on the depreciation schedule for recording any expected salvage value. The usual accounting formula for determining the amount of annual depreciation is $\frac{c - s.}{n}$ In this formula c = cost, s = salvage value and n — number of years of expected useful life of the piece of property. In the use of the depreciation schedule as prepared the usual practice has been to disregard the "s" or salvage value in the depreciation formula and use simply $\frac{c}{n}$ or cost divided by number of years of life of the piece of property.

This procedure when applied to buildings may be satisfactory because at the time of scrapping old material in a building the cost of salvaging the material may equal or exceed the value of the scrap material. The same practice may apply to machinery. But frequently with machinery the owner may be able to trade fully depreciated machinery in on new machinery at a price well above even scrap or salvage value.

But when the $\frac{c}{n}$ formula for determining depreciation of livestock is used, many unsound or untenable financial situations are encountered. Unlike buildings and machinery, purchased livestock frequently increases in value by reason of growth and gain in weight after purchase. Because of this fact, fortunately, even in periods of declining price trends livestock may be sold for more than the original cost price. Therefore the final sale or salvage value may often exceed the cost. Even after using a breeding animal for its normal expected useful life the sale price of the animal for meat purposes may equal the original cost. It may therefore be said that in order to make depreciation schedules for livestock more nearly reflect the real situation regarding changes in livestock valuation, that consideration may be given to expected or estimated salvage values or sale prices of livestock. This would require one additional column for recording the salvage or expected sale value of the animals for which depreciation is being claimed. Such a depreciation schedule for the purchased livestock listed on page 3 of Example A for Cash Basis of Reporting would appear as follows:

DEPRECIATION

Kind of Property	Date Acquired	Cost	Estimated Salvage Value	Estimated Life	Depreciation Allowable This Year
1 mare	1942	$125	none	10	$12.50
1 bull	1943	320	$100	8	27.50
3 cows	1942	270	180	8	11.25
8 ewes	1943	80	40	5	8.00
1 sow	1941	50	30	5	4.00

SALVAGE VALUES OF LIVESTOCK

The estimated salvage values used in the foregoing table are not intended to suggest what particular values should be used or might be acceptable by the Bureau of Internal Revenue. It is the duty or privilege of the farmer to use the appropriate salvage or expected sale values of his own choice. And it might be said that whether the farmer, or the one who assists him in making out his income tax return, uses this suggested additional depreciation schedule or not, he is still making his own choice of salvage values if he places livestock on a depreciation schedule. The livestock listed on the depreciation schedule of Example A for cash basis of reporting is listed at a salvage value of zero. If a farmer desires to use anything other than a salvage value of zero for his livestock placed on depreciation schedule, it will be necessary for him to supplement his depreciation schedule with a special one for livestock as suggested above.

DEPRECIATION OF ANIMALS CARRIED IN A CAPITAL ACCOUNT

The examples given in the preceding depreciation table illustrate entries of livestock purchased as they might be made by a farmer reporting upon the cash basis. A farmer reporting upon the accrual basis might choose to place livestock purchased upon the same kind of a depreciation schedule. In that case his entries for depreciation of livestock purchased would be exactly the same.

But a farmer reporting on the accrual basis may choose to treat as capital assets or investment animals used for dairy, breeding or work stock, whether they were purchased or raised. His depreciation schedule might then carry animals purchased or raised. The cost on animals purchased would be the original purchase price. The cost, upon which depreciation will be based, for animals raised will be the inventory value of the animals at the time they are taken out of the regular livestock in-

DEPRECIATION SCHEDULE
for
DAIRY, BREEDING, OR WORK STOCK
when treated as
CAPITAL ASSETS

Description or Identification	Year Purchased or Capitalized	Cost or Inventory Value	Estimated Salvage Value	Estimated Life	Yearly Depreciation Allowance
2 horses	1944	$200.00	$ 50.00	10	$15.00
10 cows	1941	650.00	500.00	8	18.75
10 cows	1942	650.00	500.00	8	18.75
10 cows	1943	700.00	500.00	8	25.00
10 cows	1944	700.00	500.00	8	25.00

ventory, and placed in a capital account. In the depreciation schedule which follows, the 2 horses listed might represent an example of animals purchased. The following four entries illustrate how entries might be made for groups of animals. Each entry may represent the animals that matured into "breeding" animals each year. The cost would be inventory value at the beginning of that year. The salvage value would be that selected by the farmer-record-keeper. The figure for "Estimated Life" is that suggested by the Bureau of Internal Revenue in Bulletin F on depreciation rates.

MUST DEPRECIATION BE CONSIDERED ON LIVESTOCK?

When computing expenses of operating a business the cost of maintaining capital equipment *may* be included as an expense or deduction up to the amount of the annual depreciation allowance. Frequently, on farms, the net income has been so low that no tax has been due even though nothing has been included in the expense account for depreciation allowance. Later when any depreciable property is sold the question arises: Must depreciation be taken into account in determining the gain or loss on the sale? The Internal Revenue rulings regarding treatment of sales of livestock as sales of capital assets are very specific in stating that depreciation allowed or allowable must be taken into account in determining the gain or loss on the sale. This means that in determining the gain or loss on a sale of livestock treated as a sale of capital assets, depreciation must be taken into account whether the animal has been previously carried on a depreciation schedule or not. The same thing applies to any farm building or piece of machinery that may be sold.

During the past few years, some individuals who have been making farm income tax returns upon the cash basis have refused to consider depreciation allowable when reporting sales of livestock purchased. Section 4, page 1, of form 1040-F has therefore been prepared as follows, using the same livestock sales reported in Example A previously shown:

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)	
1 aged bull	1938	$ 143 00	$ 75 00	$ 0	$ 68 00	
7 cows	1938	453 00	350 00	0	103 00	
1 cow	1942	73 00	90 00	0	- 17 00	loss
4 ewes	1943	49 00	40 00	0	9 00	
10 hogs	1945	366 00	120 00	0	246 00	
TOTAL (enter on line 4 of summary below)					$ 409 00	

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

Farm schedules that have been prepared upon the cash basis and have had section 4 prepared without regard to depreciation allowed or allowable on sales of livestock purchased are now being assessed additional tax as they are being audited by the U. S. Collector of Internal Revenue at Oklahoma City.

By comparing the above example of section 4 with that used in Example A, cash basis of reporting, it may be seen that there is a difference of $349.25 in the amount of profit on the sale of livestock purchased. At the rate of tax that applied to either 1944 or 1945 net incomes, this would make a difference of $72 in the amount of tax due. If the error were not discovered until a year or two after the return was filed, additional assessment would be made for interest on back tax due.

DEPRECIATION FOR REMODELED BUILDINGS

Farm record keepers sometime encounter a problem in depreciation when a building has been remodeled, rebuilt, or an addition has been made to the building. The simplest and easiest procedure might be to simply carry the original building on the depreciation schedule at its original cost and depreciation rate and add another item to the depreciation schedule for the remodel work or addition. A new or different depreciation rate or Estimated Life may be selected for the addition or remodel work dependent upon the expected useful life of the addition. Example:

DEPRECIATION SCHEDULE

Item	Date Acquired	Cost	Estimated Life	Annual Depreciation Allowance	Value at Beginning of Year
Barn	1930	$1,800	30	$60	$960
Addition to barn	1945	300	20	15	

The individual record keeper may prefer to combine the two entries into a single one for the remodeled building. In that case the depreciated cost of the building as of the beginning of the year may be calculated. To this will be added the cost of the improvement or addition to show a new cost as of the date of the remodeling or addition. A new length of life or depreciation rate is selected. Using the beginning of the year value for the barn in the example above the new depreciation schedule entry would be:

Item	Date Acquired	Cost	Estimated Life	Annual Depreciation Allowance	Value at Beginning of Year	Value at End of Year
		$960				
Barn (Remodeled)	1945	300	20	$63	$960	$1,197
		$1260				

VALUATION AND DEPRECIATION OF BUILDINGS ON FARM RECENTLY PURCHASED

Individuals who have purchased farms at a specific purchase price for the farm with buildings are frequently uncertain how to proceed with determination of cost and depreciation rates on the existent buildings. Sometimes a farm appraisal is available, as in the case of Tenant-Purchase borrowers under the Farm Security Administration. Such appraisals do show appraised values of buildings individually and land separately. But usually, and even in this instance, it is the right of the purchaser to decide what portion of the total purchase price represents cost of land and what part represents cost of buildings. It should be remembered that the part of the purchase price representing cost of land is not subject to depreciation, while the cost price of buildings is subject to depreciation. Such information will be needed sometime later when the farm may be sold in order to determine gain or loss on the sale of the farm. It should therefore be made a part of the farm record.

After deciding the portion of the total purchase price that represents cost of buildings, the individual should divide this cost between the different buildings and select appropriate depreciation rates for each building. It might appear easier to simply list all buidings at a single cost price and at a single depreciation rate. This should not be done for at least three reasons: First, the cost price would include the dwelling (if one existed upon the farm), for which depreciation must be considered but cannot be deducted on an income tax return if the tax payer uses the house for his personal dwelling; second, it is quite unlikely that all buildings would have the same expected remaining useful life; and third, when buildings are removed, remodeled, or rebuilt, it is usually only one at a time and at that time a separate valuation would be needed for that building.

As an example: If a 200-acre farm was purchased at $10,000, the purchaser may declare that the land without improvements was worth or had cost him $40 per acre or $8,000. That would leave $2,000 for cost of buildings. That might then be allocated by him on his books as follows:

FARM BUILDINGS AND IMPROVEMENTS

Item	Date Acquired	Cost	Estimated Life	Annual Depreciation Allowance
House	1945	$1,000	20	50
Barn	1945	600	15	40
Poultry house	1945	150	10	15
Garage	1945	75	5	15
Fences	1945	175	0	0

Notice that depreciation allowance is based upon shorter estimated life than usual. This is done in order to take into account the fact that the buildings and fences were already aged when purchased. In the case of the fences, it is assumed that they are already more than ten years of age. After that age, they may be considered fully depreciated and expect that they be maintained by higher repair and maintenance cost. In the case of a recent purchase, such as this illustration, it would be expected that some further depreciation might be taken. The number of years to be used would depend upon the judgment of the farm operator as to how soon major fence repair would have to be undertaken.

ARE YOUR BREEDING ANIMALS CAPITAL ASSETS?

The ordinary sale of a cow results in farm income for income tax purposes. The sale of a capital asset does not result in income for tax purposes unless the sale was made at more than the cost of the asset. If the capital asset had been owned for more than six months then only half of the gain on the sale becomes income subject to tax. If the capital asset sold happens to be a cow, and especially if the cow was raised by the seller, the question arises: Was farm income received or was one capital asset simply exchanged for another capital asset? The determination of the amount of income subject to tax depends upon whether the farmer is reporting upon the cash basis or the accrual basis, and whether or not the sale of the cow could be classed as a sale of a capital asset.

It took two Income Tax rulings by the Bureau of Internal Revenue to determine when a cow (or other breeding animal) was a capital asset. The first such ruling, announced in June, 1944 said: ". . . . it is held that any livestock used for draft, breeding, or dairy purposes, irrespective of whether such livestock was raised or otherwise acquired, is properly used in the trade or business, of a character which is subject to the allowance for depreciation, within the meaning of Section 117(j) of the Internal Revenue Code, providing it is held for more than six months." It took a second ruling to set up a guide for determining when the sale of animals was a sale of breeding animals, which may be considered a sale of a capital asset. This rule said: "If the number of animals sold from the breeding herd during the year exceeds the number of *raised* animals added to the breeding herd during the same year, it will be presumed that the excess number sold consisted of animals held for breeding purposes, the gain or loss from which (if held for more than six months) is subject to the provisions of Section 117(j) of the Code. Such sales effect a reduction in the livestock raiser's breeding herd. For the purpose of the foregoing test, livestock purchased for the herd to improve its quality or change its breeding shall not be considered as replacing animals sold."

The final paragraph of the second ruling, reported in the Internal Revenue Bulletin of February 12, 1945 reads: "A livestock raiser who claims that sales of his livestock during any taxable year should be treated as sales of capital assets under the provisions of Section 117(j) of the Code should attach to his federal income tax return for such year a statement setting forth the necessary facts relating to the animals sold and indicating in detail the amount entered in his return and the items and schedules in which they are reported."

YEARLY LIVESTOCK INVENTORY NEEDED

In order to show when the sale of breeding animals is eligible for treatment as a sale of a capital asset, the livestock raiser needs a list of

Schedule D (Form 1040)

U. S. TREASURY DEPARTMENT
Internal Revenue Service

SCHEDULE OF GAINS AND LOSSES
FROM SALES OR EXCHANGES OF (1) CAPITAL ASSETS AND (2) PROPERTY OTHER THAN CAPITAL ASSETS

(TO BE FILED WITH THE COLLECTOR OF INTERNAL REVENUE WITH FORM 1040)

For Calendar Year 1945

Or fiscal year beginning ____________, 1945 and ending ____________, 1946

(See Instructions on other side)

Name of taxpayer ______________________________

Address ______________________________

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Cost or other basis	6. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913	7. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	8. Gain or loss (column 4 plus column 7 less the sum of columns 5 and 6)	Gain or loss to be taken into account: 9. Percentage	10. Amount
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS									
			$	$	$	$	$	100	$
								100	
								100	
								100	
Total net short-term capital gain or loss (enter in line 1, column 3, of summary below)									$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS									
1 cow	Raised	1945	$ 100 00	$ 0	$	$ 0	$ 100 00	50	$ 50 00
								50	
								50	
	EXAMPLE 1 For Cash Basis of Reporting							50	
Total net long-term capital gain or loss (enter in line 2, column 3, of summary below)									$

SUMMARY OF CAPITAL GAINS AND LOSSES

1. Classification	2. Capital loss carry-over (attach statement)	3. Net gain or loss to be taken into account from column 10, above: (a) Gain	3. (b) Loss	4. Net gain or loss to be taken into account from partnerships and common trust funds: (a) Gain	4. (b) Loss	5. Total net gain or loss taken into account in columns 2, 3, and 4 of this summary: (a) Gain	5. (b) Loss
1. Total net short-term capital gain or loss	$	$	$	$	$	$	$
2. Total net long-term capital gain or loss		$	$	$	$	$	$
3. Net gain in column 5, lines 1 and 2. (Enter on line 1, Schedule D, page 3, Form 1040)						$	xxxxxx x
4. Net loss in column 5, lines 1 and 2. (The amount to be entered on line 1, Schedule D, page 3, Form 1040, is (1) this item or (2) net income, or adjusted gross income if tax is computed by use of the tax table on page 2, Form 1040, computed without regard to capital gains or losses, or (3) $1,000, whichever is smallest)						xxxxxx x	$

COMPUTATION OF ALTERNATIVE TAX

Use only if you had an excess of net long-term *capital gain* over net short-term *capital loss*, and line 5, page 4, Form 1040, exceeds $16,000

1. Net income (line 3, page 4, Form 1040)	$	10. Normal tax (3% of line 9)	$
2. Excess of net long-term capital gain over net short-term capital loss (line 2, column 5 (a), less line 1, column 5 (b), of summary above)		11. Partial tax (line 6 plus line 10)	$
3. Ordinary net income (line 1 less line 2)	$	12. 50% of line 2	
4. Less: Surtax exemptions (line 4, page 4, Form 1040)		13. Alternative tax (line 11 plus line 12)	$
5. Balance (surtax net income)	$	14. Total normal tax and surtax (line 6 plus line 10, page 4, Form 1040)	$
6. Surtax on line 5. (See Surtax Table in Form 1040 Instructions)	$	15. Tax liability (line 13 or line 14, whichever is the lesser). (Enter on line 11, page 4, Form 1040)	$
7. Ordinary net income (line 3, above). (If partially tax-exempt interest is included, see Tax Computation Instructions on page 4 of Form 1040 instructions)	$		
8. Less: Normal-tax exemption (line 8, page 4, Form 1040)			
9. Balance subject to normal tax	$		

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Kind of property	2. Date acquired	3. Gross sales price (contract price)	4. Cost or other basis	5. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913	6. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	7. Gain or loss (column 3 plus column 6 less the sum of columns 4 and 5)
		$	$	$	$	$
Total net gain (or loss) (enter on line 2, Schedule D, page 3, Form 1040)						$

If any item in this schedule was acquired by you otherwise than by purchase, attach a statement explaining how acquired.

16—41088-1

all animals on hand at the beginning and end of the year. This will be true whether the livestock raiser is reporting on either the cash or the accrual basis. That list should classify the animals by age and sex groups in order to show the number of breeding animals on hand. The classification should show separately the number of cows, bulls, male and female calves, steers, yearling heifers, and two year old heifers. Age and sex classifications should be shown for other classes of livestock being kept on the farm.

HOW MUCH FROM THE SALE OF A CAPITAL ASSET IS SUBJECT TO TAX?

Having established the fact that the sale of a certain breeding animal or animals is eligible for treatment as a sale of capital assets, the report of such sales will be made on Schedue D (form 1040) provided upon request by the Bureau of Internal Revenue. This form provides spaces for reporting dates of sale and purchase of animals, gross sales, cost, depreciation, and gain or loss on the sale. All entries regarding sales of livestock will be entered in the part of the table designated for gains and losses on sales of assets held more than six months.

Example 1 on the sample schedule D shown herewith records the gain on a sale of a cow raised and sold by a farmer reporting on the cash basis. The sale price ($100) is entered in column 4. The entry for cost in column 5 is "zero" for the farmer on the cash basis because he has deducted his costs of raising the animal during preceding years as they were paid out in cash and has not offset those costs by credits to his closing inventory for increased value of the animal. For similar reasons no depreciation can be considered. The gain on the sale, which is the full amount of the sale is therefore entered in column 8 at $100. Since only 50 percent of the gain is taken into account, the entry in column 10 is $50.

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Cost or other basis	6. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913	7. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	8. Gain or loss (column 4 plus column 7 less the sum of columns 5 and 6)	Gain or loss to be taken into account: 9. Percentage	10. Amount
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS									
			$	$	$	$	$	100	$
								100	
								100	
								100	
Total net short-term capital gain or loss (enter in line 1, column 3, of summary below)									$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS									
1 cow	1940	1945	$ 100 00	$ 74 00	$	$ 12 00	$ 38 00	50	$ 19 00
								50	
								50	
	EXAMPLE 2:		Cash or	Accrual	Basis of	Reporting		50	
Total net long-term capital gain or loss (enter in line 2, column 3, of summary below)									$

Example 2 on the same schedule records gains on the sale of a cow purchased. This calcualtion would be the same for farmers on either the cash or accrual basis. Notice that depreciation is shown in column 7 in the amount of $12. This depreciation is based upon the original cost of the cow at $74 less an anticipated salvage price of $50 and an eight year estimated length of life. The yearly depreciation is therefore

$\frac{74-50}{8} = \frac{24}{8} = \$3$. Depreciation allowed for four years is $4 \times \$3 = \$12$.

The gain on the sale (column 8) is $38. Only 50 percent of the gain or $19 is taken into account for tax purposes (column 10).

Note: The gain on a sale is the difference between the gross sale price and the depreciated cost. The depreciated cost is cost less depreciation. A quicker way of getting the same result is: Sale price plus depreciation minus cost. For this, and the succeeding examples on schedule D that means: Column 4 + column 7 — column 5 = column 8, or the gain on the sale.

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Cost or other basis	6. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913	7. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	8. Gain or loss (column 4 plus column 7 less the sum of columns 5 and 6)	Gain or loss to be taken into account: 9. Percentage	10. Amount
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS									
			$	$	$	$	$	100	$
								100	
								100	
								100	
Total net short-term capital gain or loss (enter in line 1, column 3, of summary below)									$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS									
1 cow	Raised	1945	$ 100 00	$ 60 00	$	$ 0	$ 40 00	50	$ 20 00
								50	
								50	
	EXAMPLE 3: For Accrual Basis of Reporting							50	
Total net long-term capital gain or loss (enter in line 2, column 3, of summary below)									$

Example 3 on schedule D records the gain on the sale of a cow raised and sold by a farmer reporting on the accrual basis but who has not carried the beeding animals in a capital asset account separate from the livestock inventory. Column 5 shows as "cost" of the animal the inventory value of the animal at the time of the sale. The Internal Revenue Ruling of February 12, 1945 states that when livestock is inventoried by the "farm-price method" that that method reflects any depreciation which has been sustained. The same ruling says also that when animals are inventoried by the "unit-livestock-price method" the unit livestock price will generally approximate the salvage value. Therefore no calculations for depreciation are necessary when reporting the gain on this sale by farmers reporting on the accrual basis and using either of these two methods of arriving at inventory values. The gain on the sale is therefore $40 (column 8) and the amount of the gain taken into account for tax purposes is therefore only $20.

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Cost or other basis	6. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913	7. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	8. Gain or loss (column 4 plus column 7 less the sum of columns 5 and 6)	Gain or loss to be taken into account: 9. Percentage	10. Amount
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS									
			$	$	$	$	$	100	$
								100	
								100	
								100	
Total net short-term capital gain or loss (enter in line 1, column 3, of summary below)									$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS									
	Capitalized		$	$	$	$	$	50	$
1 cow	1-1-42	1945	100 00	58 00		3 00	45 00	50	22 50
								50	
	EXAMPLE 4: For Accrual Basis of Reporting							50	
Total net long-term capital gain or loss (enter in line 2, column 3, of summary below)									$

Example 4 records the gain on the sale of a cow raised or purchased and sold by a farmer reporting upon the accrual basis but carrying his breeding animals in a capital asset account separate from the livestock inventory. If the cow was raised by the farmer, the "cost" figure in column 5 would be the inventory valuation of the animal on the date of its transfer from the inventory to the capital account. If the animal had been previously purchased, the cost entry in column 5 would be the original cost of the animal if it was a mature breeding animal when purchased. If the animal had been purchased as a calf it may have been carried in the regular livestock inventory until maturity. When later transferred from inventory to capital asset account the "cost" would be the inventory value at the time of the transfer on the books just the same as an animal raised. The depreciation entered in column 7 is based upon an anticipated salvage value (expected sale price) of $50 and an estimated useful life of eight years from date of capitalization. The yearly rate of depreciation is therefore: $58 — $50 ÷ 8 = $1. Depreciation for three years is therefore $3. The gain on the sale is $45 (column 8). Only 50 percent of this gain or $22.50 is taken into account for tax purposes.

Note: Each entry on schedule D may be made to cover one or more animals. The sample entries on schedule D herewith are examples of different entries under different situations. A farmer would have only one, or possibly two, such entries for each kind of livestock handled and from which capital asset sales may have been made within the year. No total is shown on his sample form. In actual use the total of the entries in column 10 (if no other capital gains nor losses were involved) would be carried to schedule D, page 2, on form 1040 for final caluculation of net income subject to tax.

METHODS OF EVALUATING LIVESTOCK IN INVENTORIES

Instructions contained in the Internal Revenue Ruling pertaining to gains and losses from sales of breeding cattle held for more than six months, refer to consideration of depreciation when a farmer is reporting upon the accrual basis and using either the "farm-price-method" or the "unit-livestock-price-method" of evaluating livestock in the inventory. The "farm-price-method" has been referred to and used on farm income tax reports for a number of years. But the "unit-livestock-price-method" was approved by the Bureau of Internal Revenue in December 1944. That announcement became generally known too late in 1945 to affect many farm returns for 1944. Some farmers have said that they have not used the accrual basis of making income tax returns because they did not know what valuation to place upon livestock to be listed in an inventory.

The common rule for inventorying is use cost or market, whichever is lower. Because of the difficulty of determining per unit costs of livestock produced, the "farm-price-method" was first suggested for use by farmers.

This method means simply the use of market-price less the usual cost of getting the animals from the farm to the market. In using this method it is assumed that the farmer would read his own market reports, determine the market grade of his own livestock, and make his own estimate of the probable cost of marketing. It is entirely up to the farmer to do his own figuring on values on the farm. But in following this method he would be expected to go up or down with market prices on his inventory valuations. This could result in either "book profits" or "book losses" on account of market price changes on breeding stock that the farmer never intends to sell until their period of usefulness has been ended.

In order to avoid this situation it has been widely recommended for several years that farmers be permitted to use a constant inventory price for breeding animals kept over a number of years. This was finally approved by Internal Revenue in a ruling announced in December of 1944 which outlined the "unit-livestock-price-method" of inventorying livestock. That ruling provides for the valuation of the different classes of animals in the inventory at a standard unit price for each animal within a class. The livestock raiser electing to use this method is expected to adopt a reasonable classification of the animals in his inventory with respect to the age and kind included so that the unit prices assigned to the several classes will reasonably account for the normal costs incurred in producing the animals within such classes. As an example, the ruling suggests that a cattle raiser may determine that it costs him approximately $15 to produce a calf and $7.50 each year to raise the calf to maturity. Therefore that livestock raiser should adopt a classification and unit price as follows: Calves $15, yearlings $22.50; 2-year olds $30, and mature animals $37.50. This brings the question of inventory valuations back to the cost basis which was first recognized as being difficult for livestock producers. But the word "approximate" is used and each livestock producer selecting this method is permitted to do his own approximating of costs,—subject to final approval of the Commissioner of Internal Revenue. Once selected and approved the unit prices must be consistently used thereafter. Any animals purchased would be listed in the inventory at cost. If the animals were immature at the time of purchase, their inventory cost could be increased at the end of each year by the amount of the established unit, except that no increase would be made at the end of the first year if the animal was purchased during the last six months of the year.

Prepared by

G. K. TERPENING,

Extension Economist, Farm Management

Helpful suggestions were received from Prof. B. F. Harrison, Head, Accounting Department, School of Commerce and also from auditors in the Office of the U. S. Collector of Internal Revenue, Oklahoma City, Oklahoma.

Cooperative Extension Work in
Agriculture and Home Economics
Oklahoma Agricultural and Mechanical College
and
United States Department of Agriculture
Cooperating

LITHOGRAPHED BY CROSSMAN'S, STILLWATER, OKLA.