You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant. A farm includes stock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards.

A farmer, like other taxpayers, must keep records to prepare an accurate income tax return and determine the correct amount of tax. This series explains why one must keep good records, what kinds of records to keep, and how long to keep these records for tax purposes.

### Filing Your Farm Income Tax Returns

- **Why you should keep records**
  - Records can show whether your farm business is improving, which products are selling, or what changes you need to make. Good records can increase the likelihood of business success.

- **What records to keep**
  - You need good records to prepare accurate financial statements. These statements include income (profit or loss) statements and balance sheets. These statements can help you in dealing with your banks and other creditors.

- **How long to keep records**
  - You will receive money from many sources. Your records can identify the source of your receipts. You need this information to separate farm from non-farm receipts and taxable from nontaxable income.

### Part I: WHY KEEP RECORDS?

Everyone in business, including farmers, should keep records. Good records will help:

- **Monitor the progress of your farm operation**
  - Records can show whether your farm business is improving, which products are selling, or what changes you need to make. Good records can increase the likelihood of business success.

- **Prepare your financial statements**
  - You need good records to prepare accurate financial statements. These statements include income (profit or loss) statements and balance sheets. These statements can help you in dealing with your banks and other creditors.

- **Identify source of receipts**
  - You will receive money from many sources. Your records can identify the source of your receipts. You need this information to separate farm from non-farm receipts and taxable from nontaxable income.

- **Keep track of deductible expenses**
  - You may forget expenses when you prepare your tax return unless you record them when they occur.

- **Prepare your tax returns**
  - Keep good records to prepare tax returns. These records must support income, expenses, and credits you report. Generally, these are the same records used to monitor the farm operation and prepare financial statements.

- **Support items reported on tax returns**
  - You must keep your business records available at all times for inspection by the IRS. If the IRS examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.

### Part II: WHAT KINDS OF RECORD TO KEEP?

The law does not require any special kind of records, except in a few cases. You may choose any record keeping system suited to your farm operation that clearly shows your income.

- **Set up the record keeping system using an accounting method that clearly shows income for the tax year.** If you are in more than one business, keep a complete and separate set of records for each business.

- **The record keeping system should include a summary of your business transactions.** This summary is ordinarily made in accounting journals or ledgers or a record book. They must show gross income, as well as your deductions and credits.

- **Keep supporting documents, such as receipts and invoices for purchases, sales, payroll, and other transactions you may have.** These documents contain the information needed to record in record books, journals, or ledgers.

*It is important to keep these documents because they support the entries in your record books, journals, and ledgers and even on your tax return. You should keep them in an orderly fashion and in a safe place.*
Other kinds of records you may keep for tax purposes:

► **Travel, transportation, entertainment, and gift expenses**
   Special record keeping rules apply to these expenses. For more information, see IRS Publication 463.

► **Employment taxes**
   There are specific employment tax records you must keep. For a list, see IRS Publication 51, Circular A.

► **Excise taxes**
   See Farmer’s Tax Guide for the specific records you must keep to verify claim for credit or refund of excise taxes on certain fuels.

► **Assets**
   Assets are the property, such as machinery and equipment, owned and used in business. Keep records to verify certain information about assets, such as annual depreciation and the gain or loss when assets are sold.

► **Financial Account statements as proof of payment**
   If you do not have a canceled check, you may be able to prove payment with certain financial account statements prepared by financial institutions. Note that proof of payment of an amount alone does not establish that you are entitled to a tax deduction. You should also keep other documents, such as credit card sales slips and invoices.

### Part III: HOW LONG TO KEEP RECORDS?

► You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code.

► Generally, this means you must keep records that support an item of income or deduction on a return until the period of limitations for that return runs out.

► The period of limitations is the period of time in which you can amend your return to claim a credit or refund, or the IRS can assess additional tax.

   **The period of time in which you can amend your return to claim credit or refund is generally the later of:**

   3 years after the date your return is due or filed  
   or  
   2 years after the date the tax is paid.

   The IRS has 3 years from the date you file your return to assess any additional tax. If you file a fraudulent return or no return at all, the IRS has a longer period of time to assess additional tax.

   **Always keep copies of your filed tax returns. They help in preparing future tax returns.**

**Employment taxes**

If you have employees, you must keep all employment tax records for at least 4 years after the date the tax becomes due or is paid, whichever is later.

**Assets**

Keep records relating to property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition.

You must keep these records to figure any depreciation, amortization, or depletion deduction, and to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

Generally, if you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up, increased by the money you paid.

You must keep records on the old and new property until the period of limitations runs out for the year you dispose of the new property in a taxable disposition.

**Records for nontax purposes.**

When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes.

For example, your insurance company or creditors may require you to keep them longer than the IRS.


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