
Budgets

Using Quicken to keep your farm records makes record keeping easier. It also allows you to make more use of your record data than you might with a hand-kept set of records. Using the budgeting feature in Quicken to create and monitor projected income and expenses allows you to use your computer records for more than just tax purposes. By creating budget projections and examining projected versus actual income and expenses on a monthly or quarterly basis, you will know how your business is doing financially and can quickly take needed corrective action. It is too late to take action if you wait until the end of the year to find out that your farm business did not do as well financially as you had planned.

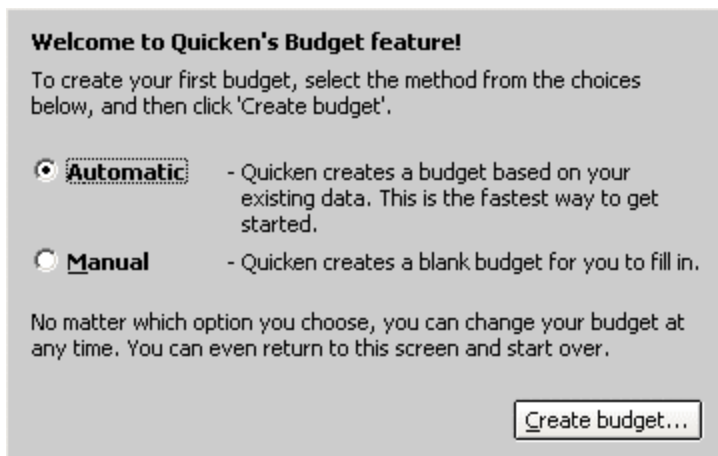
Budgets can be based on the previous year's income and expense records, but need to be adjusted for any changes in the operations and for price changes for products bought or sold.

Within Quicken, budgets can be created by the following three different methods:

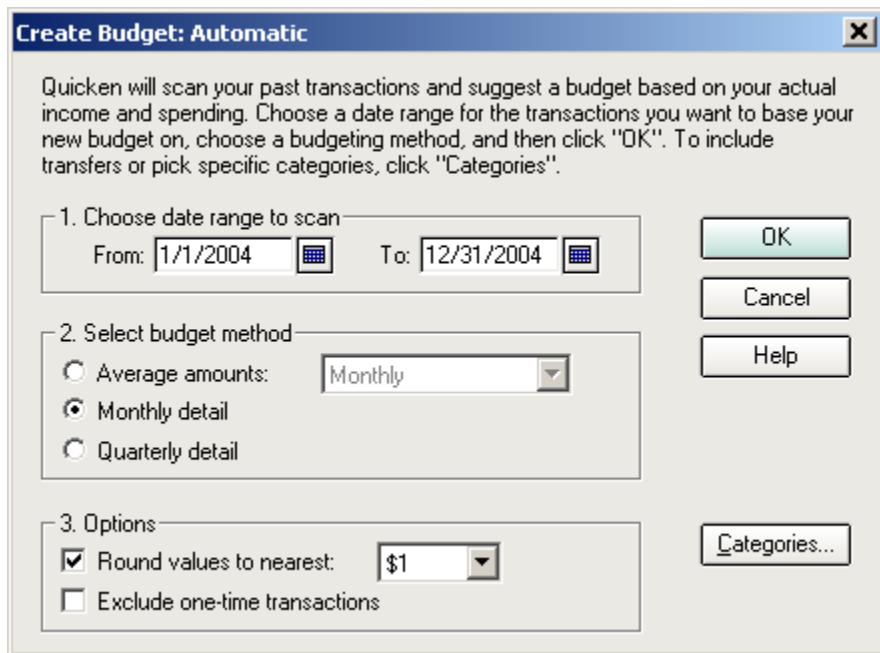
1. Automatic – Quicken creates a budget based on your existing data
 2. Manual – Quicken creates a blank budget for you to fill in
 3. Copy Current – Quicken copies your current budget for you to edit
- **NOTE**** This option is only available after you have created your first budget.

Creating Budgets

To create your first budget **Click Cash Flow** from the menu bar, **Click Budget** to open the *WELCOME TO QUICKEN'S BUDGETING FEATURE*.



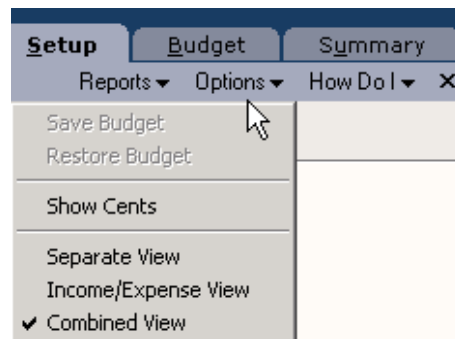
Click Automatic, Click Create budget. The *CREATE BUDGET: AUTOMATIC* window opens.



Set report date, **Click Monthly detail, Click Categories, Click Mark all, Click OK, Click OK.**

Click Setup tab, Click Rename, type budget name (i.e. 2004 Budget), **Click OK.**

After your budget has been created, you can change the way it is displayed by **Clicking the Options button and selecting Separate View, Income/Expense View or Combined View.** We have chosen the combined view.



Click the Summary tab to view the Monthly Budget Summary. To view Monthly Detail click on the month in question, then **Click Details.**

Your budget is working! You have enough money to cover all expenses and transfers to Quicken accounts.

Monthly Budget Summary

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total income:	16,041	16,041	16,041	16,041	16,041	16,041	16,041	16,041	16,041	16,041	16,041	16,041	192,492
Total expenses:	-15,477	-15,477	-15,477	-15,477	-15,477	-15,477	-15,477	-15,477	-15,477	-15,477	-15,477	-15,477	-185,724
Difference:	564	564	564	564	564	564	564	564	564	564	564	564	6,768

To view the budget amounts for a specific month, click on that month in the list above and then click "Details".

Top yearly budget items:

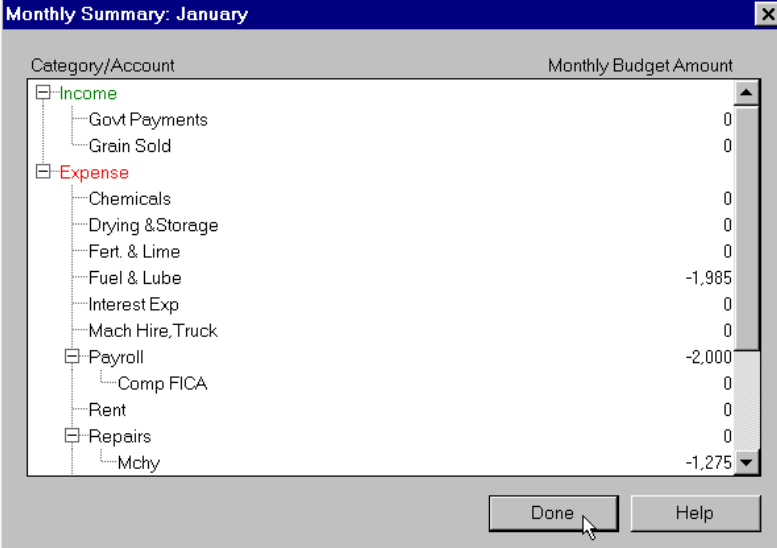
All expenses

Feed Purchased	12.92%
TD 1st Nat'l. Bank	11.15%
Payroll:Gross	9.543%
Capital Purchas	8.361%
TD 1st Nat'l Persnl	5.925%
HIMisc	5.208%
Interest, Mort	4.193%
Repairs:Mchg	4.116%
Other items	38.58%
Total	\$185,724.00

To further analyze your spending, run a [budget report](#).

If you intend to save some or all of your budget surplus, consider setting up a [scheduled savings transfer](#) to help you meet your

The *MONTHLY SUMMARY* window opens.



The screenshot shows a window titled "Monthly Summary: January" with a close button (X) in the top right corner. The window contains a tree view of categories and their corresponding budget amounts. The categories are grouped into "Income" and "Expense".

Category/Account	Monthly Budget Amount
Income	
Govt Payments	0
Grain Sold	0
Expense	
Chemicals	0
Drying & Storage	0
Fert. & Lime	0
Fuel & Lube	-1,985
Interest Exp	0
Mach Hire, Truck	0
Payroll	-2,000
Comp FICA	0
Rent	0
Repairs	0
Mchy	-1,275

At the bottom of the window, there are two buttons: "Done" and "Help". A mouse cursor is pointing at the "Done" button.

When finished **Click Done.**

Editing Budgets

To make changes in any of the budgeted amounts **Click** the **Budget** tab in the *BUDGET* window and **Click** on the income or expense category you want to change. This will bring up the monthly amounts that are currently in the budget (remember we set the budget originally for monthly detail). Just point and **Click** on whatever month you want to change. After changing the monthly amount(s) for this category, **Click Apply** to save the change(s). Repeat this procedure for as many categories as needed to make your budget reflect the proper income and expense projections for the coming year.

Use this page to track your budget items, including income, regular expenditures, and transfers to Quicken accounts. To enter or edit a budget amount, select the item in the list and follow the steps at the right. To add or remove a budgeted item, click "Choose categories" below.

Category/Account	Budget / Period	Monthly average
Income		
Govt Payments	250 Monthly	250
Grain sold	1,682 Monthly	1,682
Inc, Int	7 Monthly	7
LS SOLD	0 Monthly	0
RBreedLT	524 Monthly	524
RMarket	181 Monthly	181
Milk Sold	9,392 Monthly	9,392
FROM 1st Nat'l. Bank	2,279 Monthly	2,279
FROM Payroll-FICA	179 Monthly	179
FROM Payroll-FWH	199 Monthly	199
FROM Payroll-MCARE	38 Monthly	38
FROM Payroll-SWVHOH	16 Monthly	16
FROM TruckLoan	837 Monthly	837
FROM UnloaderLoan	457 Monthly	457
Expense		
Capital Purchas	-1,294 Monthly	-1,294
Chemicals	-250 Monthly	-250
Comm & Mktg.	-3 Monthly	-3
Feed Purchased	-2,000 Monthly	-2,000
Fees	-295 Monthly	-295
Fert. & Lime	-487 Monthly	-487
Fuel & Lube	-374 Monthly	-374
HMisc	-806 Monthly	-806
Insurance	-225 Monthly	-225
Total income:		16,041
Total expenses:		-15,477
Difference:		564

Grain sold

1. Method

Average amount

Monthly detail

Quarterly detail

Apply

Cancel

2. Budget

Jan: 1,682.00 Jul: 1,682.00

Feb: 1,682.00 Aug: 1,682.00

Mar: 1,682.00 Sep: 1,682.00

Apr: 1,682.00 Oct: 1,682.00

May: 1,682.00 Nov: 1,682.00

Jun: 1,682.00 Dec: 1,682.00

Analyze...

Show category groups

Totals: Monthly

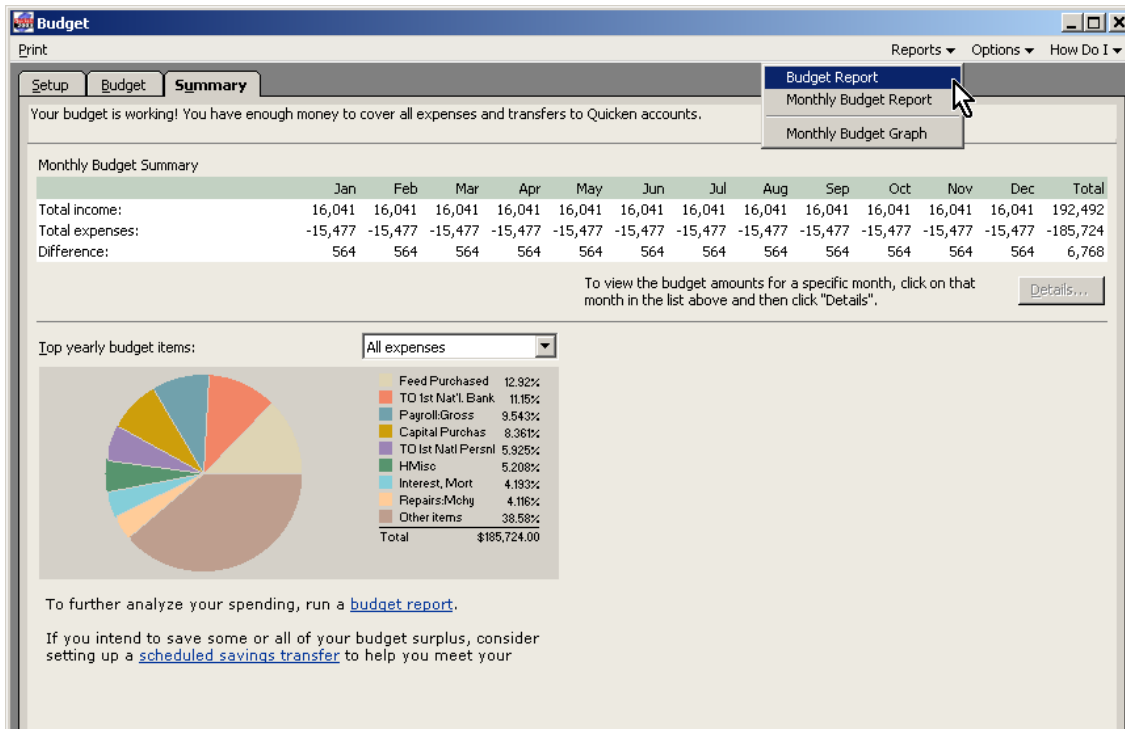
Choose categories...

Budget Report

This report compares the actual income and expenses to the budgeted income and expenses and uses the budget you have created in the first part of this section. With the budget reporting feature you can generate a comparison of actual vs. budgeted amounts for each month. By changing the beginning report date to January 1 and changing the ending date to the last day in the current month, you can create a year-to-date comparison of actual vs. budgeted amounts.

Creating a Budget Report

From the menu bar, **Click Cash Flow** and **Click Budget** to open the *BUDGET* window. **Click the Reports** button and **Click Budget Report**. Set the report date for either a monthly budget report or a year-to-date budget report. After creating each report, memorize that report by **Clicking the Save Report** button and naming one report Monthly Budget Report and the other report Year-To-Date Budget Report. Doing this will allow you to use the **Saved Reports** section of **Reports and Graphs** to bring up these reports. Then all you need to do is set the proper date range and **Click the Save Report** button to generate the correct report.



A sample year-to-date budget report is at the end of this section.

Year-To-Date Budget Report 1/1/2004 Through 12/31/2004

Category Description	1/1/2004 Actual	Budget	12/31/2004 Difference
INCOME			
Grain Sold	13,200.00	17,500.00	-4,300.00
Milk Sold	<u>7,950.00</u>	<u>7,500.00</u>	<u>450.00</u>
TOTAL INCOME	21,150.00	25,000.00	-3,850.00
EXPENSES			
Chemicals	900.00	3,000.00	2,100.00
Dues	70.50	75.00	4.50
Fertilizer	6,990.00	7,500.00	510.00
Fuel & Lube	1,357.00	2,557.00	1,200.00
Mach Hire, Truck	847.00	1,815.00	968.00
Repairs			
Mchy	478.43	1,000.00	521.57
TOTAL Repairs	478.43	1,000.00	521.57
Seed and Plants	<u>1,200.00</u>	<u>1,500.00</u>	<u>300.00</u>
TOTAL EXPENSES	11,842.93	17,447.00	5,604.07
OVERALL TOTAL	<u>9,307.07</u>	<u>7,553.00</u>	<u>1,754.07</u>

This page is left blank intentionally.

CCC Loans

Tax law allows for the treatment of CCC loans either as a loan, or as income. Some farmers use the first option and treat CCC loans as loans. Other farmers make the election to treat CCC loans as income. Once elected, you must continue to report in this manner unless you request permission to revert back to the treatment of CCC loans as loans for tax purposes. This permission is automatic and is requested by filing IRS Form 3115.

Income Tax Treatment of Various Dispositions of CCC Loans and Commodities		
Disposition of the Loan or Commodity	Treatment of CCC Loan When Received	
	Treated as Income (i.e., Farmer Made § 77 Election)	Treated as Loan (i.e., Farmer Did Not Make § 77 Election)
Loan paid off by forfeiting grain	No further income reported	Amount of loan reported as income
Grain redeemed by paying off loan with cash	Farmer has basis in grain equal to loan amount	Farmer has a zero basis in the grain
Grain redeemed at posted county price (PCP) that is less than loan rate	Farmer has basis in grain equal to loan amount minus marketing loan gain	Farmer has additional income, marketing loan gain = (loan rate - PCP) x number of bushels
Redeemed grain is sold	Farmer has gain (loss) equal to sale price less amount of loan, which is the basis in the grain	Farmer has income equal to sale price
Redeemed grain is fed	Farmer has a feed deduction equal to the amount of the loan which is the basis in the fed commodity	Farmer has no deduction

CCC Loans As Loans

If you treat the CCC loan as a loan, the procedure for recording the loan is shown in Example 15 in the **Data Entry** chapter. You will need to create a liability account such as [CCCLoan]. When you get the loan, the money is deposited into the checking account with the category for the entry being [CCCLoan]. This transaction increases the balance in the checking account by the amount of the loan and transfers the same amount as a liability into the loan account [CCCLoan].

When repaying the loan use the split screen to record the principal payment with the category entry (transfer) of [CCCLoan] and the interest and other expenses are charged to the respective expense categories.

In the case where the CCC loan is paid off for a lesser amount based on the Posted County Price (PCP), the amount of the debt forgiven (the marketing loan gain) needs to be recognized as additional income. Recognizing the marketing loan gain requires an extra line in recording the payoff a CCC loan.

A REPAYMENT EXAMPLE - A farmer takes out a CCC loan on 10,000 bushels of soybeans. The loan rate is \$5.35 per bushel and the total amount of the loan is \$53,500. Several months later the PCP for the grain is \$4.90 and the farmer decides to redeem his beans by paying off the loan for \$49,000. He now has a marketing loan gain of \$4,500, the difference between the original loan amount and the amount paid to redeem the beans. The register entries in the *FARM CHECKING* account to pay off this loan at the PCP would be as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
3/1/XX	101	County FSA		--SPLIT--	\$49,000.00	

****Split Screen Detail****

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. [CCCLoan]	Loan payoff	53,500.00
2. govt payments	Marketing loan gain	-4,500.00

If the loan amount shown in the [CCCLoan] account was \$53,500, the above entry in the *FARM CHECKING* register will zero out [CCCLoan] and will recognize the marketing loan gain of \$4,500. When CCC loans are repaid using the PCP and the PCP is less than the loan rate, the interest accrued on the loan is forgiven and not considered to be income.

ANOTHER REPAYMENT EXAMPLE - A farmer takes out a CCC loan on 10,000 bushels of soybeans for \$53,500. Some time later he locks in the PCP of \$4.90 to repay his loan and at the same time contracts his beans for delivery at \$5.00. He delivers the beans to the elevator and takes the check for \$50,000 to FSA to repay his loan. FSA then issues a check to the farmer for \$1,000, the difference between the loan payoff and the check from the sale of the soybeans. The register entries in the *FARM CHECKING* account to pay off this loan would be as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
3/1/XX	DEP	County FSA		--SPLIT--	\$1,000.00	

****Split Screen Detail****

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. grain sold	10,000 bu @ \$5.00	50,000.00
2. [CCCLoan]	Loan payoff	-53,500.00
3. govt payments	Marketing loan gain	4,500.00

****NOTE**** If the soybeans had been sold to the elevator at the PCP of \$4.90, the deposit amount would be \$0 and the **grain sold** entry would be \$49,000. The entries for **[CCCLoan]** and **govt payment** would be the same.

CCC Loans Treated As Income

If you treat the CCC loan as income, the loan is income in the year received. You must set up an asset account and record the amount of the loan. When the loan is redeemed (or forfeited), you offset the asset account, and report the difference between the sale (or forfeiture) of the grain and the basis from the asset account as additional gain or loss. Interest paid and any other associated expenses are charged to the appropriate categories.

Accounts & Categories Needed

An income category and an expense category and two accounts are needed to properly report CCC loans that are reported as income. The categories are included in the Category & Transfer list of the Farm&Home.QIF file in the **Categories and Classes** chapter.

CCCLoanAsInc

This is an income category used to report the CCC loan as income. This is a tax-related category and is reported on line 7a, CCC loans under election, on Schedule F and is reported in the year the loan is received.

[CCCLoan]

This is a liability account and was discussed previously. This liability account is used regardless if CCC loans are treated as loans or as income.

[CCCBasis]

This is an asset account. The amount of CCC loan(s) treated as **INCOME** is reported as taxable income in the year the loan(s) is received and creates a basis in the grain equal to the loan amount. This basis (equal to the loan amount) is added to this account. If the grain is forfeited to repay the loan, no additional taxable income is due since the income from forfeiture is exactly offset by the basis. However, the appropriate entries should be made to reflect payment of the loan. If the loan is paid off with cash, this basis can be reported as a tax deductible expense when the grain is sold or fed. If the grain is sold, the basis is reported as CCCGrCost discussed next. If the grain is fed, the grain's basis is reported in the Feed Purchased category.

CCCGrCost

This is an expense category to record the basis (cost) of the redeemed (or forfeited) CCC grain sold, when you treat CCC loans as income. It is a tax-related category and is reported on line 2 of Schedule F.

Loan numbers, quantities and amounts need to be recorded to help keep track of each loan. If part of a loan is redeemed, part of the cost can be deducted at the time the grain is sold. If redeemed grain is still on hand at the close of the business year, the [CCCBasis] account will show the cost basis, for balance sheet purposes, of redeemed grain to be used for resale or for feed.

Example

On 10/27/20X3 \$53,500 is received for soybeans placed under CCC loan. **You report CCC loans as income on your tax return for 20X3.** On 5/16/X4 the loan is paid off along with \$1,951 of interest. The entries would be made in the *FARM CHECKING* register as follows.

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
		Previous Balance				15,000.00
10/27/X3	DEP	County FSA	10,000 bu.	--SPLIT--	53,500.00	68,500.00
						0
		Split Screen Detail				
		<u>Category</u>		<u>Amount</u>		
		1. CCCLoan As Inc		53,500.00		
		2. [CCCLoan]		53,500.00		
		3. [CCCBasis]		-53,500.00		
5/16/X4	101	County FSA	10,000 bu.	--SPLIT--	55,451.00	13,049.00
						0
		Split Screen Detail				
		<u>Category</u>		<u>Amount</u>		
		1. [CCCLoan]		53,500.00		
		2. Interest Exp		1,951.00		
5/22/X4	DEP	Farmer's Grain		--SPLIT--	54,000.00	67,049.00
						0
		Split Screen Detail				
		<u>Category</u>	<u>Memo</u>	<u>Amount</u>		
		1. Grain Sold	Sell redeemed CCC grain	54,000.00		
		2. CCCGrCost		-53,500.00		
		3. [CCCBasis]		53,500.00		

The CCC Loan of \$53,500 increases the checking account balance, adds \$53,500 to the CCCLoan account, and adds \$53,500 to the CCCBasis asset account. When the grain is redeemed in May 20X4, the \$55,451 comes from the checking account to pay off the loan and the accrued interest. When the soybeans are sold, the basis is used to

reduce taxable income. To create the deductible expense, reduce the CCCBasis account by \$53,500 and increase the CCCGrCost expense category by \$53,500. This has no effect on the checking account balance, but makes the taxable portion of the grain sale \$500 (\$54,000 - \$53,500). The \$53,500 was reported as taxable income in 20X3, the year before. If the soybeans had sold for less than \$5.35 (the loan rate) per bushel, the taxable portion of the sale would be negative rather than positive as shown in this example.

As discussed earlier, in situations where the posted county price (PCP) is less than the loan rate, the loan can be paid off for a lesser amount (based on the PCP) than the original loan amount and a marketing loan gain results. When **CCC loans are treated as income** and the loan is later repaid for a lesser amount based on the PCP, the resulting marketing loan gain reduces the basis in the redeemed grain by the amount of the gain.

Using the same facts from the above example, but when the loan is paid off on 5/16/X4, the soybeans can be redeemed and the loan paid off for \$49,000 based on the PCP (the original loan amount was \$53,500) and the interest accrued is forgiven. The payoff of the loan and the reduction in the basis of the redeemed grain is shown in the *FARM CHECKING* account register:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
			Previous Balance			\$58,700.00
5/16/X4	102	County FSA	10,000 bu.	--SPLIT--	49,000.00	9,700.00
Split Screen Detail						
			<u>Category</u>	<u>Memo</u>	<u>Amount</u>	
			1. [CCCLoan]	Loan payoff	53,500.00	
			2. [CCCBasis]	Marketing loan gain	-4,500.00	

This register entry pays off the CCC loan for \$49,000 (original loan amount was \$53,500) and reduces the basis in the redeemed grain by the difference between the original loan and the amount to pay it off, \$4,500. The basis in the redeemed grain is now \$49,000. The \$4,500 marketing loan gain will be taxed on Schedule F when the grain is sold with a reduced basis of \$49,000. Or if the grain is fed, it will show up as a reduced feed expense due to the reduced basis of \$49,000.

Credit Cards & Lines of Credit

Lines of credit are used by many farm operations to pay operating and other expenses during periods when cash outflows exceed cash inflows. Credit cards used for the same purpose are becoming more common in farming operations. Both types of credit can be tracked within your Quicken farm records to help you know where you are financially at anytime.

Setting Up Your Accounts

It is recommended that you create a credit card account for each credit card and line of credit you have. Follow the instructions in the **Accounts** chapter to set up your new credit card account(s). The information required to create your credit card account is the same as the information needed to create a checking account, except that you can enter the credit limit established for each line of credit or credit card. While the credit limit is optional, it is recommended that you enter this information. With the limit established and the register for a credit card account opened, the balances shown at the bottom of the register include the amount of credit used and the amount of credit remaining for this particular account.

Making Entries

Credit card or line of credit transactions are entered into the appropriate register just like making entries into a checking account register. Each farm related transaction should be entered into the credit card register. Just like in a checking account register, credit card transactions can also be entered as split transactions if necessary. For credit card transactions that are for only personal expenses, it is optional if this type of transaction is entered into the register.

****Note**** When you use a line of credit or a credit card to pay business expenses, those expenses are deductible at the time of the charge (or payment from the credit line) rather than when the credit card statement is actually paid. To make sure these expenses are deducted in the correct year, you need to enter the business related charges in your credit card account as soon as possible after the transaction is made.

Example: You and your spouse are going out to dinner for your anniversary. On the way to the restaurant you stop at the Farm & Ranch Store to pick up a few things for the farm. You use your Master Card to pay for the items. At the restaurant, the bill for dinner is \$50 and you charge it to your Master Card. The following split transaction is entered into your *Farm Master Card* account.

<u>Date</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
1/15/XX	Farm & Ranch Store		--SPLIT--	\$607.50

****Split Screen Detail****

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. Fuel & Lube	Oil for truck	75.00
2. Supplies, LS	Cattle supplies	400.00
3. Repairs:Mchy	Chisel plow shank	125.00
4. Hmisc	Candy for grandkids	7.50

****Note**** This transaction was entered as a split transaction since there are multiple categories. The personal transaction was included since it was part of the transaction at the Farm & Ranch Store.

****Note**** Since it is not mandatory that transactions of a personal nature are entered in the *Farm Master Card* account, the restaurant transaction was not entered. Without the personal transactions entered, the account balance will not be correct. The correct outstanding balance is \$657.50, but only \$607.50 has been actually entered into the register.

Paying Your Credit Card Bill

When you write the check to pay your credit bill, you transfer money between your checking and credit card accounts if all transactions have been entered. If personal transactions have not been entered, the payment to pay off the account balance will be a split transaction that includes a line(s) for the family living (personal) portion of the payment.

Example: You pay your credit card bill from your farm checking account. In your farm checking account, you write a check to Master Card, Inc. for \$657.50 to pay off your monthly credit card balance in full.

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
2/5/XX	101	Master Card, Inc.		--SPLIT--	\$657.50
Split Screen Detail					
		<u>Category</u>	<u>Memo</u>		<u>Amount</u>
		1. [Farm Master Card]			607.50
		2. Hfood	Anniversary dinner		50.00

After the above payment is made, the outstanding balance in the *Farm Master Card* account will be zero.

****Note**** If the restaurant charge of \$50 had been entered in the *Farm Master Card* account register, the payment would have been a single line (rather than a split transaction) with the category being **[Farm Master Card]** and the amount paid \$657.50.

****Note**** Transactions and payments associated with a bank line of credit would be identical to the example above using a credit card account.

Reconciling Your Credit Card Account

If you enter all your credit card transactions into your credit card account, you can reconcile the account. The procedure is similar to reconciling a checking account.

1. With the credit card account window open, **Click the Reconcile** button in the account register tool bar.
2. Fill in the required information about your credit card statement in the *CREDIT CARD STATEMENT INFORMATION: credit card* window. **Click OK.**
3. **Click** every transaction that appears on your statement. Missing transactions can be added and transactions can be edited.
4. **Click Finished.**
5. If desired, Quicken will make an entry into a selected bank (checking) account to make a payment on the credit balance. **Click Yes** if you want this option. Otherwise, **Click No.**

Credit Card Transactions In Reports

If you are using a credit card account to record expenses paid with a line of credit or charged with a credit card, be sure to include your credit card account(s) in the reports that you use to generate tax-related reports and P&L statements. When generating any of these reports, **Click the Customize** button either before creating the report or after the report has been created to open the *CUSTOMIZE REPORT* window. **Click the Accounts** tab and select the credit card account(s), along with the other accounts, to be included in the report.

Debit and ATM Cards

Debit cards and ATM cards are not credit cards, even though they often carry the name of a major credit card company. When you make a purchase with a debit card, the money is withdrawn from your bank account as if you had written a check. It is different from a credit card in that it is not a loan or advance, but a deduction from your checking account. In Quicken, you record debit card transactions in a bank account register associated with that debit card, not in a credit card account. ATM cards are used to withdraw cash from a checking or savings account. Like the debit card, ATM transactions are recorded directly in the account associated with the ATM card.

Payroll

Payroll regulations can be very complex. Quicken can be helpful in keeping track of payroll-related expenses and employment taxes if your payroll is fairly simple. If your operation has many employees, employees on hourly wages or total payroll greater than \$2500 annually, you should consider using QuickPayroll as an add-on program to Quicken. The examples and discussion that follow pertain to a payroll that is straight forward and fairly easy to understand. The following examples relate to agricultural employers **ONLY**.

The withholding of federal and state income taxes and FICA and Medicare taxes are what makes payroll transactions complicated. If an agricultural employer has total annual payroll greater than \$2500, regardless of the number of employees, the employer is required to withhold federal income taxes, FICA and Medicare taxes. If total payroll is less than \$2500, then each individual employee who is paid \$150 or more in cash wages is subject to withholding of income taxes, FICA and Medicare taxes. If the employees are subject to withholding, the employer must match the employee's contribution of FICA and Medicare taxes. Withholding of Ohio income taxes is optional and is required only if the employee requests it. If total payroll is less than \$2500 and no one employee is paid \$150 or more, the employer does not have to withhold on any employee and the payroll transaction is very straightforward.

Bookkeeping Tasks For Payroll (Agricultural Employers)

- 1) Calculate employee earnings and amounts of federal and Ohio income taxes, FICA and Medicare taxes to withhold. The employer pays the same amounts of FICA and Medicare taxes as is withheld from the employees.
- 2) Employers must periodically make deposits of federal income taxes and FICA and Medicare taxes owed. For farmers, the deposits may be required annually, monthly or semi-weekly depending on the amount of taxes owed during the look back period. Consult the current year's IRS Circular A or Circular E for details.
- 3) Employers must make quarterly deposits of Ohio income and any local income taxes withheld. Withholding of Ohio income taxes is optional for agricultural employees.

- 4) At the end of the year, employers must give each employee a Form W-2 showing gross wages received, FICA taxes, Medicare taxes and income taxes withheld. Form W-3, Transmittal of Income Tax Statements, must be filed with the Social Security Administration.
- 5) At the end of the year, the employer must file Form 943, Employer's Annual Return for Agricultural Employees, with the IRS.

Example Situation

If you are required to withhold FICA taxes, you must also withhold federal income taxes. Your employee has requested that you withhold Ohio income taxes.

Social security taxes are broken into two parts - FICA taxes that are withheld on wages up to \$87,900 for 2004 and Medicare taxes that are withheld on all wages regardless of how much the employee is paid. Percentages for withholding of the various taxes are:

	Employee	Employer
Federal income tax	0 to 35%	No Match
Ohio income tax	0 to 8.075%	No Match
FICA	6.2%	6.2% Match
Medicare	1.45%	1.45% Match

To determine the amount of federal income tax to be withheld, you should use the withholding tables in the current year's IRS Circular A since withholding is based on the employee's filing status, number of exemptions claimed and how often the employee is paid. Similar tables for withholding Ohio income taxes are available from the Ohio Department of Taxation.

Example:

An employer has one employee, Bob Jones, who is paid \$1800.00 per month before deductions. Bob is married and claims two exemptions. His net paycheck is \$1478.10. The details of his paycheck are:

Gross pay	\$1800.00
-Federal income tax	-145.00
-State tax	-39.20
-FICA tax	-111.60
-Medicare tax	-26.10
<u>Net pay</u>	\$1478.10

In addition, the employer must match and pay \$111.60 for FICA and \$26.10 for Medicare. The employer's total labor expense for this month is \$1800.00 + \$111.60 + \$26.10 = \$1937.70.

Categories Needed For Payroll Purposes

<u>CATEGORY</u>	<u>DESCRIPTION</u>	<u>TAX-REL.</u>	<u>TYPE</u>
Payroll	Payroll expense	Yes	Expense category
Comp FICA	Employer paid FICA	Yes	Sub-category of payroll
Comp MCARE	Employer paid Medicare	Yes	Sub-category of payroll
Gross	Gross wages	Yes	Sub-category of payroll

Accounts Needed For Payroll Purposes

<u>ACCOUNT</u>	<u>DESCRIPTION</u>	<u>TAX-REL.</u>	<u>TYPE</u>
[Payroll-FICA]	FICA taxes	No	Liability account
[Payroll-FWH]	Fed. Income taxes withheld	No	Liability account
[Payroll-MCARE]	Medicare taxes	No	Liability account
[Payroll-SWHO]	Ohio income taxes withheld	No	Liability account

Following is the register entry for the employee's monthly paycheck from the *FARM CHECKING* account:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
1/31/XX	111	Bob Jones		--SPLIT--	,478.10

****Split Screen Detail****

Category	Amount
1. Payroll:Gross	1800.00
2. [Payroll-FWH]	-145.00
3. [Payroll-SWHO]	-39.20
4. [Payroll-MCARE]	-26.10
5. [Payroll-FICA]	-111.60
6. Payroll:Comp FICA	111.60
7. [Payroll-FICA]	-111.60
8. Payroll:Comp MCARE	26.10
9. [Payroll-MCARE]	-26.10

In this paycheck, the first line of the split screen is the gross wages of \$1800.00. Items 2-5 are deductions from the employee's paycheck and are shown as negative entries. Items 6-9 are the employer's contribution and expense for FICA and Medicare taxes. These entries do not affect the bank balance since the expenses (payroll:comp FICA and payroll:comp MCARE) are offset by the negative amounts being added to the payroll liability accounts ([Payroll-FICA] and [Payroll-MCARE]). After this paycheck has been written, the employer has a liability of \$145 for federal income tax, \$223.20 of FICA tax, \$52.20 of Medicare taxes and \$39.20 of Ohio income tax. The total owed to the IRS for employment taxes is \$420.40.

Deposit of Employment Taxes

After writing the paycheck, the employer wants to deposit the federal and state employment taxes. The balances in the employment-related employment liability accounts are as follows:

LIABILITY ACCOUNT	BALANCE
[Payroll-FWH]	145.00
[Payroll-FICA]	223.20
[Payroll-MCARE]	52.20
[Payroll-SWHO]	39.20

The checks for these employment taxes written from the *FARM CHECKING* account are:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
1/31/XX	112	Internal Revenue Service		--SPLIT--	420.40
Split Screen Detail					
		<u>Category</u>		<u>Amount</u>	
		1. [Payroll-FWH]		145.00	
		2. [Payroll-FICA]		223.20	
		3. [Payroll-MCARE]		52.20	
1/31/XX	113	Ohio Dept. of Taxation		[Payroll-SWHO]	39.20

After writing these checks the balance in the employer-related liability accounts will be zero.

Creating Payroll Reports

If you have employees and are using Quicken for your payroll transactions, you will need to retrieve payroll data from your records at various times during the year for reporting purposes. The following reports can be created, memorized and used for various reporting purposes with minor modifications by customizing the memorized reports. As you become more proficient with the capabilities of the report section of Quicken, you may want to develop additional payroll reports for your various reporting needs. The data in the following reports is from the payroll example above.

1) Summary Report by Employees for W-2's

From the menu bar, **Click Reports, Click Reports & Graphs** (or **Click Reports** on the Main tool bar), **Click How am I spending my money?, Click Banking Summary**, Set the report date, **Click Customize, Click** the down arrow by **Column:**, **Click Payee, Click Accounts** tab, **Click** the checking accounts from which you are writing payroll checks, **Click Categories** tab, **Click** the down arrow by **Category Contains:**, **Click Payroll** (or whatever category you are using for payroll transactions), and **Click Show Report**.

You have created a summary report of payroll transactions reported by payees that can now be memorized. **Click the Save Report** button on the Report window tool bar, name the report Payroll Report by Payee and **Click OK**.

This payroll report furnishes the information needed to complete the employee's W-2 form. The employee's gross wages are \$21,600.00, FICA withheld is \$1339.20 (one-half of *FROM Payroll-FICA*), Medicare withheld is \$313.20 (one-half of *FROM Payroll-MCARE*), federal income tax withheld is \$1740.00 (*FROM Payroll-FWH*) and Ohio income tax withheld is \$470.40 (*FROM Payroll-SWHO*). The figures for *TO-Payroll-...* are payments made to the IRS and the Ohio Department of Taxation for withheld income taxes, FICA and Medicare taxes.

The Payroll Report by Payee follows at the end of this section.

2) Form 943 – Employer's Annual Tax Return for Agricultural Employees

The payroll report created above will provide most of the information needed for this return except for the "Monthly Summary of Federal Tax Liability" needed to complete Form 943. Starting with the previous payroll report (by payees) for the year, **Click Customize** within the Report window, change **Column:** to **Month** in the **Display** tab and **Click OK**. Or, again within the Report window **Click** the drop down button for **Column:** **Click Month** and the report will automatically update.

The resulting report gives all the payroll information in a monthly format. The sum of *FROM Payroll-FWH*, *FROM Payroll-FICA* and *FROM Payroll-MCARE* for each month is the employer's federal tax liability for that month. You can memorize this report by **Clicking Save Report** within the Report window, name the report Monthly Fed Employment Tax Liability and **Click OK**. An example of this report is shown on the following page.

The Monthly Fed Employment Tax Liability report follows at the end of this section.

3) Ohio Department of Taxation Reporting

For Ohio purposes, use the same report as above, but with **Column:** set to **Quarter** in the **Display** tab or **Column:** set to **Quarter** at the top of the report. This will provide payroll data on a quarterly basis for the Ohio Department of Taxation if needed. The amounts shown in *FROM Payroll-SWFOH* are Ohio income taxes withheld and *TO Payroll-SWFOH* are payments made to the Dept. of Taxation of those withheld taxes. You can also memorize this report by **Clicking Save Report** within the Report window, name the report Ohio Income Tax Withholding by Quarter and **Click OK**. An example of this report is shown on the following page. The Ohio Income Tax Withholding by Quarter report follows at the end of this section.

QuickPayroll

If you are considering using Quick Payroll for your business more information can be found at the following Web Site:

<http://www.payroll.com/quickpayroll>

Payroll Report by Payee				
1/1/XX through 12/31/XX				
<u>Category Description</u>	<u>Bob Jones</u>	<u>IRS</u>	<u>Ohio Dept. of Taxation</u>	<u>Overall Total</u>
Expenses				
Payroll:				
Comp FICA	1,339.20	0.00	0.00	1,339.20
Comp MCARE	313.20	0.00	0.00	313.20
Gross	21,600.00	0.00	0.00	21,600.00
Total Payroll	<u>23,252.40</u>	<u>0.00</u>	<u>0.00</u>	<u>23,252.40</u>
Total Expenses	<u>23,252.40</u>	<u>0.00</u>	<u>0.00</u>	<u>23,252.40</u>
Total Income - Expenses	<u>-23,252.40</u>	<u>0.00</u>	<u>0.00</u>	<u>-23,252.40</u>
Transfers				
From Payroll - FICA	2,678.40	0.00	0.00	2,678.40
From Payroll - FWH	1,740.00	0.00	0.00	1,740.00
From Payroll - MCARE	626.40	0.00	0.00	626.40
From Payroll - SWHOH	470.40	0.00	0.00	470.40
To Payroll - FICA	0.00	-2,678.40	0.00	-2,678.40
To Payroll - FWH	0.00	-1,740.00	0.00	-1,740.00
To Payroll - MCARE	0.00	-626.40	0.00	-626.40
To Payroll - SWHOH	0.00	0.00	-470.40	-470.40
Total Transfers	<u>5,515.20</u>	<u>-5,044.80</u>	<u>-470.40</u>	<u>0.00</u>
Overall Total	<u>-17,737.20</u>	<u>-5,044.80</u>	<u>-470.40</u>	<u>-23,252.40</u>

Monthly Federal Employment Tax Liability
1/1/XX through 12/31/XX

Category Description	1/XX	2/XX	3/XX	4/XX	5/XX	6/XX	7/XX
Expenses							
Payroll:							
Comp FICA	111.60	111.60	111.60	111.60	111.60	111.60	111.60
Comp MCARE	26.10	26.10	26.10	26.10	26.10	26.10	26.10
Gross	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>
Total Payroll	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>
Total Expenses	1,937.70	1,937.70	1,937.70	1,937.70	1,937.70	1,937.70	1,937.70
Transfers							
FROM Payroll - FICA	223.20	223.20	223.20	223.20	223.20	223.20	223.20
FROM Payroll - FWH	145.00	145.00	145.00	145.00	145.00	145.00	145.00
FROM Payroll - MCARE	52.20	52.20	52.20	52.20	52.20	52.20	52.20
FROM Payroll - SWHOH	39.20	39.20	39.20	39.20	39.20	39.20	39.20
TO Payroll - FICA	0.00	0.00	-669.60	0.00	0.00	-669.60	0.00
TO Payroll - FWH	0.00	0.00	-435.00	0.00	0.00	-435.00	0.00
TO Payroll - MCARE	0.00	0.00	-156.60	0.00	0.00	-156.60	0.00
TO Payroll - SWHOH	<u>0.00</u>	<u>0.00</u>	<u>-117.60</u>	<u>0.00</u>	<u>0.00</u>	<u>-117.60</u>	<u>0.00</u>
Total Transfers	<u>459.60</u>	<u>459.60</u>	<u>-919.20</u>	<u>459.60</u>	<u>459.60</u>	<u>-919.20</u>	<u>459.60</u>
Overall Total	<u>-1,478.10</u>	<u>-1,478.10</u>	<u>-2,856.90</u>	<u>-1,478.10</u>	<u>-1,478.10</u>	<u>-2,856.90</u>	<u>-1,478.10</u>

this report continues on next page

Monthly Federal Employment Tax Liability
1/1/XX through 12/31/XX

Category Description	8/XX	9/XX	10/XX	11/XX	12/XX	Overall Total
Expenses						
Payroll:						
Comp FICA	111.60	111.60	111.60	111.60	111.60	1,339.20
Comp MCARE	26.10	26.10	26.10	26.10	26.10	313.20
Gross	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>	<u>1,800.00</u>	<u>21,600.00</u>
Total Payroll	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>23,252.40</u>
Total Expenses	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>1,937.70</u>	<u>23,252.40</u>
Transfers						
FROM Payroll - FICA	223.20	223.20	223.20	223.20	223.20	2,678.40
FROM Payroll - FWH	145.00	145.00	145.00	145.00	145.00	1,740.00
FROM Payroll - MCARE	52.20	52.20	52.20	52.20	52.20	626.40
FROM Payroll - SWHOH	39.20	39.20	39.20	39.20	39.20	470.40
TO Payroll - FICA	0.00	-669.90	0.00	0.00	-669.90	-2,678.40
TO Payroll - FWH	0.00	-435.00	0.00	0.00	-435.00	-1,740.00
TO Payroll - MCARE	0.00	-156.60	0.00	0.00	-156.60	-626.40
TO Payroll - SWHOH	<u>0.00</u>	<u>-117.60</u>	<u>0.00</u>	<u>0.00</u>	<u>-117.60</u>	<u>-470.40</u>
Total Transfers	<u>459.60</u>	<u>-919.20</u>	<u>459.60</u>	<u>459.60</u>	<u>-919.20</u>	<u>0.00</u>
Overall Total	<u>-1,478.10</u>	<u>-2,856.90</u>	<u>-1,478.10</u>	<u>-1,478.10</u>	<u>-2,856.90</u>	<u>-23,252.40</u>

Ohio Income Tax Withholding by Quarter
1/1/XX Through 12/31/XX

Category Description	1/XX - 3/XX	4/XX - 6/XX	7/XX - 9/XX	10/XX - 12/XX	Overall Total
Expenses					
Payroll:					
Comp FICA	334.80	334.80	334.80	334.80	1,339.20
Comp MCARE	78.30	78.30	78.30	78.30	313.20
Gross	<u>5,400.00</u>	<u>5,400.00</u>	<u>5,400.00</u>	<u>5,400.00</u>	<u>21,600.00</u>
Total Payroll	<u>5,813.10</u>	<u>5,813.10</u>	<u>5,813.10</u>	<u>5,813.10</u>	<u>23,252.40</u>
Total Expenses	5,813.10	5,813.10	5,813.10	5,813.10	5,813.10
Transfers					
FROM Payroll - FICA	669.60	669.60	669.60	669.60	2,678.40
FROM Payroll - FWH	435.00	435.00	435.00	435.00	1,740.00
FROM Payroll - MCARE	156.60	156.60	156.60	156.60	626.40
FROM Payroll - SWHOH	117.60	117.60	117.60	117.60	470.40
TO Payroll - FICA	-669.60	-669.60	-669.60	-669.60	-2,678.40
TO Payroll - FWH	-435.00	-435.00	-435.00	-435.00	-1,740.00
TO Payroll - MCARE	-156.60	-156.60	-156.60	-156.60	-626.40
TO Payroll - SWHOH	<u>-117.60</u>	<u>-117.60</u>	<u>-117.60</u>	<u>-117.60</u>	<u>-470.40</u>
Total Transfers	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Overall Total	<u>-5,813.10</u>	<u>-5,813.10</u>	<u>-5,813.10</u>	<u>-5,813.10</u>	<u>-23,252.40</u>

This page is left blank intentionally.

Purchase & Sale of Feeder Livestock & Other Resale Items

Some income may come from the sale of property only partially produced on your farm. An example is feeder cattle (or feeder pigs) that you buy, feed out and sell at a later date. IRS does not allow a deduction for the cost of the feeder livestock until the animals are actually sold. The sales of the purchased livestock is reported on Schedule F, line 1, "sales of livestock and other items bought for resale." The cost of the livestock sold is reported on line 2, "cost or other basis of items reported on line 1." The difference between the sales amount and the cost is reported on line 3. Special accounting is required to keep track of the cost of livestock purchased, especially if the cattle or hogs are purchased in one year and sold in another year.

As livestock are purchased, the cost is added to an asset account (resale inventory) that increases the amount in the resale account and reduces the amount in the checking account. At the time of sale, the resale account is reduced by the cost of the purchased livestock sold and that amount becomes a deductible expense.

Categories and Accounts Needed

To handle the sales and purchases, three categories and one account are needed. These are the same as shown in the Category & Transfer list of the FARM&HOME.QIF file in the **Categories and Classes** chapter. The following example is for feeder cattle.

[Resale Inv]

This is an asset account. When cattle are purchased the cost of the cattle are added to this asset account. When these cattle are sold, the cost is subtracted from this account.

LS Sold:PFfeeder

This is the income category to record the cash receipts for the purchased cattle sold. This is a tax-related category and the total amount is reported on line 1, Schedule F. The category name chosen should fit your situation.

Feeder LS:Cost

This is the expense category where the cost of the purchased cattle sold is recorded. This is a tax-related expense category. The amount in this category is reported on line 2, Schedule F. The category name should fit your situation best.

Marketing:Mkt LS

This is a tax-related expense category used to record marketing costs that are deducted from the gross sales amount.

Quantities and Cost

The number of animals purchased and their cost will need to be tracked in the asset account [Resale Inv]. If purchased animals are on hand at the end of the business year, the [Resale Inv] account will show the cost basis of the livestock for a balance sheet. If you buy and sell multiple groups of livestock during the year, you will need to establish a procedure to handle them such as FIFO (first in, first out) or LIFO (last in, first out) if you are not able to track each lot. If any of the purchased animals die, their cost can be deducted in the year they die.

Example

On 10/15/X3 you purchase 10 steers weighing an average of 500 pounds for \$75 per cwt. from XYZ Livestock. On 5/15/X4 you resell those 10 steers averaging 1200 pounds for \$65 per cwt. The entries would be made in the *FARM CHECKING* register as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
		Opening Balance				13,860.00
10/15/X3	1001	XYZ Livestock	10 hd, 5000 lbs, \$75	[Resale Inv]	-3,750.00	10,110.00
5/15/X4	DEP	XYZ Livestock	10 hd. Sold	--SPLIT--	7,660.00	17,770.00

****Split Screen Detail****

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. LS Sold:PFeeder	10 hd., 12000 lbs, \$65	7,800.00
2. Feeder LS:Cost		-3,750.00
3. [Resale Inv]		3,750.00
4. Marketing:Mkt LS	sale deductions	-140.00

The above entries in the *FARM CHECKING* register would result in the following entries in the *RESALE INV* register:

<u>Date</u>	<u>Ref</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
		Opening Balance				0.00
10/15/X3		XYZ Livestock	10 hd, 5000 lbs, \$75	[Farm]	3,750.00	3750.00
05/15/X4		XYZ Livestock	10 hd. sold	[Farm]	-3,750.00	0.00

The purchase price of \$3750 reduces the checking account balance by that amount and adds it to the [Resale Inv] asset account. When the cattle are sold in May of the following year, the \$7660 is deposited in the farm checking account. To create the deductible expense, the [Resale Inv] account is reduced by \$3750 and the expense category, Purch Feeder LS, is increased by \$3750. This has no effect on the checking account, but establishes the cost basis for the cattle for tax and P&L statement purposes. Since there are purchased cattle on hand at the end of 20X3, the cost basis of the purchased cattle for balance sheet purposes is \$3750, the amount in the [Resale Inv] account.

This page is left blank intentionally.

Qualified Patronage Dividends

Cooperatives generally issue "Qualified written notices of allocation" to their members. As discussed in the Farmer's Tax Guide, at least 20% of the patronage dividend or payment must be in cash to be a "Qualified written notice of allocation." In this case the entire amount of patronage dividend must be reported as income on your tax return.

Categories and Accounts Needed

Two additional categories and an account are needed to track qualified patronage dividends, one category for the cash portion, one category for the noncash portion and one asset account to track the basis in taxable dividends not yet redeemed in cash. Categories names in the FARM&HOME.QIF file in the **Categories and Classes** chapter are Patr Div-C, Patr Div-NC. The asset account would be named PatrDivBasis.

Example:

Assume you receive a qualified Patronage Dividend check from XYZ Cooperative for \$234.00. The statement attached to the check shows that the full dividend is for \$1,170.00. The entry into the check register for *FARM CHECKING* would be made as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>
12/30/XX	DEP	XYZ Co-op.	Qualified Patronage Div	--SPLIT--	234.00

****Split Screen Detail****

<u>Category</u>	<u>Amount</u>
1. Patr Div-C	234.00
2. Patr Div-NC	936.00
3. [PatrDivBasis]	-936.00

This adds the cash portion, \$234, to the checking account. Both the cash and noncash portions are recorded as tax-related amounts and will be reported as income on Schedule F. The offset for the noncash portion is an asset account, [PatrDivBasis]. This will show the tax basis or amount of qualified patronage dividends which have been reported as income for tax purposes, but which have been retained by the cooperative for its use. At some future time you may be able to receive additional cash reimbursement. It will not be taxable because you have already reported the amounts on previous tax returns.

If you receive a non-qualified patronage dividend, simply enter the cash received as income, using the Patr Div-C category. Retain the notice in your permanent records, but no other entry or tax impact occurs at this time. A nonqualified notice of allocation has a zero basis, therefore will not be recorded in the asset account, [PatrDivBasis].

Sale of Capital Assets

Income from the sale of capital assets is treated differently for tax purposes than income from the sale of grain or market livestock. Primary capital assets on the farm are land, machinery and equipment, buildings and livestock held for draft, dairy, breeding or sporting purposes.

Generally, the sale of capital assets used in the business is reported on Form 4797, Sale of Business Property. In addition, they may be eligible for capital gains treatment if they meet the appropriate holding period. If the assets are purchased and depreciable, depreciation that has been deducted and any remaining basis must be reported on the tax return. Raised breeding livestock is also reported on Form 4797, but their basis is always zero for a cash basis taxpayer. There may also be other adjustments to basis such as commissions, sale expenses, etc. associated with the sale of these assets. Other records must be maintained to determine holding period and remaining basis of each asset or group of assets.

Categories Needed

The basic categories deal with machinery, raised breeding livestock, purchased breeding livestock and the various holding periods. There are at least six categories needed to report the sale of capital assets, four for breeding livestock and two for machinery, equipment and buildings plus at least one expense category for marketing charges. The sale of other depreciable assets and land can also be reported in the machinery, equipment and buildings sold category since each transaction must be reported separately. By creating these categories and reporting transactions in them, the sales of capital assets to be reported on Form 4797 are separated from sales of ordinary assets to be reported on Schedule F. The following categories are the same as shown in the FARM&HOME.QIF file in the **Categories and Classes** chapter.

LS SOLD:PBreedLT

Income category for purchased livestock used for draft, dairy, breeding or sporting purposes that **have** met the holding period of 12 or 24 months.

LS SOLD:PBreedST

Income category for purchased livestock used for draft, dairy, breeding or sporting purposes that **have not** met the holding period of 12 or 24 months.

LS SOLD:RBreedLT

Income category for raised livestock used for draft, dairy, breeding or sporting purposes that **have** met the holding period of 12 or 24 months.

LS SOLD:RBreedST

Income category for raised livestock used for draft, dairy, breeding or sporting purposes that **have not** met the holding period of 12 or 24 months.

M&E&B SOLD:LT

Income category for other machinery, equipment, buildings and other capital assets used in the business that **have** met the holding period requirement (12 months in most cases).

M&E&B SOLD:ST

Income category for other machinery, equipment, buildings and other capital assets used in the business that **have not** met the holding period requirement.

MARKETING:BRDG&CAP

Expense category used to report the expenses associated with the sale of breeding livestock or other capital assets. The sale expenses associated with these capital assets are reported on Form 4797 and not on Schedule F and therefore must be kept separate to be reported correctly on the tax return.

The above income categories are only one way of setting up these categories. Another way would be to create one income category with six subcategories. The marketing expense category could also be created as a sub category of the income category. This would simplify the process of keeping track of sale expenses associated with the sale of capital assets. However, what is important is to create an income category(ies) that separates the income from the sale of capital assets used in the farm business from the sale of ordinary assets that are reported on Schedule F.