
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 using them to report these transactions, 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.