

DOLLAR SENSE

Tax laws encourage profitable hobby farms

By Donald Shaughnessy, CA

Farming for fun can even be more fun for the hobbyist if there is a prospect of profit. And he will have to sum up some pretty persuasive arguments about potential profitability, if the income tax inspectors come calling.

Many potential part-time farmers believe they can run their so-called farm for fun, and simply write off all their costs against income from other sources.

In effect, they think they can pay for their land, barn, horse, lawn tractor and pick

up truck for a fraction of their real cost. However, the real world is not made that way and the government has seen fit to restrict people from doing exactly that. To do this, the government has decided that where farming is not the principal source of income the farmer will be permitted only to deduct from his taxable income the first \$2,500 of expenses,

and 50 per cent of the next \$5,000. Thus, if he loses \$12,000 in the first year, \$5,000 is deductible. The other \$7,000 can be carried forward for five years and

deducted only from future net farm income.

This incentive tends to encourage a hobby farmer to make a profit in his sixth year of operation, in order

to have income against which that \$7,000 can be offset.

To be deductible any loss must be shown to be a loss from a business. In many part-time farming situations, the tax department has been successful in arguing that losses are not business-related because there is no reasonable expectation of earning net income.

Experience has shown that hobby farmers who

concentrate on raising livestock -- horses or cattle -- stand a much better chance of persuading tax inspectors that they will make future profits, since it takes years to improve bloodlines. The hobby farmer who claims he will make a bundle someday by growing corn on five acres will meet with only skepticism.

A hobby farm is not a great tax shelter, but it's a respectable one -- and certainly a lot more enjoyable

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