Form **4835**

Department of the Treasury
Internal Revenue Service

Farm Rental Income and Expenses

(Crop and Livestock Shares (Not Cash) Received by Landowner (or Sub-Lessor))

(Income not subject to self-employment tax)

▶ **Attach to Form 1040.** ▶ **See instructions on back.**

OMB No. 1545-0074

2005

Attachment Sequence No. 37

Name(s) shown on Form 1040

Your social security number

Employer ID number (EIN), if any

A Did you actively participate in the operation of this farm during 2005 (see instructions)? ☐ Yes ☐ No

Part I Gross Farm Rental Income—Based on Production. Include amounts converted to cash or the equivalent.

1	Income from production of livestock, produce, grains, and other crops	1	
2a	Cooperative distributions (Form(s) 1099-PATR) 2a ______ **2b** Taxable amount	2b	
3a	Agricultural program payments (see instructions) 3a ______ **3b** Taxable amount	3b	
4	Commodity Credit Corporation (CCC) loans (see instructions):		
a	CCC loans reported under election	4a	
b	CCC loans forfeited 4b ______ **4c** Taxable amount	4c	
5	Crop insurance proceeds and Federal crop disaster payments (see instructions):		
a	Amount received in 2005 5a ______ **5b** Taxable amount	5b	
c	If election to defer to 2006 is attached, check here ▶ ☐ **5d** Amount deferred from 2004	5d	
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross farm rental income.** Add amounts in the right column for lines 1 through 6. Enter the total here and on Schedule E (Form 1040), line 42 ▶	7	

Part II Expenses—Farm Rental Property. Do not include personal or living expenses.

8	Car and truck expenses (see Schedule F instructions). Also attach **Form 4562**	8		**21**	Pension and profit-sharing plans	21	
9	Chemicals	9		**22**	Rent or lease:		
10	Conservation expenses (see instructions)	10		**a**	Vehicles, machinery, and equipment (see instructions)	22a	
11	Custom hire (machine work)	11		**b**	Other (land, animals, etc.)	22b	
12	Depreciation and section 179 expense deduction not claimed elsewhere	12		**23**	Repairs and maintenance	23	
				24	Seeds and plants	24	
				25	Storage and warehousing	25	
13	Employee benefit programs other than on line 21 (see Schedule F instructions)	13		**26**	Supplies	26	
				27	Taxes	27	
				28	Utilities	28	
14	Feed	14		**29**	Veterinary, breeding, and medicine	29	
15	Fertilizers and lime	15					
16	Freight and trucking	16		**30**	Other expenses (specify):		
17	Gasoline, fuel, and oil	17					
18	Insurance (other than health)	18		**a**		30a	
19	Interest:			**b**		30b	
a	Mortgage (paid to banks, etc.)	19a		**c**		30c	
b	Other	19b		**d**		30d	
20	Labor hired (less employment credits) (see Schedule F instructions)	20		**e**		30e	
				f		30f	
				g		30g	

31	**Total expenses.** Add lines 8 through 30g ▶	31	
32	**Net farm rental income or (loss).** Subtract line 31 from line 7. If the result is income, enter it here and on Schedule E, line 40. If the result is a loss, you **must** go to line 33	32	
33	If line 32 is a loss, check the box that describes your investment in this activity (see instructions)	33a ☐ All investment is at risk. 33b ☐ Some investment is not at risk.	
	You may need to complete **Form 8582** to determine your deductible loss, regardless of which box you checked (see instructions). If you checked box 33b, you **must** complete **Form 6198** before going to Form 8582. In either case, enter the deductible loss here and on Schedule E, line 40	33c	

General Instructions

Purpose of form. Use Form 4835 to report farm rental income based on crops or livestock produced by the tenant if you were the landowner (or sub-lessor) and did not materially participate in the operation or management of the farm. If you were a tenant, use Schedule F (Form 1040) to report farm income and expenses.

Landowners (or sub-lessors) must not use this form to report cash rent received for pasture or farmland if the amount is based on a flat charge. Report this income directly on Schedule E (Form 1040).

Use this form only if the activity is a rental activity for purposes of the passive activity loss limitations. See the Instructions for Form 8582, Passive Activity Loss Limitations, for the definition of "rental activity."

If you have net income on line 32, your tax may be less if you figure it using Schedule J (Form 1040).

Additional information. For more information, including the definition of material participation, see the Instructions for Schedule F and Pub. 225, Farmer's Tax Guide.

Specific Instructions

Employer ID number. You need an employer identification number (EIN) only if you had a qualified retirement plan or were required to file an employment, excise, or alcohol, tobacco, and firearms tax return. If you need an EIN, see the Instructions for Form SS-4.

Line A. Generally, you are considered to actively participate if you participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that are relevant in this context include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions. You do not, however, actively participate if at any time during the year your interest (including your spouse's interest) in the activity was less than 10% (by value) of all interests in the activity.

Part I. Gross Farm Rental Income—Based on Production

Line 1. Report income you received from livestock, produce, grains, and other crops based on production. Under both the cash and the accrual methods of reporting, you must report livestock or crop share rentals received in the year you convert them into money or its equivalent.

Lines 2a and 2b. Enter on line 2a your total distributions from cooperatives as shown on Form 1099-PATR, Taxable Distributions Received From Cooperatives. On line 2b report the taxable amount. See the instructions for Schedule F, lines 5a and 5b, on page F-2.

Lines 3a and 3b. Enter on line 3a the total agricultural program payments you received. On line 3b report the taxable amount. See the instructions for Schedule F, lines 6a and 6b, on page F-2.

Lines 4a through 4c. Report the full amount of CCC loans forfeited, even if you reported the loan proceeds as income. See the instructions for Schedule F, lines 7a through 7c, on page F-3.

Lines 5a through 5d. In general, you must report crop insurance proceeds in the year you receive them. Federal crop disaster payments are treated as crop insurance proceeds. However, if you use the cash method of accounting and 2005 was the year of damage, you can elect to include certain proceeds in income for 2006. To do this, check the box on line 5c and attach a statement to your return. See Pub. 225.

Generally, if you elect to defer any eligible crop insurance proceeds, you must defer all such crop insurance proceeds (including federal crop disaster payments).

For details on how to complete lines 5a through 5d, see the instructions for Schedule F, lines 8a through 8d, on page F-3.

Line 6. Use this line to report income not shown on lines 1 through 5d. See the instructions for Schedule F, line 10, on page F-3.

Part II. Expenses—Farm Rental Property

Capitalizing costs of property. If you produced real or tangible personal property or acquired property for resale, certain expenses may have to be included in inventory costs or capitalized. These expenses include the direct costs of the property and the share of any indirect costs allocable to that property. However, these rules generally do not apply to expenses of:

- Producing any plant that has a preproductive period of 2 years or less,
- Raising animals, or
- Replanting certain crops if they were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty.

But you may be able to currently deduct rather than capitalize the expenses of producing a plant with a preproductive period of more than 2 years. See *Election to deduct certain preproductive period expenses* in the Instructions for Schedule F on page F-3.

Do not reduce your expenses on lines 8 through 30f by the preproductive period expenses you must capitalize. Instead, enter the total amount capitalized in parentheses on line 30g. Reduce your total expenses by this amount before entering an amount on line 31. On the line to the left of the line 30g entry space, enter "263A."

Line 10. Expenses you paid or incurred for soil and water conservation can only be deducted if they are consistent with a conservation plan approved by the Natural Resources Conservation Service of the Department of Agriculture for the area in which your land is located. If no plan exists, your expenses must be consistent with a soil conservation plan of a comparable state agency. See the Instructions for Schedule F, line 14, on page F-4.

Line 12. Enter your depreciation and section 179 expense deduction. For details, including whether you must file Form 4562, Depreciation and Amortization, see the Instructions for Schedule C (Form 1040), line 13, on page C-4.

Lines 19a and 19b. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. You must allocate (classify) your interest expense so it is deducted on the correct line of your tax return and it gets the right tax treatment. These rules could affect how much interest you are allowed to deduct on Form 4835. See the Instructions for Schedule F, lines 23a and 23b, on page F-5.

Line 22a. If you rented or leased vehicles, machinery, or equipment, enter on line 22a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an inclusion amount. See *Leasing a Car* in Pub. 463.

Lines 30a through 30g. Enter expenses not listed on another line. See the Instructions for Schedule F, lines 34a through 34f, that begin on page F-6.

Line 33. To determine your deductible loss, you may need to complete Form 8582. However, if you checked box 33b, you must complete Form 6198, At-Risk Limitations, before you complete Form 8582. See the Instructions for Schedule F, line 37, on page F-6.

Do not complete Form 8582 if either of the following applies.

- You meet all three of the conditions listed under *Exception for Certain Rental Real Estate Activities* in the Instructions for Schedule E on page E-2. Instead, enter your deductible loss on line 33c and on Schedule E, line 40.
- You were a real estate professional (as defined in the Instructions for Schedule E on page E-1) and you materially participated in the operation of this activity (under the passive loss rules). See the Instructions for Form 8582 for the definition of material participation. Your loss is not subject to the passive activity loss limitations. Instead, enter your deductible loss on line 33c and on Schedule E, line 40. Also, include the loss in the total for Schedule E, line 43.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.