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AGRICULTURAL EXTENSION DIVISION
UNIVERSITY OF MINNESOTA

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MINNESOTA FARM BUSINESS NOTES

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Prepared by the Division of Agricultural Economics
University Farm, St. Paul, Minnesota

INCOME TAX REQUIREMENTS
Prepared by S. B. Cleland

The income tax laws of the United States and of Minnesota each require that every person with a gross income of over \$5000 must file an income tax return even tho he has exemptions sufficient to relieve him from paying the tax. The form furnished by the Minnesota Income Tax Department, in pursuance of the law passed by the Minnesota Legislature in 1933, contains this statement:

"Every individual whose Net Income for the calendar year 1933 exceeded the allowable credits, or whose Gross Income for such period exceeded \$5000, is required to file a return. At least one-half of the tax must be paid at the time fixed for filing the return, and the balance within six months thereafter."

The form furnished by the United States Treasury Department, in pursuance of the United States Revenue Act of 1932, contains this statement:

"An income tax return must be filed by every citizen of the United States whether residing at home or abroad, and every person residing in the United States, though not a citizen thereof, having a gross income for the calendar year of 1933 of \$5000, or over, or a net income for the same period of (a) \$1000, or over, if single, or if married and not living with husband or wife, or (b) \$2500, or over, if married and living with husband or wife, or (c) more than the personal exemption if the status of the taxpayer changes during the taxable year."

In ordinary times, a considerable number of farmers have gross incomes of over \$5000, and even in 1933 there were some farmers falling in this class. The responsibility for knowing whether he is required to make a return, and of making the return if required, rests on the farmer himself.

It is commonly assumed that in depression years, such as we have been going thru, farm incomes have been so low that the farmer is not concerned with income tax requirements. It is true that very few farmers have had a taxable income but that does not imply that they are exempt from making a return. The return is conditioned on a gross income of \$5000 and even tho the deductible expenses and personal exemptions far exceed this amount the farmer is required by law to file a return.

An example of a state income tax return for a farmer whose gross income exceeded \$5000 in 1933 is shown in the table below. This operator of a 160-acre farm had a gross income of \$6620.99 and yet his business expenses and other exemptions were sufficient to relieve him of paying an income tax. Still he must make a return even though he pays no tax.

Summary of State Income Tax Return for 1933

	Income	Expenses
Cash income from farm for 1933 (Gross Income)	\$6620.99	
Inventory at close of year	4441.10	
Farm materials purchased during year		\$1947.51
Wages paid to hired help		470.83
Real estate taxes		238.26
Personal property taxes		24.65
Hail and wind damage		506.35
Depreciation on buildings, machinery and equipment		452.85
Other farm expenses		775.81
Interest paid		273.00
Donations		69.20
Dental and medical expense		41.38
Deductible cash expense for 1933		4799.84
Inventory at beginning of year		3943.88
TOTALS	11062.09	8743.72
Net Income		2318.37
Less: Personal exemption	\$2000	
Credit for 2 dependents	<u>500</u>	2500.00

In making the state income tax report, a man may choose either the cash or accrual basis. Using the cash basis, he will report the cash received and cash operating expense for the year, but not the bills payable or bills receivable.

If he uses the accrual basis, he will report only those items of income and expense related to the year's business, together with bills payable and bills receivable at the close of the year which belong with that year's business. The example shown in the illustration was figured on the cash basis, as this is probably the basis that most farmers will use.

In either case, an inventory of livestock, feed and supplies is taken at the beginning and close of the year. Depreciation of machinery, equipment, buildings, fences, etc., is provided for, and also provision is made for charging off bad debts. Decrease in value of the farm land itself is provided for only in case of sale of the land.

The federal income tax reports are made on much the same plan, the principal difference being that in using the cash basis, no inventory records are used, only cash income and expenses being reported. Inventories are required only when the accrual basis is used.

The type of farming and the size of the farm have an important bearing on whether or not the operator is required to file an income tax return. The farmer who buys feeders such as cattle, lambs, or pigs, is likely to have a larger gross income than the operator of the average dairy farm or the man who raises

his own feeders even though his net income may be no larger. Records from a group of beef cattle and hog farms in southwestern Minnesota for the years 1929 to 1931 show that twice as large a proportion of these farmers had incomes in excess of \$5000 as did a group of dairy farmers in southeastern Minnesota during the same years. The dairymen, however, had larger net incomes. The beef cattle and hog farms averaged nearly twice as large in size as the dairy farms. The larger gross incomes were due both to the larger acreage per farm and to the fact that the sales of purchased cattle were included in the gross income. When the cost of these feeder cattle was deducted from the gross income, the net income was more nearly comparable with that of the dairy farms.

The importance of size in building up a large gross income is further illustrated by comparing the gross income of this same group of dairy farms in southeastern Minnesota with a group of large general farms in Polk County in 1928. A fifty per cent larger proportion of the Polk County farms had incomes in excess of \$5000. They averaged nearly twice as large in size as the dairy farms but had lower net incomes. It should be kept clearly in mind that the size of the gross income determines whether or not a farmer is required to file an income tax return but his operating expenses and his personal exemptions determine whether any of this gross income is taxable.

Most farmers do not have accounting records on which to base income tax returns but those who do, have a special advantage. As has been already emphasized, net income, not gross income, determines whether a farmer must pay a tax. Gross income is much more easily determined than is deductible expense. A farmer may estimate rather easily most of the items of gross income as they are relatively few and large compared with the items that make up the expense. The farmer, whose tax return is shown on page 2, would have found it extremely difficult to remember all of the more than 500 items that made up his deductible cash expense of \$4799.84. Surely many of these would have been forgotten had they not been recorded. Farm accounting records are a very valuable guide in the operation of the farm. Because of their additional value of insuring ease, accuracy, and completeness in making income tax returns, it seems wise for any farmer whose gross income even occasionally exceeds \$5000 to adopt at once a simple system of farm accounts.

Both state and federal income tax returns must be made on or before March 15, for the calendar year 1933.* The state returns must be made on forms furnished by, and mailed to, the State Income Tax Department, Minnesota Tax Commission, 55 East Fifth Street, St. Paul, Minnesota. At least one-half of the tax must be paid at the time fixed for filing the return, and the balance within six months thereafter. United States returns must be made on Form 1040A, which can be secured from the Collector of Internal Revenue, Federal Building, St. Paul, Minnesota, and returns must be sent to the same place by March 15, 1934.

*Because of pending litigation regarding the constitutionality of the state income tax law, the latest date for filing state income tax returns for the year 1933 has been extended to April 15, 1934.

MINNESOTA FARM PRICES FOR JANUARY 1934

Prepared by Adena E. Terras

The index number of Minnesota farm prices for the month of January 1934 was 46.0. When the average of farm prices of the three Januarys 1924-25-26 is represented by 100, the indexes for January of each year from 1924 to date are as follows:

January 1924 -	85.5	January 1930 -	99.8
" 1925 -	101.6	" 1931 -	72.6
" 1926 -	112.6	" 1932 -	47.8
" 1927 -	112.4	" 1933 -	34.6*
" 1928 -	99.5	" 1934 -	46.0*
" 1929 -	101.2		

*Preliminary

The price index of 46.0 for the past month is the net result of increases and decreases in the prices of farm products in January 1934 over the average of January 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index,
January 15, 1934, with Comparisons*

	Jan. 15, 1934	Dec. 15, 1933	Jan. 15, 1933	Av. Jan. 1924-25- 26	% Jan. 15, 1934 is of Dec. 15, 1932	% Jan. 15, 1934 is of Jan. 15, 1933	% Jan. 15, 1934 is of Jan. 15, 1924-25-26
Wheat	\$.73	\$.68	\$.35	\$1.46	107	209	50
Corn	.37	.34	.14	.69	109	264	54
Oats	.28	.27	.10	.40	104	280	70
Barley	.50	.44	.17	.64	114	294	78
Rye	.49	.46	.21	.98	107	233	50
Flax	1.65	1.54	.96	2.59	107	172	64
Potatoes	.55	.45	.23	.77	122	239	71
Hogs	2.75	2.60	2.45	8.63	106	112	32
Cattle	3.35	2.90	3.20	5.41	116	105	62
Calves	4.40	3.65	3.50	8.25	121	126	53
Lambs-sheep	6.02	5.17	4.19	11.85	116	144	51
Chickens	.069	.061	.070	.158	113	99	44
Eggs	.14	.18	.19	.35	78	74	40
Butterfat	.18	.21	.20	.47	86	90	38
Hay	7.22	7.08	5.68	11.38	102	127	63
Milk	1.22	1.20	1.02	2.24	102	120	54

*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

Indexes and Ratios of Minnesota Agriculture*

	Jan. 1934	Dec. 1933	Jan. 1933	Av. Jan. 1924-26
U.S. farm price index	50.0	50.0	36.4	100.0
Minnesota farm price index	46.0	41.9	34.6	100.0
U.S. purchasing power of farm products	67.6	64.5	56.0	100.0
Minnesota purchasing power of farm products	62.2	53.7	53.2	100.0
U.S. hog-corn ratio	7.0	7.0	14.0	11.0
Minnesota hog-corn ratio	7.4	7.6	17.5	13.2
Minnesota egg-grain ratio	15.0	20.7	46.9	21.3
Minnesota butterfat-farm grain ratio	20.9	26.3	64.5	40.6

*Explanations of the computation of these data are given in Farm Business Notes No. 126.