# 2025 National Income Tax Workbook

Chapter 8: Agricultural and Natural Resource Tax Issues

Land Grant University Tax Education Foundation

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## ISSUE 3: 4-H CLUB & FFA PROJECTS

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## Tax Issues for 4-H & FFA Members

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## Tax Issues for 4-H & FFA Members Pg 284

- **Youth Participation in 4-H and FFA**
- Programs encourage practical ag experience
  - Livestock, crops, or similar projects
- Educational goals:
  - Husbandry, economics, time management
- Events: County fairs, breeder shows, state/national competitions

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## Tax Issues for 4-H & FFA Members Pg 284

Types of Compension Received

- Prizes or ribbons
- **Cash payments**
- Sale of animals (often at end of the project)
  - Buyers may purchase out of goodwill or charitable interest
  - Animal may be resold, donated, consumed, or processed

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## Tax Issues for 4-H & FFA Members Pg 284

**Reporting Income - Educational Purpose**

- **For educational, nonprofit intent:**
- Report net income on **Schedule 1, Line 8z**: "Other income"
- Attach **statement of gross income & expenses**
- **No SE tax** if:
  - Project is educational
  - Conducted under 4-H or FFA restrictions
  - Not a trade or business

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## Tax Issues for 4-H & FFA Members Pg 284

**Reporting Income - Business Intent**

- **If project is regular and for profit:**
- Report on **Schedule 1, Line 6**
  - If not part of an established farming business
- Report on **Schedule F** if:
  - Member raises other livestock/crops beyond project
  - Income is part of a farming operation
- **Subject to SE tax** under I.R.C. § 1402(a)

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## Tax Issues for 4-H & FFA Members Pg 285

**What Is a "Trade or Business"?**

- Requires **regularity, continuity, and profit motive**
- **Not a hobby** or recreational endeavor
- Defined in *Commissioner v. Groetzinger*, 480 U.S. 23 (1987)
- **Education/recreation projects** typically do *not* qualify

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## Tax Issues for 4-H & FFA Members Pg 285

**9-Factor Hobby vs. Profit Analysis**

- 1. Manner in which activity is conducted
- 2. Expertise of taxpayer/advisors
- 3. Time and effort invested
- 4. Asset appreciation potential
- 5. Success in similar activities
- 6. Income/loss history
- 7. Occasional profits
- 8. Financial status
- 9. Personal pleasure/recreation

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## Tax Issues for 4-H & FFA Members Pg 285

**Standard Deduction for Dependents (2025)**
- Lesser of:
- $15,750 (standard deduction for singles), **or**
- Greater of:
  - $1,350
  - Earned income + $450 [Rev. Proc. 2024-40]
- Practitioner Note: Standard Deduction Amount

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## Tax Issues for 4-H & FFA Members Pg 285

**What Counts as Earned Income?**
- Includes:
  - Wages, salaries, tips
  - Professional fees
  - Payment for services
- **Does net income from 4-H/FFA projects count?**
  - If **educational/nonprofit**: likely *not* earned income
  - If **profit-driven and effort-based**: arguably *earned income*

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## Tax Issues for 4-H & FFA Members Pg 285-286

**Kiddie Tax Overview - I.R.C. § 1(g)**
- Applies parent's **marginal rate** to child's **unearned income** if the child:
  - Is under age 18 at year-end
  - Is 18 and doesn't earn >½ of own support
  - Is 19-23, full-time student, and doesn't earn >½ of own support

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## Tax Issues for 4-H & FFA Members Pg 286

**Kiddie Tax Triggers**

- Applies to **unearned income** of certain children
- Requirements:
  - At least **one parent alive** at year-end
  - Child must **file a tax return**
  - Child **cannot file jointly**
- Reported on **Form 8615**

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## Tax Issues for 4-H & FFA Members Pg 286

**Statutory Basis - I.R.C. § 1(g)(2)(A)(ii)(II)**

- "Earned income" includes:
  - Wages, salaries, professional fees
  - Compensation for **actual personal services rendered**
- Excludes:
  - Distributions masked as compensation
  - Corporate profit-shifting

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## Tax Issues for 4-H & FFA Members Pg 286

**Trade or Business Component**

- Under I.R.C. § 911(d)(2)(B):
- If child is **engaged in a trade/business** where:
  - Both **services and capital** produce income
- Then up to **30% of net profits** can count as earned income
- Example relevance: advanced FFA or 4-H activities

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## Tax Issues for 4-H & FFA Members Pg 285

**4-H & FFA Income – Earned or Not?**

- Likely **not earned income** if:
  - Project is educational or hobby-based
- Could be earned income if:
  - Structure resembles a **profit-seeking business**
  - Child contributes **labor + risk-bearing capital**

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## Tax Issues for 4-H & FFA Members Pg 286

**Calculating the 2025 Kiddie Tax**

- **First $1,350** taxed at child's 10% rate
- Remaining unearned income taxed at **parents' marginal rate**
- Threshold indexed annually [I.R.C. § 1(g)(4)(A)(ii)(I)]

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## Tax Issues for 4-H & FFA Members Pg 286

**Example 8.15 – Fred Volkov**

- Age: 17
- FFA net income: $4,000 (reported as other income, Sch 1, Line 8z)
- Investment income: $5,000
- Parents' taxable income: $190,000
- Fred files **as a dependent**, uses $1,350 standard deduction
- Total taxable income: $4,000 + $5,000 – $1,350 = **$7,650**

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## Tax Issues for 4-H & FFA Members Pg 286

**Tax Calculation - Form 8615**

- First $1,350
  - 10% Rate = $135 Tax
- Remaining $6,300
  - 22% Rate = $1,386 Tax
- Total Tax = $1,521

**See Figure 8.6 Pg 287**

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## Tax Issues for 4-H & FFA Members Pg 288

**Example 8.16 – FFA Income as Earned**

- $4,000 FFA project net income
- $5,000 investment income
- Reports project on **Schedule F**
- Demonstrates $1,200 (**30% of $4,000**) of value in labor/management → treated as **earned income** → $2,800 is **unearned income** for kiddie tax

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## Tax Issues for 4-H & FFA Members Pg 288

- Earned income for Standard Deduction = **$4,000**
- Std Deduction = $4,000 + $450 = **$4,450**
- ½ **of** SE tax = $4,000 x 92.35% x 15.3% = $565 x 50%= **$283**
- AGI = $5,000 (investments) + $4,000 (farm) - $283 (½ SE tax) = **$8,717**
- **Taxable income** = $8,717 - $4,450 = **$4,267**

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## Tax Issues for 4-H & FFA Members Pg 286-291

**Tax Comparison**

| Tax Component | Ex 8.16 Amount | Ex 8.15 Amount |
| --- | --- | --- |
| Income tax (From 1040) | $939 | $1,521 |
| SE Tax (on $4,000 farm income) | $565 | 0 |
| Total tax liability | $1,504 | $1,521 |

**$17 Savings by treating as a business**

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## Tax Issues for 4-H & FFA Members Pg 2

**Key Takeaways**

- Classification of income drives **tax rate and return treatment**
- Youth ag project income may straddle earned/unearned line
- Kiddie tax **can be reduced or avoided** with proper structure and support assessment
- Keep careful records: **intent, activity level, and income source matter**

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## Tax Issues for 4-H & FFA Members Pg 290

**Observation - Social Security Benefits**

- SE tax payment earns **Social Security quarters**
- 2025 earnings required for 1 Quarter of Coverage = **$1,810**
- 4 QCs/year max
- **Minimum for benefits: 6 QCs**
- Business treatment builds future eligibility for retirement, disability, survivor benefits

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## Tax Issues for 4-H & FFA Members Pg 290

**Example 8.17 - IRA Contribution**

- Net earned income = $4,000 - $283 = **$3,717**
- Fred can contribute **$3,717** to a traditional IRA → Fully deductible
- Taxable income = $4,267 - $3,717 = **$550**
- Income tax = $550 × 22% = **$121**
- Total tax = $121 (income tax) + $565 (SE) = **$686**
- Compared to $1,521 → **$835 savings**

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## Tax Issues for 4-H & FFA Members Pg 290-291

**Example 8.18 - Other earned income**

- **Facts are the same as 8.17 except Fred is now age 18**
  - $18,000 wages
  - $4,000 FFA income
  - $5,000 investment income
  - Total support cost: $38,000

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## Tax Issues for 4-H & FFA Members Pg 291

- If FFA income is unearned:
  - Earned income = $18,000 ÷ $38,000 = **47.4% of support** → Kiddie tax **applies**
- If FFA income is earned:
  - Earned income = $22,000 ÷ $38,000 = **57.9%** → Kiddie tax **does not apply**

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## Tax Issues for 4-H & FFA Members Pg 291

### Tax Breakdown

| | Figure 8.9 < ½ Support | Figure 8.10 > ½ Support |
|---|---|---|
| AGI | $27,000 | $26,717 |
| 2025 Standard Deduction | (15,000) | (15,000) |
| Taxable Income | $12,000 | $11,717 |
| Amount Taxed at Parents' 22% Rate | $6,300 Tax $1,386 | 0.00 |
| Amount Tax at Fred's 10% Rate | $5,700 Tax 570 | $11,717 Tax $1,172 |
| SE Tax | $ 0 | $ 565 |
| Total Income Tax | $1,956 | $1,737 |

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## Form 1099-MISC Reporting Requirements Pg 291

- **Cash awards ≥ $600** from fair associations or sponsors
- **$2,000 threshold for 1099-MISC and 1099-NEC beginning in 2026**
  - Must be reported on **Form 1099-MISC**
- Reference: [Treas. Reg. § 1.6041-1(d)(3)]

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## Form 1099-MISC Reporting Requirements Pg 291

- **Exception:**
  - Spot or forward sales of ag commodities
  - Spot sale = contemporaneous delivery
  - Buyers and sponsors of ag auctions do **not** need to issue 1099s for spot/forward sales
  - [Treas. Reg. § 1.6045-1(c)(7)(i), (iv)(B)]

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## Tax Consequences for Auction Buyers Pg 292

- **Why overpay?** Goodwill, PR, support local youth
- Animal resold quickly at a loss → often before it leaves fair
- If tied to business purpose → **deductible advertising expense**

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## Tax Consequences for Auction Buyers Pg 292

**Example 8.19 – Advertising Exp Deduction**

- **Local Feed Mill Scenario:**
  - Purchased livestock: $50,000
  - Immediately resold for $40,000
  - Result: $10,000 loss
- **Deductible as business advertising**
  - Treated as **ordinary and necessary expense**

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## Tax Consequences for Auction Buyers Pg 292

Charitable Deduction

- If buyer **donates the meat** to a charitable org:
  - Can deduct **lesser of:**
    - Cost basis **or**
    - FMV of the donated meat
  - Must follow charitable substantiation rules

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## Tax Consequences for Auction Buyers
Pg 292

**Example 8.20 - Charitable Deduction**

- **Local Feed Mill:**
  - Paid $50,000 to purchase livestock
  - Paid $18,000 to Billy's Butcher Shop
  - Donated meat to a food pantry
  - Total basis = $68,000

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## Tax Consequences for Auction Buyers
Pg 292

**Charitable Deduction Rule:**

- Deduct **lesser of:**
  - $68,000 basis
  - FMV of donated meat
- Excess (if any) = deductible **advertising expense**

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## Tax Consequences for Auction Buyers

Buyer keeps the animal

- FMV is nondeductible
- Purchase price > FMV is deductible as business advertising expense
- Example:
  - $4,800 Paid by Denomme Accounting for a steer
  - $1,320 FMV of steer
  - $3,480 Business advertising expense

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Issue 3: 4-H & FFA Projects

Questions ?

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