TAX YEAR
2020

Farm Vehicles and Fuels

ARROWHEAD
TAX SERVICE

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Farm Vehicles and Fuels

Farmers can deduct expenses of operating a car or truck used in a farming operation. You can use the standard mileage rate or the actual expense method to compute the deduction.

Standard Mileage Rate (57.5¢ Per Mile for 2020)

When choosing the standard mileage rate, there is no additional deduction for depreciation, rent or lease payments, or actual operating expenses. You can use the standard mileage rate for 2020 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle into service, or
- Leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

Actual Expense Method

You can deduct the actual cost of operating a car or truck for farm business. Only expenses for business use are deductible. Actual expenses include:

- Business portion of expenses for gasoline, oil, repairs, insurance, tires, and license plates.
- Depreciation.
- Rent or lease payments.

Five or More Farm Vehicles

You must use actual expenses if five or more vehicles were simultaneously used in the farming operation. You are not considered to be using five or more vehicles at the same time if you alternate using those vehicles for business.

Business Use Percentage

You can claim 75% of the use of a car or light truck as business use without any records if the vehicle is used during most of the normal business day directly in connection with the business of farming. This method of substantiating business use is selected the first year the vehicle is placed in service. Once this choice is made, you may not change to another method later. The following are uses directly connected with the business of farming.

- Cultivating land.
- Raising or harvesting any agricultural or horticultural commodity.
- Raising, shearing, feeding, caring for, training, and managing animals.
- Driving to the feed or supply store.

Record of Fuels Used for Farming

Date Purchased	*Gallons Purchased*	*Gallons Used On Farm*					*Type of Alternative Fuel*
		Gas	*Aviation*	*Undyed Diesel Fuel*	*Undyed Kerosene*	*Alternative Fuel*	
Totals							

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Example: *Bill uses his pickup truck every day to haul bags of seed home from the supply store, to drive around the farm to check fences, and to pull the trailer when taking his hogs to the market. He also uses his pickup truck to drive to church on Sunday mornings and to go to town on Tuesday nights to play softball. Bill can claim 75% of the use of the truck as business use without substantiating the percentage of use for business separate from personal use.*

Comment: *The term "without any records" refers to the ability of the taxpayer to claim 75% use without proving 75% use. A taxpayer would still need to maintain records of miles driven, or actual expenses, to substantiate the expenses used to determine the deduction.*

More Than 75%

A taxpayer can claim a greater amount by substantiating business use more than 75% of the vehicle.

Fuel Tax Credits and Refunds

You may be able to claim a credit or refund of excise taxes on fuel used on a farming operation. Fuel is used on a farm for farming purposes only if used in carrying on a trade or business of farming on a farm in the United States.

Farming Purposes

As the owner, tenant, or operator and ultimate purchaser of fuel, you use the fuel on a farm for farming purposes if it is used in any of the following ways.

- To cultivate the soil or to raise or harvest any agricultural or horticultural commodity.
- To raise, sheer, feed, care for, train, or manage livestock, bees, poultry, fur-bearing animals or wildlife.
- To operate, manage, conserve, improve, or maintain a farm and its tools and equipment.
- To handle, dry, pack, grade, or store any raw agricultural or horticultural commodity. For this use to qualify, the taxpayer must have produced more than half the commodity so treated during the tax year. The more-than-half test applies separately to each commodity. Commodity means a single raw product. For example, apples and peaches are two separate commodities.
- To plant, cultivate, care for, or cut trees or to prepare (other than sawing logs into lumber, chipping, or other milling) trees for market, but only if the planting is incidental to the farming operations. The taxpayer's tree operations are incidental only if they are minor in nature when compared to the total farming operations.

Fuel Not Used for Farming

You do not use fuel on a farm for farming purposes when you use it in any of the following ways.

- Off the farm, such as on the highway or in noncommercial aviation, even if the fuel is used in transporting livestock, feed, crops, or equipment.
- For personal use, such as mowing the lawn.
- In processing, packaging, freezing, or canning operations.
- In processing crude gum into gum spirits or turpentine or gum resin or in processing maple sap into maple syrup or maple sugar.

Fuel Used on Farm for Farming Purposes	Credit	Refund
Gasoline	Yes	No
Aviation gasoline	Yes	No
Kerosene used in aviation	Yes	Yes
Undyed diesel fuel and undyed kerosene	Yes [1]	Yes [1]
Other fuels, including alternative fuels	Yes [1]	Yes [1]
Off-Highway Business Use Fuel	**Credit**	**Refund**
Gasoline	Yes	Yes
Undyed diesel fuel and undyed kerosene	Yes [2]	Yes [2]
Other fuels, including alternative fuels	Yes	Yes

[1] Credit or refund by the farmer only, even if purchased by someone else and used on the farm for farming purposes.

[2] Applies to undyed kerosene not sold from a blocked pump, or for blending with undyed diesel for household heating, lighting, or cooking.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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