

# Chapter 12: A Debtor's Most Powerful Ally

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Chapters 7, 9, 11 and its many variants, 12, 13, and 15; a debtor considering bankruptcy has a plethora of options. Each has its own eligibility criteria, advantages, and disadvantages. This paper makes the case that the many advantages and few disadvantages of Chapter 12 versus the other chapters should make it the default choice for debtors who meet its eligibility criteria.

## I. PRELIMINARY MATTERS

One could restate the classic warning about poison ivy for non-specialists approaching bankruptcy chapters: multiples of three, leave them be. Thankfully, the other multiple-of-three chapters can be left be, as their eligibility requirements are almost entirely incompatible with Chapter 12's. Chapter 9 is for municipalities<sup>1</sup> and Chapter 15 is used for international proceedings.<sup>2</sup> Since Chapter 12 is restricted to family farmers & fishermen<sup>3</sup> it is entirely incompatible with Chapter 9, and a case where a debtor both qualified as a family farmer or fisherman and had sufficient international presence to justify filing an insolvency proceeding in another country seems unlikely at best.

Thus Chapter 12 is best compared to the "usual" bankruptcy chapters: 7, 11, and 13. First this paper compares it to Chapter 11, then 13, then 7. Most of the discussion concerns the differences between Chapters 11 & 12 since Chapter 11 is often a debtor's alternative and it poses significant problems for debtors that Chapter 12 eliminates.

1. "An entity may be a debtor under chapter 9 of this title if and only if such entity—is a municipality." Section 109(c)(1) (unless otherwise specified all code references are to the bankruptcy code, title 11).
2. "A case under this chapter is commenced by filing a petition for recognition of a foreign proceeding under section 1515." Section 1504.
3. "Only a family farmer or family fisherman with regular annual income may be a debtor under chapter 12 of this title." Section 109(e).

## II. CHAPTER 11 VS. CHAPTER 12

### A. Chapter 11's Weaknesses

Though Chapter 11's strengths have made it a model for other countries' insolvency laws,<sup>4</sup> it is less useful for individuals and smaller businesses. Though individuals and smaller businesses could face any of a myriad of problems with the structure of Chapter 11, this paper focuses on three. First, the combination of the absolute priority rule and class voting can allow a single undersecured creditor to prevent confirmation of a plan that leaves the debtor in control of the business. Second, Chapter 11 can be expensive and time-consuming. Third, the tax implications of partial or total liquidation combined with the requirement to pay those taxes as part of a plan of reorganization can stymie a debtor's attempts to reorganize. A debtor who instead chooses Chapter 12 can avoid all these potential roadblocks.

### 1. The Absolute Priority Rule, Class Voting, and Acceptance by an Impaired Class

#### a. Class Voting

Chapter 11 plans can be split into two categories: consensual and non-consensual. A consensual plan meets the requirements of § 1129(a)(8)—every class is either unimpaired or accepts the plan. An impaired class accepts the plan if it votes in favor of the plan, and it votes in favor of the plan if at least two-thirds of the class in amount and half in number vote to accept the plan.<sup>5</sup> Consider the following class voting example:

4. See, e.g., Gerald McCormack & Wai Yee Wan, *Transplanting Chapter 11 of the US Bankruptcy Code into Singapore's restructuring and insolvency laws: opportunities and challenges*, 19 J. of Corp. L. Stud. 69 (2019) (Singapore adopted parts of Chapter 11 in a 2017 revision of its insolvency laws); *Europe's answer to Chapter 11?*, Freshfields.com, [http://knowledge.freshfields.com/m/Global/r/1719/europe\\_s\\_answer\\_to\\_chapter\\_11\\_](http://knowledge.freshfields.com/m/Global/r/1719/europe_s_answer_to_chapter_11_) (last visited September 1, 2020) (noting that European Union officials acknowledged the effect of Chapter 11 on the European Commission's 2016 proposals on insolvency, restructuring, and second chance, but also recognizing the significant costs of Chapter 11 and its problems for smaller businesses).
5. Section 1126(c). These thresholds are of the votes cast.

Class	Description	Creditor	Amount	Impaired?	Vote	Class Acceptance?
1	Blackacre Mortgage	Farm Credit	\$1,000,000	No	NA	NA
2	Machinery Loan	John Deere	\$500,000	Yes	Yea	Yes
3	Trade Creditors <sup>6</sup>	Farmer's Co-op	\$200,000	Yes	Yea	Yes
		Tim's Trucking	\$25,000		Nay	
		Rob's Repair	\$25,000		Yea	
4	General Unsecured Creditors	Farm Credit (bifurcated undersecured claim) <sup>7</sup>	\$300,001	Yes	Nay	No
		Small Town Bank	\$300,000		Yea	
		Friendly Bank	\$300,000		Yea	
		T-Mobile	\$1,000		None	

Consider Classes 3 & 4. Class 3 accepted the plan despite a “nay” vote from Tim’s Trucking since of the \$250,000 in claims in that class \$225,000 voted to accept it (90%), and a majority of the votes were in favor of acceptance (two to one). Note that if Tim’s Trucking had voted “yea” but Farmer’s Co-op had voted “nay” Class 3 would have rejected the plan, since Farmer’s Co-op controls more than 1/3rd of the class’s value. Farmer’s Co-op can be said to control Class 3, since its “nay” vote would force Class 3 to reject the plan. If instead Rob’s Repair had joined Tim’s Trucking in voting “nay” then Class 3 would again have rejected the plan even though \$200,000 out of the \$250,000 in claims (80%) voted “yea” because less than half of the votes by number were “yeas.”

Class 4’s rejection of the plan illustrates two important points. First, the thresholds for acceptance are relative to the total votes cast, not the total size of the class. No creditor controlled Class 4, since no creditor had a claim exceeding \$300,333.66. However, T-Mobile’s failure to vote made Farm Credit’s “nay” determinative. Second, the thresholds are *at least*, not *more than*. Had Farm Credit’s claim been \$1 lower Class 4 would have accepted the plan, since by amount *at least* 2/3rds of the class that voted (\$600,000/\$900,000) would have voted to accept the plan.

6. Whether it is appropriate to split the unsecured class like this is discussed below, *infra* note 12. Suffice to say the answer is, “It depends.”
7. Section 506(a)(1) bifurcates an undersecured creditor’s claim into a secured portion with value equal to the value of its collateral and an unsecured portion for the excess.

## **b. The Absolute Priority Rule**

A consensual plan is simple—the impaired classes (above Classes 2–4) all vote to accept the plan. If this does not occur, then the debtor may ask the court to confirm a nonconsensual plan under § 1129(b)(1). Among other requirements, in this scenario the plan must “be fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted, the plan.” *Id.* Section 1129(b)(2) lays out some requirements for a plan to be “fair and equitable,” including § 1129(b)(2)(B)(ii), the absolute priority rule.<sup>8</sup> Put in simple English, the absolute priority rule says if an impaired class of unsecured claims rejects the plan then the debtor’s current owners cannot retain anything in the plan. Though there are exceptions and ways around the absolute priority rule,<sup>9</sup> it remains a significant obstacle for a debtor wishing to reorganize and keep control of their business.

One tweak to the above example shows the problem the combination of class voting and the absolute priority rule can pose for such a debtor. If the T-Mobile claim is removed from Class 4 Farm Credit controls that class. If it dislikes its treatment under the plan it can prevent confirmation of a consensual plan by voting “nay.” If it does so, then unless the debtor finds a way around the absolute priority rule that debtor cannot confirm a plan that leaves it in control of its business. One creditor determines the plan’s fate.

## **c. Acceptance by an Impaired Class**

There is one more relevant wrinkle. Section 1129(a)(10) requires that if any class of claims is impaired under the plan at least one such class must accept the plan. While by its terms this applies to a consensual or nonconsensual plan, it is most relevant in a nonconsensual plan, since

8. If there is an impaired class of interests, then § 1129(b)(2)(C)(ii) provides them the same benefit as (B)(ii) provides an impaired class of claims.
9. Most notably the new value exception, *see Bank of Am. Nat. Tr. & Sav. Ass’n v. 203 N. LaSalle St. P’ship*, 526 U.S. 434, 442 (1999); but also creditor carve-outs, give-ups or give-backs, or sharing agreements, *see, e.g., In re Iridium Operating LLC*, 478 F.3d 452 (2d Cir. 2007); *In re Armstrong World Indus., Inc.*, 432 F.3d 507 (3d Cir. 2005); *In re Genesis Health Ventures, Inc.*, 266 B.R. 591 (Bankr. D. Del. 2001); *In re SPM Manufacturing Corp.*, 984 F.2d 1305 (1st Cir. 1993); *In re Nuverra Envtl. Solutions, Inc.*, 590 B.R. 75 (D. Del. 2018); though schemes to avoid the absolute priority rule must contend with increased scrutiny under the Supreme Court’s recent ruling in *Czyzewiski v. Jevic Holding Corp.*, 137 S.Ct. 973 (2017) disapproving a structured dismissal designed to avoid the absolute priority rule.

in a consensual plan all impaired classes must accept the plan.<sup>10</sup> Satisfying this requirement can be difficult. Ideally a debtor would classify all the impaired creditors it expected to accept the plan together, guaranteeing acceptance by that class. However, debtors may only classify a claim or interest together with substantially similar claims or interests, which hampers a debtor's ability to make a superclass of impaired claims that will vote to accept the plan.<sup>11</sup> While there is no statutory limitation on splitting up similar claims into different classes, courts often require debtors who wish to split up similar claims or interests into different classes to propound a non-bankruptcy reason for that decision.<sup>12</sup> Similarly, constructing an impairment to friendly creditors in order to obtain acceptance by an impaired class is similarly problematic.<sup>13</sup>

#### **d. Chapter 12's Answer**

Chapter 12 avoids these problems by requiring neither class voting (and therefore acceptance by an impaired class) nor satisfaction of the absolute priority rule for confirmation. Section 1225, the confirmation requirements for Chapter 12 plans, does not require creditor approval—like § 1325 it only requires that the plan satisfy the statutory criteria. The closest analogue to a class of creditors rejecting the plan is the trustee or an unsecured creditor objecting to the plan. In that case

10. The only time this could apply to a consensual plan is if insiders were impaired, since § 1129(a)(10) excludes acceptance by insiders. If the only accepting impaired class were of insiders, or if insider acceptances (which are not [necessarily] excluded from tabulation by either § 1126(c) or case law, *compare In re United Marine, Inc.* 197 B.R. 942 (Bankr. S.D. Fla. 1996) (allowing acceptance by impaired general unsecured class even though the vote included insider acceptances) and *In re Gilbert*, 104 B.R. 206 (Bankr. W.D. Mo. 1989) (same) *with In re MCorp Fin. Inc.*, 137 B.R. 219 (Bankr. S.D. Tex. 1992) (insider acceptances cannot be counted for § 1129(a)(10) purposes)) were essential for acceptance by the accepting impaired classes, then even a consensual plan might not be confirmable. *See In re S. Beach Sec., Inc.*, 606 F.3d 366 (7th Cir. 2010) (concluding that when the only impaired class [indeed the only creditor] was an insider its acceptance did not satisfy § 1129(a)(10) and plan confirmation was properly denied).
11. Sec. 1122(a).
12. *See, e.g., In re Combustion Eng'g, Inc.*, 391 F.3d 190 (3d Cir. 2004); *In re Boston Post Rd. L.P.*, 21 F.3d 477 (2d Cir. 1994); *In re Lumber Exch Bldg. L.P.*, 968 F.2d 647 (8th Cir. 1992); *In re Holywell Corp.*, 913 F.2d 873 (11th Cir. 1990). *In re Greystone III Joint Venture*, 995 F.2d 1274 (5th Cir. 1991); *In re Sandy Ridge Dev. Corp.*, 881 F.2d 1346 (5th Cir. 1989); *In re Dow Corning Corp.*, 244 B.R. 634 (Bankr E.D. Mich. 1999).
13. *See, e.g., In re Village Green I, G.P.*, 811 F.3d 816 (6th Cir. 2016); *In re Windsor on the River Assoc.*, 7 F.3d 127 (8th Cir. 1993); *In re RAMZ Real Estate Co.*, 510 B.R. 712 (Bankr. S.D.N.Y. 2014); *In re All Land Invs., LLC*, 468 B.R. 676 (Bankr. D. Del. 2012).

§ 1225(b)<sup>14</sup> requires the debtor to commit all their disposable income to the plan for at least three years.<sup>15</sup> So long as the debtor does that then the debtor may retain property through the plan—there is no absolute priority rule. Even if unsecured creditors receive nothing through the plan the plan can be confirmed, and if the debtor completes the plan, they can receive a discharge and retain control of their business.

## 2. Costs

Chapter 11 imposes significant expenses, both monetary and temporal, on debtors. Section 1102(a)(1) provides for the automatic appointment of an unsecured creditors committee “as soon as practicable after the order for relief under chapter 11 of this title,” and § 1102(a)(2) allows the court to order the appointment of additional committees. Section 1103 allows a committee to hire attorneys and accountants, investigate the debtor, participate in plan formulation, and request the appointment of a trustee or examiner. Sections 503(b)(3)(F) and 330(a)(1) allow the costs and expenses of committees and the professionals they hire to be charged to the estate as administrative expenses. Moreover, interacting with a committee can cost the debtor significant time and money.

Beyond committees, Chapter 11 debtors must pay quarterly fees to the U.S. Trustee, so the longer a case drags on the greater the burden of those fees. Adding to these time and monetary costs, § 1125(b) requires debtors<sup>16</sup> to prepare, obtain court approval of, and distribute a disclosure statement along with every ballot sent that seeks plan approval, adding more monetary (attorney’s fees, printing & mailing costs) and temporal (court approval can only come after at least 28 days’ notice<sup>17</sup> and a hearing) costs. Chapter 11 is also slow overall—the debtor has an exclusive right to propose a plan for at least 120 days,<sup>18</sup> and once a plan is proposed 28 days’ notice is required before the confirmation hearing

14. Like § 1325(b).

15. Though some judges or courts require their trustees to object to plans that do not commit all a debtor’s disposable income, others do not. Without an objection from a trustee or unsecured creditor a debtor need not meet the disposable income test in either Chapter 12 or 13.

16. Technically plan proponents, since § 1121(c) allows parties in interest other than the debtor to propose plans under certain circumstances (in Chapter 12 § 1221 allows only the debtor to propose a plan, another benefit for debtors of Chapter 12 over Chapter 11).

17. Fed. R. Bankr. P. 2002(b)(1).

18. Section 1121(b), unless reduced under § 1121(d)(1) (which also allows that period to be extended).

can be held.<sup>19</sup> While a debtor can partially mitigate this issue by filing a plan more quickly, it still is a source for delay. Each additional requirement is another opportunity for a mistake and another chance for creditors to force the debtor to incur further temporal and monetary costs.

However, as with class voting and the absolute priority rule above, Chapter 12 avoids all these issues. There are no committees, no U.S. Trustee fees,<sup>20</sup> and no disclosure statements. Chapter 12 is also faster overall. A debtor is required to propose a plan within 90 days of the petition.<sup>21</sup> The confirmation hearing only requires 21 days' notice<sup>22</sup> and must be concluded no later than 45 days after the plan is filed.<sup>23</sup> Barring extensions, a Chapter 12 plan will be confirmed within 135 days of filing, whereas in a Chapter 11, even without extensions a debtor that waited until the end of its exclusivity period to file a plan would not have its plan confirmed until at least 148 days after filing.

### 3. Taxes on Right-Sizing Liquidations

Chapter 11 provides little help to a debtor who needs to sell assets to right-size their business but cannot afford the tax bill. Understanding this issue requires a little bit of Income Tax 101.

Assume David Farmer purchases 160 acres of bare ground in 2000 for \$1,000/acre. In 2013 he adds drainage tile costing \$70,000. After those transactions, David Farmer's tax basis in 2012 is calculated as follows:

Farmland	\$160,000	Beginning Basis
+Drainage Tile	\$70,000	Adjustment
Total	\$230,000	Adjusted Tax Basis

19. Fed. R. Bankr. P. 2002(b)(2).

20. Although the Chapter 12 trustee is entitled to fees, those are based on distributions to creditors, like in a Chapter 13, and any direct payments to creditors the court may allow are not subject to the Chapter 12 trustee's fees.

21. Section 1221, barring extension.

22. Fed. R. Bankr. P. 2002(a)(8).

23. Section 1224, unless extended for cause.

What is David Farmer's adjusted tax basis in 2017? Tile is depreciated on a straight-line basis over 7 years:  $\$10,000 \div 7 \text{ years} = \$10,000$  depreciation per year.

Farmland	\$160,000
Drainage Tile Beginning Basis	\$70,000
-Depreciation: $\$10,000/\text{yr} \times 5 \text{ years}$	\$(50,000)
Adjusted Tax Basis	\$180,000

What is David Farmer's adjusted tax basis after 2019?

Farmland	\$160,000
Drainage Tile Beginning Basis	\$70,000
-Depreciation $\$10,000/\text{yr} \times 7 \text{ years}$	\$(70,000)
Adjusted Tax Basis	\$160,000

If David sells the farmland after 2019 for  $\$10,000/\text{acre}$ , what are the taxable gains on the sale?

Sale Price: $160 \text{ acres} \times \$10,000/\text{acre}$	\$1,600,000
-Adjusted Tax Basis	\$(160,000)
Taxable Gains	\$1,440,000

How are those taxable gains taxed? First, depreciation is recaptured and taxed at ordinary income tax rates. Second, the rest of the taxable gains are taxed at long term capital gains rates.

Type of Gain	Amount	Rate	Tax
Depreciation Recapture	\$70,000	22%	\$15,400
Long-Term Capital Gains	\$1,370,000	20%	\$274,000
Total Federal Tax			\$289,400

Though these figures are less dramatic than in years past when tax rates were higher,<sup>24</sup> they could still be problematic. If David Farmer filed a Chapter 11 that \$289,400 tax bill would be a priority claim under § 507(a)(2)<sup>25</sup> or § 507(a)(8)(A),<sup>26</sup> depending on whether he sold after filing or before.<sup>27</sup> To confirm a plan David would have to pay those taxes

24. An earlier version of this material used a marginal income tax rate of 25% and a marginal long-term capital gains tax rate of 24%, which resulted in total tax bill over \$50,000 higher.
25. By way of § 503(b)(1)(B)(i) and 26 U.S.C. §§ 1398 & 1399.
26. If he filed after selling but before the close of the tax year he could take advantage of the short tax year allowed to individual Chapter 11 debtors under 26 U.S.C. § 1398(d)(2), rendering the taxes pre-petition claims.
27. If he sold Blackacre, filed the return, and avoided paying the taxes for three years after the extended filing deadline before filing bankruptcy then it wouldn't be a priority claim because it would avoid the three-year limitation of § 507(a)(8)(A)(i). However, David is not such a tax scofflaw.

in full, either in cash at the plan's effective date under § 1129(a)(9)(A) for § 507(a)(2) taxes, or for § 507(a)(8) taxes within five years, with interest, and at terms no less favorable than those afforded the "most favored nonpriority unsecured claim," pursuant to § 1129(a)(9)(C).

Coming up with that much cash on the effective date or even over five years could be infeasible for David, but Chapter 11 would leave him no other option. In contrast, Chapter 12 readily deals with the tax problems from some of the most consequential liquidations, no matter when they occurred.

By virtue of § 1232, if a farm debtor<sup>28</sup> incurs taxes from the sale of property used in the farming operation those taxes are treated as prepetition unsecured claims so long as they are incurred before discharge. In Chapter 12 David Farmer's \$289,400 tax problem disappears—those taxes get lumped in with the general unsecured debts and get their *pro rata* share of whatever funds the plan distributes to unsecured creditors. When David gets his discharge upon completion of his plan those taxes get discharged as well. While § 1232 is of no help to David if he sells his antique Mustang or his personal home to fund his bankruptcy, if he is right-sizing<sup>29</sup> his farming operation it could make a successful reorganization possible. Once again, Chapter 12 solves a problem that could prevent or hamper reorganization under Chapter 11.

#### **a. Sidebar: Calculating Deprioritized Taxes**

Deprioritization is wonderful, but any bankruptcy ultimately comes down to numbers, and deprioritization immediately raises an important question: how should the amount of the deprioritized tax be calculated? *In re Knudsen*,<sup>30</sup> the first case to utilize deprioritization under § 1222, § 1232's predecessor,<sup>31</sup> included a competition between two calculation

28. Though Chapter 12 covers both family farmers and family fishermen the protections it affords farm debtors are significantly greater than those afforded family fishermen.

29. Selling farm assets to make the farm a viable business concern.

30. 356 B.R. 480 (Bankr. N.D. Iowa 2006), *rev'd in part*, 389 B.R. 643 (N.D. Iowa 2008), *aff'd sub nom Knudsen v. I.R.S.*, 581 F.3d 696 (8th Cir. 2009), *abrogated in part by Hall v. United States*, 566 U.S. 506 (2012), *superseded by statute*, P.L. 115-72, Div B, § 1005(b)(1)(A), 131 Stat. 1224, 1233 (An Act Making additional supplemental appropriations for disaster relief requirements for the fiscal year ending September 30, 2018, and for other purposes).

31. For a history of tax issues in Chapter 12, including the lead-up to § 1222 and the circumstances that led to its replacement by § 1232, see Joseph Peiffer, *Thirty-Three Years* (continued)

methods. The debtors there proposed a calculation method they called the marginal approach, while the IRS proposed a proportional approach. As will be shown, the difference between these two methods is striking.

The marginal approach involves three steps.<sup>32</sup>

**Step 1:** Calculate the tax due if all income is reported as being taxable. (Traditional Return.)<sup>33</sup>

**Step 2:** Calculate the tax due if income from sale of farm assets used in debtor’s farming operation is excluded. (Pro-Forma Return.)<sup>34</sup>

**Step 3:** Subtract the tax due as found under Step 2 from the tax due under Step 1.

The difference between the tax shown on the Traditional Return and the Pro-Forma Return is the tax treatable under § 1232. The tax shown on the Pro-Forma Return is the priority tax that must be paid by the debtor. Below are the Knudsen’s marginal methodology calculations:

Tax from Traditional Return	\$55,319
-Tax from Pro-Forma Return [Priority Tax]	\$(12,107)
Tax Treatable Under § 1222(a)(2)(A)	\$43,248

Roughly speaking, the proportional methodology the IRS advocated in *Knudsen* treats each dollar of income identically, applying a debtor’s effective tax rate to each dollar and deprioritizing a proportion of the tax owed equal to the proportion of the income from qualifying sales in that tax year. In contrast the marginal methodology treats the income from qualifying sales as the marginal dollars, the last income earned, and deprioritizes taxes based on the marginal rates for those last dollars earned. Below is a recreation of the calculations the IRS used in

*of Asking*, “Are We There Yet? [sic] (hereinafter *Thirty-Three Years of Asking*), Com. L. World Mag., July/August/September 2019, at 14.

32. For a more detailed description of how to use the marginal methodology, see Exhibit 1, “Calculation of Deprioritized Taxes in Chapter 12.”
33. For an example of a traditional return, see Exhibit 2, “Example of a Traditional Return Prepared for § 1232 Purposes.”
34. For an example of a pro-forma return, see Exhibit 3, “Example of a Pro-Forma Return Prepared for § 1232 Purposes.”

*Knudsen*, showing how the proportional methodology applied in that case<sup>35</sup>:

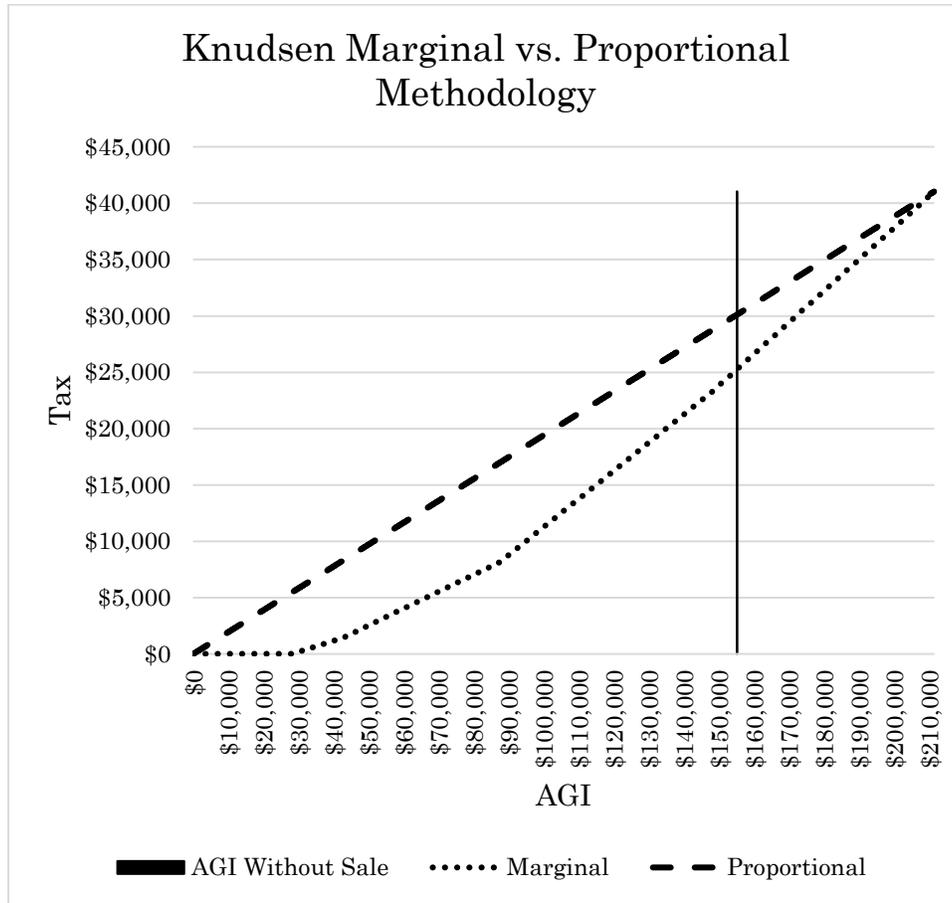
IRS Proportional Methodology		Non-Gain (Priority Claim)		Gain (General Claim) Subject to § 1222(a)(2)(A)	
Total Income	\$225,833	\$169,597	75.1%	\$56,236	24.9%
-½ SE Tax	(\$7,588)				
-Health Ins.	(\$6,780)				
<b>AGI</b>	\$211,465				
-Std. Deduction	(\$9,700)				
-Exemptions	(\$18,600)				
<b>Taxable Income</b>	\$183,165				
<b>Income Tax</b>	\$40,666	\$30,540	75.1%	\$10,126	24.9%
SE Tax	\$15,176	\$15,176	100.0%	\$0	0.0%
<b>Total Tax</b>	\$55,842	\$45,716	81.9%	\$10,126	18.1%
-Tax Withheld	(\$282)	(\$282)	100.0%	\$0	0.0%
-Fuels Credit	(\$238)	(\$238)	100.0%	\$0	0.0%
<b>Net Tax Due</b>	\$55,322	\$45,196	81.7%	\$10,126	18.3%
-Payment	(\$8,000)	(\$6,536)	81.7%	(\$1,464)	18.3%
<b>Tax Balance</b>	\$47,322	\$38,660	81.7%	\$8,662	18.3%
+Interest	\$633	\$517	81.7%	\$116	18.3%
<b>Total</b>	<b>\$47,955</b>	<b>\$39,177</b>	<b>81.7%</b>	<b>\$8,778</b>	<b>18.3%</b>

The difference between the marginal & proportional methodologies is dramatic: over \$26,000 in priority claims and over \$34,000 in dischargeable taxes in *Knudsen*.

	Non-Gain (Priority Claim), not dischargeable	Gain (General Claim) Subject to § 1222(a)(2)(A) and dischargeable
Knudsens' Marginal Approach	\$12,701	\$43,248
IRS Proportional Approach	\$39,177	\$8,778
Difference	(\$26,476)	\$34,470

35. Govt. Exhibit "A" Anders & Cynthia Knudsen United States Bankruptcy Court Northern District of Iowa Case No. 05-003136. The allocation between Priority Claims and General Unsecured Claims is determined by comparing the amount of income derived from the sale of farming assets with the total income shown on the tax return. In this instance, the total income shown on the Knudsens' 2004 Income Tax Return was \$225,833 while the amount of the farm assets sold that qualified for § 1222(a)(2)(A) treatment in the eyes of the IRS was \$56,236, which is 24.9% of the total income reported on the tax return. Since the Self Employment tax was incurred because of the income reported on Schedule F and not as a result of the sale of "capital assets," the IRS argued that the Self Employment tax would be a priority claim, not a general unsecured claim.

The marginal methodology gives the debtor the full benefit of their deductions and exemptions as well as the lower tax brackets, whereas the proportional methodology “wastes” some of those benefits by allocating them to reduce taxes that could otherwise be treated under § 1232 and discharged. The graph below shows the amount of priority taxes the Knudsens would have been liable for based on the amount of their income excluding qualified sale income subject to § 1232. The vertical line shows their actual situation.



This chart shows the marginal methodology’s benefit to debtors—the amount of priority tax its calculations yield is always lower than the amount calculated under the proportional methodology. However, the ~\$5,000 difference shown makes the situation appear better for the Knudsens than it was. The IRS proposed attributing the Knudsens’ self-employment income, and the resulting tax, as an addition to the priority claim, and proposed pro-rating the payments they had made between the priority and nonpriority taxes. In contrast, the Knudsens included their self-employment income in their traditional and pro-forma re-

turns and calculated the resulting tax, and credited their payments entirely to the priority taxes. Between the proportional vs. marginal methodology and those treatment differences the Knudsens would have owed over \$26,000 more in priority taxes under the IRS's approach.

### **B. Other Benefits of Chapter 12**

One other benefit of Chapter 12 over Chapter 11 is the co-debtor stay of § 1201. Like § 1301 in Chapter 13 the co-debtor stay in Chapter 12 prevents a creditor from pursuing a Chapter 12 debtor's co-debtor for a consumer debt. This prevents creditors from applying indirect pressure to the debtor to pay the debt. While a debtor in a Chapter 11 could ask the court to impose a co-debtor stay, it applies by statute in a Chapter 12.

Finally, another power unique to Chapter 12 is the ability to modify mortgages on a debtor's principal residence. This is often necessary for family farmers to successfully reorganize because their principal residence is often also their place of business. In a Chapter 11 § 1123(b)(5) allows modification of any secured claim *except* "a claim secured only by a security interest in real property that is the debtor's principal residence," whereas § 1222(b)(2) gives a debtor the same power without the restriction.

### **C. Chapter 11's Strengths**

It is difficult to find situations where Chapter 11 is preferable for a debtor who has Chapter 12 as an option. The only circumstances that make Chapter 11 the right choice are ones that make Chapter 12 impossible—when the debtor does not qualify as a family farmer under § 101(18).<sup>36</sup> Principally this definition requires that the debtor have significant farm income, at least 50% farm debt, and aggregate debts not exceeding \$10 million.<sup>37</sup>

Chapter 12 has always had a debt limit. When it was enacted in 1986 it was estimated that 86% of farmers could meet the debt limit. However, in the years that followed the average size of family farms (and family farm debts) increased faster than inflation, while the debt limit

36. As noted previously, Chapter 12 is much more favorable for family farmers than family fishermen.

37. The income qualifications and debt limits for family fishermen are significantly lower. Section 101(19A).

only increased sporadically, or eventually (after BAPCPA<sup>38</sup> in 2005) merely with inflation. This squeezed family farmers out of Chapter 12. However, in 2019 the Family Farmer Relief Act<sup>39</sup> raised the debt limit from \$4.4 million to \$10 million while maintaining the inflation indexing.<sup>40</sup>

Chapter 11 has no debt limit, but as shown above it is a much less debtor-friendly chapter than Chapter 12, especially for farmers. Prof. Bob Lawless of the University of Illinois estimates that 59% of Chapter 11 debtors have less than \$10 million in debts.<sup>41</sup> If the occupation restrictions on Chapter 12 were eliminated and all debtors with aggregate debts less than \$10 million were provided the benefits available to family farmers under Chapter 12 small business restructuring would be radically shifted.

#### **D. Subchapter V vs. Chapter 12<sup>42</sup>**

Subchapter V, the new kid on the bankruptcy block, was enacted to help solve some of the problems small businesses faced reorganizing under Chapter 11.<sup>43</sup> In many ways it was inspired by Chapter 12. It too foregoes class voting, the absolute priority rule, committees, U.S. Trustee fees, and disclosure statements, and it also is on a fast-track, requiring a plan be proposed within 90 days of filing.<sup>44</sup> It is a boon for small businesses and small business owners looking to restructure. However, it is hard to see any reason for a debtor to choose a Subchapter V over a Chapter 12 if given the choice. First, the debt limit for Subchapter V

38. Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. 109-8, 119 Stat. 23.

39. Pub. L. No. 116-51, 133 Stat. 1075 (2019).

40. For a description of the legislative process leading up to the debt limit increase, see J. Peiffer, *supra* note 31.

41. Bob Lawless, *The Small Business Reorganization Act of 2019 and COVID-19*, Credit Slips (March 15, 2020, 2:40 PM), <https://www.creditslips.org/creditslips/2020/03/the-small-business-reorganization-act-of-2019-and-covid-19.html>.

42. Since the previous small business bankruptcy provisions of Chapter 11 proved so wanting that Subchapter V was required they are not discussed here, even though they are still on the books.

43. H.R. Rep. No. 116-171, at 2–4 (2019).

44. Emily Devan, *Small Business Reorganization Act Goes Into Effect*, JD Supra (February 20, 2020), <https://www.jdsupra.com/legalnews/small-business-reorganization-act-goes-56668/>.

cases is only \$7.5 million.<sup>45</sup> Worse, that debt limit only increased because of the CARES Act,<sup>46</sup> and it sunsets on March 27, 2021,<sup>47</sup> when it will revert to \$2.7 million.<sup>48</sup> So there's no debt limit benefit to a Subchapter V. Second, Subchapter V has no analogue to § 1232 in Chapter 12. The absence of this powerful provision and the lack of any advantages makes it difficult to think of a circumstance where a debtor would be better off in a Subchapter V than a Chapter 12.

### III. CHAPTER 13 VS. CHAPTER 12

There are fewer differences between Chapters 12 & 13 than between 11 & 12, so this section is necessarily shorter. Chapter 13 is a wage earner plan, so it is only open to individuals and not business entities, and its debt limits are significantly lower, maxing out just below \$1.7 million.<sup>49</sup> In contrast, Chapter 12 is open to business entities that meet certain eligibility criteria.<sup>50</sup> As in Chapter 11, Chapter 13 has no equivalent to § 1232, so the debtor is responsible for all post-petition taxes<sup>51</sup> and must pay all pre-petition priority taxes in full in the plan.<sup>52</sup> Also like in Chapter 11, a Chapter 13 debtor may not modify a mortgage on their principal residence,<sup>53</sup> while a Chapter 12 debtor may.

Another benefit of Chapter 12 over 13 is the ability to extend the repayment terms of secured claims beyond the length of the plan under § 1222(b)(9). A Chapter 12 plan can provide for the reamortization of secured debts for terms that extend years beyond the end of the plan. The exact term depends on what the judge approves, but often terms usual for the collateral (15–30 years for land, 3–7 years for machinery or automobiles, etc.) satisfy judges. In contrast, § 1322(d) specifically

45. Section 1182(1).

46. Coronavirus Aid, Relief, and Economic Security Act, Pub. L. 116-136, 134 Stat. 281, 310 (2020).

47. *Id.* at 311.

48. Section 101(51D).

49. Section 109(e).

50. Sections 101(18)(B) & (19A)(B).

51. See 26 U.S.C. §§ 1398 & 1399, *Hall v. United States*, 566 U.S. 506, 514–15 (2012) (neither Chapter 12 nor Chapter 13 creates a separate taxable estate, but in a Chapter 12 § 1232 allows certain post-petition taxes to be treated as pre-petition taxes and for the deprioritization of those taxes and other pre-petition taxes, see the discussion *supra* at II.3, “Taxes on Right-Sizing Liquidations”).

52. Section 1322(a)(2).

53. Section 1322(b)(2).

provides that a Chapter 13 plan may not provide for payments over a term greater than the length of the plan, and the plan may not provide for a term greater than 5 years.

One significant difference that doesn't fall on one side or the other is the time to propose a plan. Barring an extension for cause a Chapter 13 plan must be proposed within 14 days of the petition date,<sup>54</sup> while § 1221 allows a debtor 90 days. If a debtor wishes to proceed quickly in a Chapter 12 then they can propose a plan sooner, but being forced to file a plan in two weeks could put stress on a debtor (and counsel) to move quickly in a complicated case.

On the plus side for Chapter 13 is the super discharge. Though BAPCPA narrowed the super discharge's scope,<sup>55</sup> a Chapter 13 discharge after completion of all payments<sup>56</sup> will discharge civil fines & penalties; divorce decree debts; certain tax debts; debts incurred to pay non-dischargeable federal, state, and local taxes; debts from a waiver or denial of discharge in a prior case; and debts from willful & malicious injuries to property.<sup>57</sup> A Chapter 12 discharge will not discharge those debts.<sup>58</sup>

## IV. CHAPTER 7 VS. CHAPTER 12

While it might initially seem unintuitive to compare a liquidating chapter to a reorganizing chapter, reorganization chapters are often used to liquidate, so a debtor wishing to liquidate might still find reasons to choose Chapter 12. First, a debtor might prefer a liquidating Chapter 12 for the same reason they might prefer a liquidating Chapter 11: greater control. In both the debtor remains in control as the debtor in possession,<sup>59</sup> whereas in a Chapter 7 a trustee takes over immediately upon filing.<sup>60</sup> Debtors often believe they are more capable of profitably

54. Fed. R. Bankr. P. 3015(b).

55. *See, e.g.*, § 153:3, Debts excepted from completion discharge (Code § 1328(a)), 7 Norton Bankr. L. & Prac. 3d.

56. A hardship discharge under § 1328(b) only provides a "normal" discharge. *Compare* § 1328(a) *with* § 1328(c).

57. *Compare* § 1328(a) *with* § 523(a).

58. *See* § 1228(a)(2) (aside from debts treated under § 1232 all debts listed in § 523 are nondischargeable).

59. For Chapter 11 *see* §§ 1101(1), 1107(a), and 1108; for Chapter 12 *see* § 1203.

60. Sections 701 & 704.

liquidating their businesses than a trustee. A second reason to choose to liquidate via a reorganizing chapter is the ability to liquidate over time. While a Chapter 7 trustee is not required to sell everything immediately,<sup>61</sup> a Chapter 7 trustee's duty is to "close [the] estate as expeditiously as is compatible with the best interests of the parties in interest,"<sup>62</sup> and a trustee's incentive is to sell quickly, distribute quickly, and thereby get paid quickly. In contrast, a debtor in possession can liquidate over the term of the plan, up to five years for a Chapter 12. This could be attractive to a debtor who wished to ease their way out of business and into retirement, for example, or who wished to sell to a friend or relative who wasn't ready to purchase the business immediately. A third benefit of a Chapter 12 over a Chapter 7 (though this accrues most to the debtor's attorney) is that a means test is not required for a Chapter 12, whereas it is for a Chapter 7.

The final consideration is taxes. Just like all the other chapters there is no parallel to § 1232 in a Chapter 7. If a Chapter 7 debtor owed income taxes for tax years ending prior to the petition date those would be priority claims under § 507(a)(8)(A), and if the estate generated insufficient funds to pay those tax claims in full they would survive a Chapter 7 discharge because of § 523(a)(1)(A). In a Chapter 12 those taxes could be deprioritized and discharged if they qualified for treatment under § 1232. However, there is at least one scenario where tax consequences might cause a debtor to prefer a Chapter 7 to a Chapter 12.

Say an individual debtor owes domestic support obligations and has nonexempt property not subject to § 1232 that could be liquidated to pay those obligations. Rather than liquidating outside bankruptcy and then being liable for the taxes thereby incurred the debtor could file a Chapter 7. The trustee would liquidate the nonexempt property, pay the domestic support obligations, and pay the trustee fees earned thereby.<sup>63</sup> Any remaining funds would go to pay other administrative expenses, including the taxes incurred from the liquidation. Since 26 U.S.C. §§ 1398 & 1399 create a separate taxable entity for Chapter 7

61. For an example of a Chapter 7 that has liquidated *very* slowly, see *In re Outboard Marine Corp.*, No. 00-37405 (Bankr. N.D. Ill. 2000). This case was filed December 2000 and as of September 2, 2020 was still open and active, nearly 20 years later.

62. Section 704(a)(1).

63. Section 507(a)(1) puts domestic support obligations first in the priority list for funds distributions in bankruptcies, and allows a trustee to be compensated for distributing funds for domestic support obligations even if no other priority claims are paid.

estates any unpaid taxes would be liabilities owed by an insolvent estate, not the debtor's liabilities. If the trustee fees the debtor paid and the money (if any) beyond that paid under § 507(a)(1) were less than the taxes the debtor would have incurred by liquidating outside of bankruptcy this maneuver would be to the debtor's advantage.

There could be other reasons to prefer a Chapter 7 to a Chapter 12, but a debtor who wishes to liquidate and qualifies for a Chapter 12 should give it serious consideration.

## V. CONCLUSION

Chapter 12 is the most powerful chapter of the bankruptcy code. Whether a debtor wishes to reorganize or liquidate Chapter 12 provides debtors, and particularly farm debtors, tools unavailable to any other debtors. If a debtor qualifies for Chapter 12 there are very few instances where choosing another chapter is the right choice.

# Exhibit 1: Calculation of Deprioritized Taxes in a Chapter 12

## Memo for Tax Preparers:

### How Should the Amount of Tax Treatable as an Unsecured Claim Pursuant to § 1232 be Calculated?

The deprioritization of income taxes is very important for family farmers. It allows them to have claims of governmental units that arise because of the sale, transfer or other disposition of farm assets used in the farming operation whether sold before or after filing a Chapter 12 bankruptcy as well as pursuant to a confirmed Chapter 12 Plan of Reorganization, treated as a pre-petition unsecured claim that will be discharged in the Chapter 12 bankruptcy.

**Step 1: Prepare a Traditional Return:** Calculate the tax due if all income is reported as being taxable. (Prepare both federal and state returns just like you would normally prepare them).

**Step 2: Prepare a Pro-Forma Return:** Calculate the tax due if income from sale of farm assets used in debtor's farming operation is excluded. This is called the Pro-Forma Return. It is sent to the IRS and state department of revenue along with the Traditional Return as well as the calculations set forth below showing how much tax is deprioritized and is therefore dischargeable through the Chapter 12 Plan of Reorganization.<sup>1</sup> *Do not hesitate to contact the lawyer handling the Chapter 12 case for the taxpayer to make sure which assets are to be excluded when preparing the Pro-Forma Return.*

1. It is important to provide a list of farm equipment that was sold that the Debtor asserts qualifies for deprioritization under 11 U.S.C. § 1232 so the IRS and department of revenue can satisfy itself that the equipment qualifies to have the tax deprioritized. This can be done by providing a list of equipment in the traditional return when Form 4797 is prepared. If a list is not provided with the traditional return, one will need to be generated and provided to the IRS and department of revenue when the traditional and pro-forma returns are submitted. If this is not done, you can expect an objection from the IRS and department of revenue indicating that the Debtor has failed to prove the equipment sold qualified for deprioritization under 11 U.S.C. § 1232 and discharge upon the entry of the order of discharge in the Chapter 12.

**Step 3:** Subtract the tax due as found under Step 2 from the tax due under Step 1.

The difference between the tax shown on the Traditional Return and the Pro-Forma Return is the tax treatable under § 1232, which is deprioritized and is dischargeable. The tax shown on the Pro-Forma Return is the priority tax that must be paid by the debtor. The lead case on deprioritization of taxes is *Knudsen*.<sup>2</sup> The calculations of priority and deprioritized and dischargeable tax due under the Marginal Methodology approved by the Court for the Knudsens for their federal return was as follows:

Traditional Return	\$55,319.00
Pro-Forma Return (Priority Tax)	<u>(12,701.00)</u>
Tax Treatable Under § 1232 (Dischargeable Tax)	\$43,248.00

**Analysis: Marginal Methodology**

The courts in *Knudsen* and *Ficken* are the only courts that have published opinions examining the methods of calculating the amount of tax that is to be deprioritized under § 1222(a)(2)(A).<sup>3</sup> You will note that reference is made to the courts in *Knudsen* and *Ficken* being the only courts that have considered how much tax qualifies for deprioritization. These cases were decided before Congress passed, and President Trump signed Pub. L. 115-72 on October 26, 2017. That law codifies the deprioritization of claims of governmental units arising from sales, transfers or other dispositions of qualified farm assets used in the farming operation. The predecessor law has saved individual family farmers hundreds of thousands of dollars since its enactment on April 20, 2005. Since the language used in the old law, 11 U.S.C. § 1222(a)(2)(A), is very similar to the language used the current code provision, 11 U.S.C. § 1232, I believe the marginal methodology approved in *Knudsen* and *Ficken*, is appropriate. Hopefully, no court will choose to employ the Proportional Approach suggested by the IRS. In *Knudsen*, the deprioritized tax would have only been \$8,816.00, a decrease in tax savings of \$34,432.00 by employing the Marginal Methodology suggested by the Debtors.

2. *In re Knudsen*, 389 B.R. 643, 665-69 (N.D. Iowa 2008) *affirmed* 581 F. 3d 696 (8th Cir. 2009).
3. *In re Knudsen*, 389 B.R. 643, 665-69 (N.D. Iowa 2008) *affirmed* 581 F. 3d 696 (8th Cir. 2009); *In re Ficken*, 430 B.R. 648, 659-663 (Bankr. D. Colo. 2009) *affirmed* 430 B.R. 663 (10th Cir. BAP 2010) *rev'd on other grounds* 433 Fed. Appx. 682 (10th Cir. 2011).

## **Exhibit 2: Example of a Traditional Return Prepared for § 1232 Purposes**

<b>Label</b> (See instructions.)	For the year Jan 1 - Dec 31, 2004, or other tax year beginning _____, 2004, ending _____, 20	OMB No. 1545-0074
	Your first name MI Last name Austin H Farmer	Your social security number 123-45-6789
	If a joint return, spouse's first name MI Last name Amy J Farmer	Spouse's social security number 987-65-4321
	Home address (number and street). If you have a P.O. box, see instructions. Apartment no. 911 Rural Road	▲ <b>Important!</b> ▲ You <b>must</b> enter your social security number(s) above.
City, town or post office. If you have a foreign address, see instructions. State ZIP code Anytown IA 55111		

**Presidential Election Campaign** (See instructions.)

▶ **Note:** Checking 'Yes' will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? .....

You:  Yes  No Spouse:  Yes  No

**Filing Status**

1  Single **4**  Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here . ▶

2  Married filing jointly (even if only one had income)

3  Married filing separately. Enter spouse's SSN above & full name here . ▶

5  Qualifying widow(er) with dependent child (see instructions)

**Exemptions**

6a  **Yourself.** If someone can claim you as a dependent, **do not** check box 6a .....

b  **Spouse** .....

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see instrs)	No. of children on 6c who: ● lived with you ..... 4 ● did not live with you due to divorce or separation (see instrs) ...
(1) First name	Last name				
Jean	Farmer	444-44-4444	Daughter	<input type="checkbox"/>	Dependents on 6c not entered above . Add numbers on lines above ..... ▶ <b>6</b>
Mike	Farmer	333-33-3333	Son	<input checked="" type="checkbox"/>	
Mary	Farmer	222-22-2222	Daughter	<input checked="" type="checkbox"/>	
Ann	Farmer	111-11-1111	Daughter	<input checked="" type="checkbox"/>	

d Total number of exemptions claimed .....

**Income**

7 Wages, salaries, tips, etc. Attach Form(s) W-2 .....	7	9,803.
8a Taxable interest. Attach Schedule B if required .....	8a	
b Tax-exempt interest. Do not include on line 8a .....	8b	
9a Ordinary dividends. Attach Schedule B if required .....	9a	608.
b Qualifd divs (see instrs) .....	9b	
10 Taxable refunds, credits, or offsets of state and local income taxes (see instructions) .....	10	
11 Alimony received .....	11	
12 Business income or (loss). Attach Schedule C or C-EZ .....	12	
13 Capital gain or (loss). Att Sch D if reqd. If not reqd, ck here .....	13	34,077.
14 Other gains or (losses). Attach Form 4797 .....	14	21,659.
15a IRA distributions .....	15a	
b Taxable amount (see instrs) ..	15b	
16a Pensions and annuities .....	16a	
b Taxable amount (see instrs) ..	16b	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E ..	17	
18 Farm income or (loss). Attach Schedule F .....	18	159,686.
19 Unemployment compensation .....	19	
20a Social security benefits .....	20a	
b Taxable amount (see instrs) ..	20b	
21 Other income .....	21	
22 Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b> . ▶	22	225,833.

**Adjusted Gross Income**

23 Educator expenses (see instructions) .....	23	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ .....	24	
25 IRA deduction (see instructions) .....	25	
26 Student loan interest deduction (see instructions) .....	26	
27 Tuition and fees deduction (see instructions) .....	27	
28 Health savings account deduction. Attach Form 8889 .....	28	
29 Moving expenses. Attach Form 3903 .....	29	
30 One-half of self-employment tax. Attach Schedule SE .....	30	7,588.
31 Self-employed health insurance deduction (see instrs) .....	31	6,780.
32 Self-employed SEP, SIMPLE, and qualified plans .....	32	
33 Penalty on early withdrawal of savings .....	33	
34a Alimony paid b Recipient's SSN . . . ▶	34a	
35 Add lines 23 through 34a .....	35	14,368.
36 Subtract line 35 from line 22. This is your <b>adjusted gross income</b> .....	36	211,465.

**Tax and Credits**

**Standard Deduction for –**  
 • People who checked any box on line 38a or 38b or who can be claimed as a dependent, see instructions.  
 • All others:  
 Single or Married filing separately, \$4,850  
 Married filing jointly or Qualifying widow(er), \$9,700  
 Head of household, \$7,150

37	Amount from line 36 (adjusted gross income)	37	211,465.
38a	Check <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind. <b>Total boxes checked</b> <input type="checkbox"/> <b>38a</b> if: <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind.		
b	If your spouse itemizes on a separate return, or you were a dual-status alien, see instructions and check here	38b	<input type="checkbox"/>
39	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	39	9,700.
40	Subtract line 39 from line 37	40	201,765.
41	If line 37 is \$107,025 or less, multiply \$3,100 by the total number of exemptions claimed on line 6d. If line 37 is over \$107,025, see the worksheet in the instructions	41	18,600.
42	Taxable income. Subtract line 41 from line 40. If line 41 is more than line 40, enter -0-	42	183,165.
43	Tax (see instrs). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	43	10,271.
44	Alternative minimum tax (see instructions). Attach Form 6251	44	30,392.
45	Add lines 43 and 44	45	40,663.
46	Foreign tax credit. Attach Form 1116 if required	46	
47	Credit for child and dependent care expenses. Attach Form 2441	47	
48	Credit for the elderly or the disabled. Attach Schedule R	48	
49	Education credits. Attach Form 8863	49	
50	Retirement savings contributions credit. Attach Form 8880	50	
51	Child tax credit (see instructions)	51	
52	Adoption credit. Attach Form 8839	52	
53	Credits from: a <input type="checkbox"/> Form 8396 b <input type="checkbox"/> Form 8859	53	
54	Other credits. Check applicable box(es): a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8801 c <input type="checkbox"/> Specify	54	
55	Add lines 46 through 54. These are your <b>total credits</b>	55	
56	Subtract line 55 from line 45. If line 55 is more than line 45, enter -0-	56	40,663.

**Other Taxes**

57	Self-employment tax. Attach Schedule SE	57	15,176.
58	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60	Advance earned income credit payments from Form(s) W-2	60	
61	Household employment taxes. Attach Schedule H	61	
62	Add lines 56-61. This is your <b>total tax</b>	62	55,839.

**Payments**

If you have a qualifying child, attach Schedule EIC.

63	Federal income tax withheld from Forms W-2 and 1099	63	282.
64	2004 estimated tax payments and amount applied from 2003 return	64	
65a	<b>Earned income credit (EIC)</b>	65a	
b	Nontaxable combat pay election	65b	
66	Excess social security and tier 1 RRTA tax withheld (see instructions)	66	
67	Additional child tax credit. Attach Form 8812	67	
68	Amount paid with request for extension to file (see instructions)	68	
69	Other pmts from: a <input type="checkbox"/> Form 2439 b <input checked="" type="checkbox"/> Form 4136 c <input type="checkbox"/> Form 8885	69	238.
70	Add lines 63, 64, 65a, and 66 through 69. These are your <b>total payments</b>	70	520.

**Refund**

Direct deposit? See instructions and fill in 72b, 72c, and 72d.

71	If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you <b>overpaid</b>	71	
72a	Amount of line 71 you want <b>refunded to you</b>	72a	
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
73	Amount of line 71 you want <b>applied to your 2005 estimated tax</b>	73	

**Amount You Owe**

74	Amount you owe. Subtract line 70 from line 62. For details on how to pay, see instructions	74	55,319.
75	Estimated tax penalty (see instructions)	75	

**Third Party Designee**

Do you want to allow another person to discuss this return with the IRS (see instructions)?  Yes. Complete the following.  No

Designee's name \_\_\_\_\_ Phone no. \_\_\_\_\_ Personal identification number (PIN) \_\_\_\_\_

**Sign Here**

Joint return? See instructions.   
 Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
 	 	Farmer	
Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	
 	 	Housewife	

**Paid Preparer's Use Only**

Preparer's signature \_\_\_\_\_ Date \_\_\_\_\_ Check if self-employed

Firm's name (or yours if self-employed), address, and ZIP code \_\_\_\_\_ EIN \_\_\_\_\_ Phone no. \_\_\_\_\_

**SCHEDULE D**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Capital Gains and Losses**

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule D (Form 1040).**  
▶ **Use Schedule D-1 to list additional transactions for lines 1 and 8.**

OMB No. 1545-0074

**2004**  
**12**

Name(s) shown on Form 1040

Austin H & Amy J Farmer

Your social security number

123-45-6789

**Part I Short-Term Capital Gains and Losses – Assets Held One Year or Less**

(a) Description of property (Example: 100 shares XYZ Co)	(b) Date acquired (Mo, day, yr)	(c) Date sold (Mo, day, yr)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) Subtract (e) from (d)
1					
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . .					
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .					
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> in the instructions . . . . .					
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					

**Part II Long-Term Capital Gains and Losses – Assets Held More Than One Year**

(a) Description of property (Example: 100 shares XYZ Co)	(b) Date acquired (Mo, day, yr)	(c) Date sold (Mo, day, yr)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) Subtract (e) from (d)
8 500SH IA PREM	04/02/01	12/20/04		500.00	-500.00
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . .					
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .					
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					34,577.
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					
13 Capital gain distributions. See instrs . . . . .					
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> in the instructions . . . . .					
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on page 2 . . . . .					34,077.

BAA For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule D (Form 1040) 2004

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13, and then go to line 17 below .....</p>	<b>16</b>	34,077.
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?</p> <p><input checked="" type="checkbox"/> <b>Yes.</b> Go to line 18.</p> <p><input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>		
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> in the instructions .....</p>	<b>18</b>	
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> in the instructions .....</p>	<b>19</b>	
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?</p> <p><input checked="" type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.</p> <p><input type="checkbox"/> <b>No.</b> Complete Form 1040 through line 42, and then complete the <b>Schedule D Tax Worksheet</b> in the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>		
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500)</li> </ul>	<b>21</b>	
<p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>		
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?</p> <p><input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the Instructions for Form 1040.</p> <p><input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p>		

**SCHEDULE F**  
**(Form 1040)**

**Profit or Loss From Farming**

OMB No. 1545-0074

**2004**  
**14**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to Form 1040, Form 1041, Form 1065, or Form 1065-B.  
▶ See Instructions for Schedule F (Form 1040).

Name of proprietor: Austin H Farmer Social security number (SSN): 123-45-6789

A Principal product. Describe in one or two words your principal crop or activity for the current tax year.  
Grain and Livestock

B Enter code from Part IV: 111900

C Accounting method: (1)  Cash (2)  Accrual

E Did you 'materially participate' in the operation of this business during 2004? If 'No,' see instructions for limit on passive losses  Yes  No

**Part I Farm Income – Cash Method. Complete Parts I and II (Accrual method taxpayers complete Parts II & III, & line 11 of Part I.) Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report these sales on Form 4797.**

1	Sales of livestock and other items you bought for resale	1		
2	Cost or other basis of livestock and other items reported on line 1	2		
3	Subtract line 2 from line 1		3	
4	Sales of livestock, produce, grains, and other products you raised		4	525,384.
5a	Total cooperative distributions (Form(s) 1099-PATR)	5a	2,762.	5b Taxable amount
6a	Agricultural program payments (see instructions)	6a	25,935.	6b Taxable amount
7	Commodity Credit Corporation (CCC) loans (see instructions):		7a	
a	CCC loans reported under election		7b	
b	CCC loans forfeited	7b		7c Taxable amount
8	Crop insurance proceeds and certain disaster payments (see instructions):		8a	
a	Amount received in 2004	8a		8b Taxable amount
c	If election to defer to 2005 is attached, check here <input type="checkbox"/>			8d Amount deferred from 2003
9	Custom hire (machine work) income		9	
10	Other income, including Federal and state gasoline or fuel tax credit or refund (see instructions)		10	102,008.
11	<b>Gross income.</b> Add amounts in the right column for lines 3 through 10. If accrual method taxpayer, enter the amount from page 2, line 51		11	656,089.

**Part II Farm Expenses – Cash and Accrual Method. Do not include personal or living expenses such as taxes, insurance, repairs, etc. on your home.**

12	Car and truck expenses (see instructions – also attach Form 4562)	12		25	Pension and profit-sharing plans	25	
13	Chemicals	13	19,183.	26	Rent or lease (see instructions):		
14	Conservation expenses (see instructions)	14		a	Vehicles, machinery, and equipment	26a	500.
15	Custom hire (machine work)	15	5,250.	b	Other (land, animals, etc)	26b	46,698.
16	Depreciation and section 179 expense deduction not claimed elsewhere (see instructions)	16	36,921.	27	Repairs and maintenance	27	30,963.
17	Employee benefit programs other than on line 25	17	1,638.	28	Seeds and plants purchased	28	58,440.
18	Feed purchased	18	120,643.	29	Storage and warehousing	29	
19	Fertilizers and lime	19	36,215.	30	Supplies purchased	30	17,531.
20	Freight and trucking	20	6,666.	31	Taxes	31	7,173.
21	Gasoline, fuel, and oil	21	6,128.	32	Utilities	32	12,820.
22	Insurance (other than health)	22	9,489.	33	Veterinary, breeding, and medicine	33	
23	Interest:			34	Other expenses (specify):		
a	Mortgage (paid to banks, etc)	23a	6,830.	a	EMPLOYEE WH	34a	3,913.
b	Other	23b	5,843.	b	PROFESSIONAL FEES	34b	1,262.
24	Labor hired (less employment credits)	24	8,883.	c	LP GAS	34c	28,248.
35	<b>Total expenses.</b> Add lines 12 through 34f			d	FSA REPMT	34d	2,589.
36	<b>Net farm profit or (loss).</b> Subtract line 35 from line 11. If a profit, enter on Form 1040, line 18, and also on Schedule SE, line 1. If a loss, you must go on to line 37 (estates, trusts, and partnerships, see instructions)			e	PICKUP EXP 75 PERCENT	34e	1,740.
37	If you have a loss, you must check the box that describes your investment in this activity (see instructions).			f	See Line 34 Other expenses	34f	20,837.
						35	496,403.
						36	159,686.

37a  All investment is at risk.  
37b  Some investment is not at risk.

Schedule F - Untitled

**Line 34 Other expenses**

---

MISC FARM EXP CELL PHONE	4,436.
CCC REPMT	15,359.
BANK CHARGES	1,042.
	<u>20,837.</u>

**SCHEDULE SE**  
**(Form 1040)**

**Self-Employment Tax**

OMB No. 1545-0074

**2004**

**17**

Department of the Treasury  
Internal Revenue Service

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule SE (Form 1040).**

Name of person with **self-employment** income (as shown on Form 1040)

Austin H Farmer

Social security number of person  
with **self-employment** income ▶

123-45-6789

**Who Must File Schedule SE**

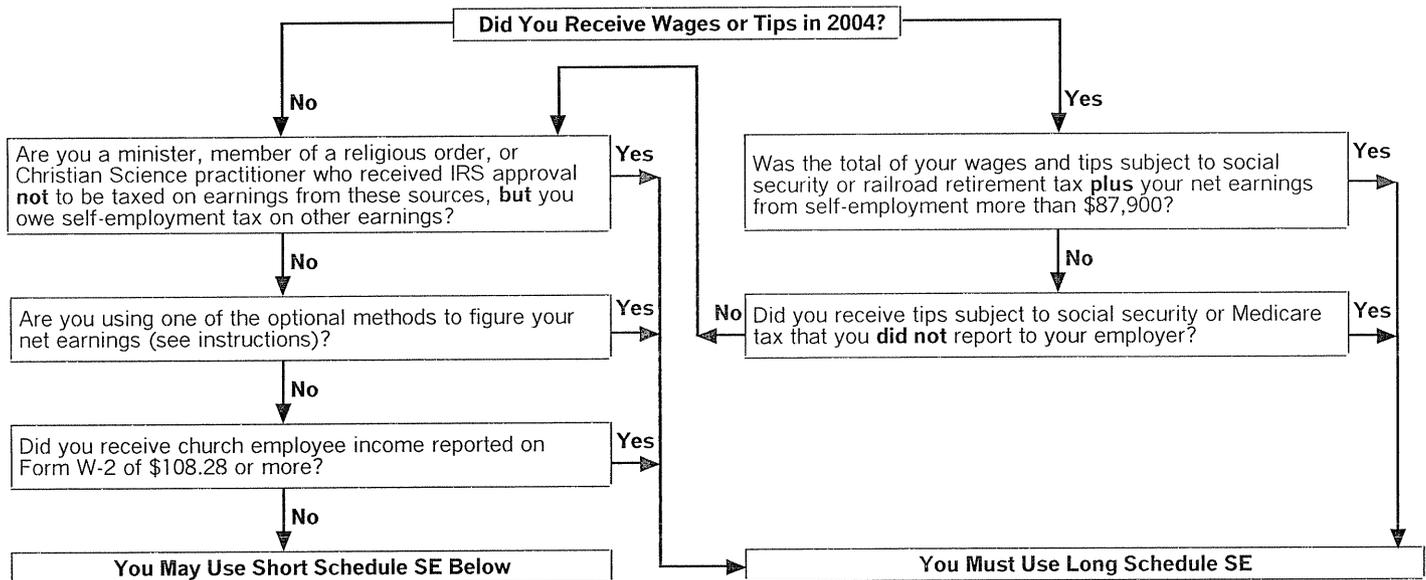
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more **or**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see instructions).

**Note.** Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either 'optional method' in Part II of Long Schedule SE (see instructions).

**Exception.** If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write 'Exempt - Form 4361' on Form 1040, line 57.

**May I Use Short Schedule SE or Must I Use Long Schedule SE?**



**Section A – Short Schedule SE. Caution.** Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A .....	1	159,686.
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see instructions for amounts to report on this line. See instructions for other income to report .....	2	
3	Combine lines 1 and 2 .....	3	159,686.
4	<b>Net earnings from self-employment.</b> Multiply line 3 by 92.35% (.9235). If less than \$400, <b>do not</b> file this schedule; you do not owe self-employment tax .....	4	147,470.
5	<b>Self-employment tax.</b> If the amount on line 4 is: • \$87,900 or less, multiply line 4 by 15.3% (.153). Enter the result here and on <b>Form 1040, line 57.</b> • More than \$87,900, multiply line 4 by 2.9% (.029). Then, add \$10,899.60 to the result. Enter the total here and on <b>Form 1040, line 57.</b> .....	5	15,176.
6	<b>Deduction for one-half of self-employment tax.</b> Multiply line 5 by 50% (.5). Enter the result here and on <b>Form 1040, line 30</b> .....	6	7,588.

BAA For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule SE (Form 1040) 2004

**SCHEDULE J**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Income Averaging for  
Farmers and Fishermen**

▶ Attach to Form 1040.

▶ See Instructions for Schedule J (Form 1040).

OMB No. 1545-0074

**2004**  
**20**

Name(s) shown on Form 1040

Austin H & Amy J Farmer

Social security number (SSN)

123-45-6789

1	Enter the taxable income from your 2004 Form 1040, line 42 .....	1	183,165.
2	Enter your <b>electd farm income</b> (see instructions). <b>Do not</b> enter more than the amount on line 1 .....	2	75,000.
3	Subtract line 2 from line 1 .....	3	108,165.
4	Figure the tax on the amount on line 3. Use the <b>2004</b> Tax Table, Tax Computation Worksheet, Qualified Dividends and Capital Gain Tax Worksheet, or the Schedule D Tax Worksheet, whichever applies .....	4	17,106.
5	If you used Schedule J to figure your tax for 2003, enter the amount from line 11 of your 2003 Schedule J. If you used Schedule J for 2002 but not 2003, enter the amount from line 15 of your 2002 Schedule J. If you used Schedule J for 2001 but not 2002 nor 2003, enter the amount from line 3 of your 2001 Schedule J. Otherwise, enter the taxable income from your <b>2001</b> Form 1040, line 39; Form 1040A, line 25; or Form 1040EZ, line 6. If zero or less, see instructions .....	5	
6	Divide the amount on <b>line 2</b> by 3.0 .....	6	25,000.
7	Combine lines 5 and 6. If zero or less, enter -0- .....	7	25,000.
8	Figure the tax on the amount on line 7 using <b>2001</b> tax rates (see the instructions) .....	8	3,750.
9	If you used Schedule J to figure your tax for 2003, enter the amount from line 15 of your 2003 Schedule J. If you used Schedule J for 2002 but not 2003, enter the amount from line 3 of your 2002 Schedule J. Otherwise, enter the taxable income from your <b>2002</b> Form 1040, line 41; Form 1040A, line 27; or Form 1040EZ, line 6. If zero or less, see instructions .....	9	
10	Enter the amount from line 6 .....	10	25,000.
11	Combine lines 9 and 10. If less than zero, enter as a negative amount .....	11	25,000.
12	Figure the tax on the amount on line 11 using <b>2002</b> tax rates (see the instructions) .....	12	3,150.
13	If you used Schedule J to figure your tax for 2003, enter the amount from line 3 of your 2003 Schedule J. Otherwise, enter the taxable income from your <b>2003</b> Form 1040, line 40; Form 1040A, line 27; or Form 1040EZ, line 6. If zero or less, see instructions .....	13	11,172.
14	Enter the amount from line 6 .....	14	25,000.
15	Combine lines 13 and 14. If less than zero, enter as a negative amount .....	15	36,172.
16	Figure the tax on the amount on line 15 using <b>2003</b> tax rates (see the instructions) .....	16	3,091.
17	Add lines 4, 8, 12, and 16 .....	17	27,097.
18	If you used Schedule J to figure your tax for 2003, enter the amount from line 12 of your 2003 Schedule J. If you used Schedule J for 2002 but not 2003, enter the amount from line 16 of your 2002 Schedule J. If you used Schedule J for 2001 but not 2002 nor 2003, enter the amount from line 4 of your 2001 Schedule J. Otherwise, enter the tax from your <b>2001</b> Form 1040, line 40*; Form 1040A, line 26*; or Form 1040EZ, line 11 .....	18	
19	If you used Schedule J to figure your tax for 2003, enter the amount from line 16 of your 2003 Schedule J. If you used Schedule J for 2002 but not 2003, enter the amount from line 4 of your 2002 Schedule J. Otherwise, enter the tax from your <b>2002</b> Form 1040, line 42*; Form 1040A, line 28*; or Form 1040EZ, line 10 .....	19	
20	If you used Schedule J to figure your tax for 2003, enter the amount from line 4 of your 2003 Schedule J. Otherwise, enter the tax from your <b>2003</b> Form 1040, line 41*; Form 1040A, line 28*; or Form 1040EZ, line 10 .....	20	559.
* <b>Do not</b> include tax from Form 4972 or 8814 or from recapture of an education credit. Also, <b>do not</b> include alternative minimum tax from Form 1040A.			
21	Add lines 18 through 20 .....	21	559.
22	Subtract line 21 from line 17. Also include this amount on Form 1040, line 43 .....	22	10,271.

**Caution.** Your tax may be less if you figure it using the 2004 Tax Table, Tax Computation Worksheet, Qualified Dividends and Capital Gain Tax Worksheet, or the Schedule D Tax Worksheet. Attach Schedule J only if you are using it to figure your tax.

Department of the Treasury  
Internal Revenue Service

▶ See the instructions.  
▶ Attach this form to your income tax return.

Name (as shown on your income tax return)

Taxpayer identification number

Austin H & Amy J Farmer

123-45-6789

**Caution:** • You cannot claim any amounts on Form 4136 that you claimed on Form 8849 or Schedule C (Form 720).  
• Sales by gasoline wholesale distributors cannot be claimed on Form 4136. Instead, use Schedule 4 (Form 8849) or Schedule C, line 11 (Form 720) to make these claims.

**1 Nontaxable Use of Gasoline and Gasohol**

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
a Off-highway business use of gasoline . . . . .		\$ .184	}	\$	362
b Use of gasoline on a farm for farming purposes . . . . .		.184			
c Other nontaxable use of gasoline . . . . .		.184			
d 10% gasohol . . . . .	1	.132	1,800	\$ 238.	359
e 7.7% gasohol . . . . .		.14396			375
f 5.7% gasohol . . . . .		.15436			376

**2 Nontaxable Use of Aviation Gasoline**

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
a Use in commercial aviation (other than foreign trade) . . . . .		\$ .15	}	\$	354
b Other nontaxable use . . . . .		.194			
		.194			324

**3 Nontaxable Use of Undyed Diesel Fuel**

Claimant has the name and address of the person(s) who sold the diesel fuel to the claimant and the date(s) of the purchase(s) and if exported, the required proof of export.

Claimant certifies that the diesel fuel did not contain visible evidence of dye. **Exception.** If any of the diesel fuel included in this claim **did** contain visible evidence of dye, attach a detailed explanation and check here

**Caution:** Claims cannot be made on line 3 for diesel fuel used on a farm for farming purposes. Only registered ultimate vendors may make those claims (see line 6).

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
a Nontaxable use . . . . .		\$ .244	}	\$	360
		.244			
b Use in trains . . . . .		.20			353
c Use in certain intercity and local buses . . . . .		.17			350

**4 Nontaxable Use of Undyed Kerosene**

Claimant has the name and address of the person(s) who sold the kerosene to the claimant and the date(s) of the purchase(s) and if exported, the required proof of export.

Claimant certifies that the kerosene did not contain visible evidence of dye. **Exception.** If any of the kerosene included in this claim **did** contain visible evidence of dye, attach a detailed explanation and check here

**Caution:** Claims cannot be made on line 4 for kerosene used on a farm for farming purposes or for kerosene sold from a blocked pump. Only registered ultimate vendors may make those claims (see line 7).

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
Nontaxable use . . . . .		\$ .244	}	\$	346
		.244			

**BAA For Paperwork Reduction Act Notice, see separate instructions.**

Form **4136** (2004)

**5 Nontaxable Use of Aviation Fuel**

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
a	Use in commercial aviation (other than foreign trade)	\$ .175		\$	355
b	Other nontaxable use	.219			369
c	Other nontaxable uses	.044			377

**6 Sales by Registered Ultimate Vendors of Undyed Diesel Fuel** UV Registration No. ▶

Claimant sold the diesel fuel at a tax-excluded price, repaid the amount of tax to the buyer, or has obtained written consent of the buyer to take the claim; and obtained the required certificate from the buyer and has no reason to believe any information in the certificate is false. See the instructions for additional information to be submitted.

Claimant certifies that the diesel fuel did not contain visible evidence of dye. **Exception.** If any of the diesel fuel included in this claim **did** contain visible evidence of dye, attach a detailed explanation and check here

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
a	Use on a farm for farming purposes	\$ .244		\$	360
b	Use by a state or local government	.244			

**7 Sales by Registered Ultimate Vendors of Undyed Kerosene** UV Registration No. ▶  
UP Registration No. ▶

Claimant sold the kerosene at a tax-excluded price, repaid the amount of tax to the buyer, or has obtained written consent of the buyer to take the claim; and obtained the required certificate (for lines 7a and 7b) from the buyer and has no reason to believe any information in the certificate is false, or has the Regulations section 48.6427-10(e)(4) statement, if required, for line 7c. See the instructions for additional information to be submitted.

Claimant certifies that the kerosene did not contain visible evidence of dye. **Exception.** If any of the kerosene included in this claim **did** contain visible evidence of dye, attach a detailed explanation and check here

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
a	Use on a farm for farming purposes	\$ .244		\$	346
b	Use by a state or local government	.244			
c	Sales from a blocked pump	.244			

**8 Nontaxable Use of Liquefied Petroleum Gas (LPG) in Certain Buses**

	(a) Type of use	(b) Rate	(c) Gallons	(d) Amount of credit	(e) CRN
a	Use in certain intercity and local buses	\$ .062		\$	352
b	Use in qualified local buses or school buses	.136			361

**9 Gasohol Blending**

Claimant bought gasoline taxed at the full rate and blended it with alcohol to make gasohol. The gasohol was sold or used in claimant's trade or business. For **each batch** of gasohol, claimant has the required information relating to the purchase of the gasoline and alcohol used to make the gasohol and to support the amount claimed.

	(a) Rate	Gallons of		(d) Amount of credit (column (a) x column (b))	(e) CRN
		(b) Gasoline	(c) Alcohol		
a	10% gasohol	\$ .03734		\$	356
b	7.7% gasohol	.02804			357
c	5.7% gasohol	.02031			363

**10 Total income tax credit claimed.** Add lines 1 through 9, column (d). Enter here and on Form 1040, line 69 (also check box b on line 69); Form 1120, line 32g; Form 1120-A, line 28g; Form 1120S, line 23c; Form 1041, line 24g; or the proper line of other returns **▶ 10** \$ 238.

**Sales of Business Property**  
**(Also Involuntary Conversions and Recapture Amounts**  
**Under Sections 179 and 280F(b)(2))**  
▶ **Attach to your tax return.** ▶ **See separate instructions.**

Name(s) shown on return Austin H & Amy J Farmer Identifying number 123-45-6789

**1** Enter the gross proceeds from sales or exchanges reported to you for 2004 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) **1**

**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft – Most Property Held More Than 1 Year** (see instructions)

2	(a) Description of property	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	RAISED SOWS	03/01/98	03/25/04	34,577.		0.	34,577.

**3** Gain, if any, from Form 4684, line 39 **3**

**4** Section 1231 gain from installment sales from Form 6252, line 26 or 37 **4**

**5** Section 1231 gain or (loss) from like-kind exchanges from Form 8824 **5**

**6** Gain, if any, from line 32, from other than casualty or theft **6** 0.

**7** Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows **7** 34,577.

**Partnerships (except electing large partnerships) and S corporations.** Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

**All others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on Schedule D and skip lines 8, 9, 11, and 12 below.

**8** Nonrecaptured net section 1231 losses from prior years (see instructions) **8**

**9** Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on Schedule D (see instructions) **9**

**Part II Ordinary Gains and Losses**

**10** Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):



**11** Loss, if any, from line 7 **11**

**12** Gain, if any, from line 7 or amount from line 8, if applicable **12**

**13** Gain, if any, from line 31 **13** 21,659.

**14** Net gain or (loss) from Form 4684, lines 31 and 38a **14**

**15** Ordinary gain from installment sales from Form 6252, line 25 or 36 **15**

**16** Ordinary gain or (loss) from like-kind exchanges from Form 8824 **16**

**17** Combine lines 10 through 16 **17** 21,659.

**18** For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

**a** If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from 'Form 4797, line 18a.' See instructions **18a**

**b** Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 **18b** 21,659.

**Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255**

19(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo, day, yr)	(c) Date sold (mo, day, yr)
A LIVESTOCK TRAILER	03/01/1996	08/21/2004
B FARROWING EQUIP	08/20/1992	04/01/2004
C		
D		

These columns relate to the properties on lines 19A through 19D	Property A	Property B	Property C	Property D
20 Gross sales price (Note: See line 1 before completing.)	7,500.	14,160.		
21 Cost or other basis plus expense of sale	10,555.	20,000.		
22 Depreciation (or depletion) allowed or allowable	10,554.	20,000.		
23 Adjusted basis. Subtract line 22 from line 21	1.	0.		
24 Total gain. Subtract line 23 from line 20	7,499.	14,160.		
<b>25 If section 1245 property:</b>				
a Depreciation allowed or allowable from line 22	10,554.	20,000.		
b Enter the smaller of line 24 or 25a	7,499.	14,160.		
<b>26 If section 1250 property:</b> If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.				
a Additional depreciation after 1975 (see instrs)				
b Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)				
c Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e				
d Additional depreciation after 1969 & before 1976				
e Enter the smaller of line 26c or 26d				
f Section 291 amount (corporations only)				
g Add lines 26b, 26e, and 26f				
<b>27 If section 1252 property:</b> Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).				
a Soil, water, and land clearing expenses				
b Line 27a multiplied by applicable percentage (see instructions)				
c Enter the smaller of line 24 or 27b				
<b>28 If section 1254 property:</b>				
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions)				
b Enter the smaller of line 24 or 28a				
<b>29 If section 1255 property:</b>				
a Applicable percentage of payments excluded from income under section 126 (see instructions)				
b Enter the smaller of line 24 or 29a (see instrs)				

**Summary of Part III Gains.** Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	21,659.
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	21,659.
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	0.

**Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less** (see instructions)

	(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33	
34 Recomputed depreciation. See instructions	34	
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35	

**Alternative Minimum Tax – Individuals**

**2004**

**32**

Department of the Treasury  
Internal Revenue Service (99)

▶ See separate instructions.  
▶ Attach to Form 1040 or Form 1040NR.

Name(s) shown on Form 1040

Your social security number

Austin H & Amy J Farmer

123-45-6789

**Part I Alternative Minimum Taxable Income** (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 40, and go to line 2. Otherwise, enter the amount from Form 1040, line 37, and go to line 7. (If less than zero, enter as a negative amount.)	1	211,465.
2	Medical and dental. Enter the <b>smaller</b> of Schedule A (Form 1040), line 4 or 2-1/2% of Form 1040, line 37	2	
3	Taxes from Schedule A (Form 1040), line 9	3	
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet on page 2 of the instructions	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 26	5	
6	If Form 1040, line 37, is over \$142,700 (over \$71,350 if married filing separately), enter the amount from line 9 of the <b>Itemized Deductions Worksheet</b> in the Instructions for Schedules A and B (Form 1040)	6	
7	Tax refund from Form 1040, line 10 or line 21	7	
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Interest from specified private activity bonds exempt from the regular tax	11	
12	Qualified small business stock (7% of gain excluded under section 1202)	12	
13	Exercise of incentive stock options (excess of AMT income over regular tax income)	13	
14	Estates and trusts (amount from Schedule K-1 (Form 1041), line 9)	14	
15	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	15	
16	Disposition of property (difference between AMT and regular tax gain or loss)	16	
17	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	17	1,585.
18	Passive activities (difference between AMT and regular tax income or loss)	18	
19	Loss limitations (difference between AMT and regular tax income or loss)	19	
20	Circulation costs (difference between regular tax and AMT)	20	
21	Long-term contracts (difference between AMT and regular tax income)	21	
22	Mining costs (difference between regular tax and AMT)	22	
23	Research and experimental costs (difference between regular tax and AMT)	23	
24	Income from certain installment sales before January 1, 1987	24	
25	Intangible drilling costs preference	25	
26	Other adjustments, including income-based related adjustments	26	0.
27	Alternative tax net operating loss deduction	27	
28	<b>Alternative minimum taxable income.</b> Combine lines 1 through 27. (If married filing separately and line 28 is more than \$191,000, see instructions.)	28	213,050.

**Part II Alternative Minimum Tax**

29	Exemption. (If this form is for a child under age 14, see instructions.)																
	<table border="0"> <tr> <td><b>IF your filing status is . . .</b></td> <td><b>AND line 28 is not over . . .</b></td> <td><b>THEN enter on line 29 . . .</b></td> <td></td> </tr> <tr> <td>Single or head of household</td> <td>\$112,500</td> <td>\$40,250</td> <td rowspan="3">} 29</td> </tr> <tr> <td>Married filing jointly or qualifying widow(er)</td> <td>150,000</td> <td>58,000</td> </tr> <tr> <td>Married filing separately</td> <td>75,000</td> <td>29,000</td> </tr> </table>	<b>IF your filing status is . . .</b>	<b>AND line 28 is not over . . .</b>	<b>THEN enter on line 29 . . .</b>		Single or head of household	\$112,500	\$40,250	} 29	Married filing jointly or qualifying widow(er)	150,000	58,000	Married filing separately	75,000	29,000		42,237.
<b>IF your filing status is . . .</b>	<b>AND line 28 is not over . . .</b>	<b>THEN enter on line 29 . . .</b>															
Single or head of household	\$112,500	\$40,250	} 29														
Married filing jointly or qualifying widow(er)	150,000	58,000															
Married filing separately	75,000	29,000															
	If line 28 is <b>over</b> the amount shown above for your filing status, see instructions.																
30	Subtract line 29 from line 28. If zero or less, enter -0- here and on lines 33 and 35 and stop here	30	170,813.														
31	<ul style="list-style-type: none"> <li>If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; or you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on page 2 and enter the amount from line 55 here.</li> <li><b>All others:</b> If line 30 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result.</li> </ul>	31	40,663.														
32	Alternative minimum tax foreign tax credit (see instructions)	32	0.														
33	Tentative minimum tax. Subtract line 32 from line 31	33	40,663.														
34	Tax from Form 1040, line 43 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 46). If you used Schedule J to figure your tax, the amounts for lines 43 and 46 of Form 1040 must be refigured without using Schedule J (see instructions)	34	10,271.														
35	<b>Alternative minimum tax.</b> Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 44	35	30,392.														

**Part III Tax Computation Using Maximum Capital Gains Rates**

36	Enter the amount from Form 6251, line 30 .....			<b>36</b>	170,813.
37	Enter the amount from line 6 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 43, or the amount from line 13 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as figured for the AMT, if necessary) (see instructions) .....	37	34,077.		
38	Enter the amount from Schedule D (Form 1040), line 19 (as figured for the AMT, if necessary) (see instructions) .....	38			
39	If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from line 37. Otherwise, add lines 37 and 38, and enter the <b>smaller</b> of that result or the amount from line 10 of the Schedule D Tax Worksheet (as figured for the AMT, if necessary) .....	39	34,077.		
40	Enter the <b>smaller</b> of line 36 or line 39 .....			<b>40</b>	34,077.
41	Subtract line 40 from line 36 .....			<b>41</b>	136,736.
42	If line 41 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 41 by 26% (.26). Otherwise, multiply line 41 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result .....			<b>42</b>	35,551.
43	Enter: <ul style="list-style-type: none"> <li>• \$58,100 if married filing jointly or qualifying widow(er),</li> <li>• \$29,050 if single or married filing separately, or</li> <li>• \$38,900 if head of household.</li> </ul>	43	58,100.		
44	Enter the amount from line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 43, or the amount from line 14 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax). If you did not complete either worksheet for the regular tax, enter -0- .....	44	149,088.		
45	Subtract line 44 from line 43. If zero or less, enter -0- .....	45	0.		
46	Enter the <b>smaller</b> of line 36 or line 37 .....	46	34,077.		
47	Enter the <b>smaller</b> of line 45 or line 46 .....	47	0.		
48	Multiply line 47 by 5% (.05) .....			<b>48</b>	0.
49	Subtract line 47 from line 46 .....	49	34,077.		
50	Multiply line 49 by 15% (.15) .....			<b>50</b>	5,112.
<b>If line 38 is zero or blank, skip lines 51 and 52 and go to line 53. Otherwise, go to line 51.</b>					
51	Subtract line 46 from line 40 .....	51			
52	Multiply line 51 by 25% (.25) .....			<b>52</b>	
53	Add lines 42, 48, 50, and 52 .....			<b>53</b>	40,663.
54	If line 36 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 36 by 26% (.26). Otherwise, multiply line 36 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result .....			<b>54</b>	44,411.
55	Enter the <b>smaller</b> of line 53 or line 54 here and on line 31 .....			<b>55</b>	40,663.

**Depreciation and Amortization  
(Including Information on Listed Property)**

▶ See separate instructions.  
▶ Attach to your tax return.

Name(s) shown on return  
**Austin H & Amy J Farmer**

Identifying number  
123-45-6789

Business or activity to which this form relates

Sch F

**Part I Election To Expense Certain Property Under Section 179**

**Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount. See instructions for a higher limit for certain businesses .....	1	\$102,000.
2	Total cost of section 179 property placed in service (see instructions) .....	2	
3	Threshold cost of section 179 property before reduction in limitation .....	3	\$410,000.
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- .....	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions .....	5	
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29 .....	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 .....	8	
9	Tentative deduction. Enter the <b>smaller</b> of line 5 or line 8 .....	9	
10	Carryover of disallowed deduction from line 13 of your 2003 Form 4562 .....	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instrs) .....	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11 .....	12	
13	Carryover of disallowed deduction to 2005. Add lines 9 and 10, less line 12 .....	▶ 13	

**Note:** Do not use Part II or Part III below for listed property. Instead, use Part V.

**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions) .....	14	
15	Property subject to section 168(f)(1) election (see instructions) .....	15	
16	Other depreciation (including ACRS) (see instructions) .....	16	901.

**Part III MACRS Depreciation (Do not include listed property.) (See instructions)**

**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2004 .....	17	27,600.
18	If you are electing under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check here .....	▶ <input type="checkbox"/>	

**Section B – Assets Placed in Service During 2004 Tax Year Using the General Depreciation System**

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only — see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property .....						
b 5-year property .....						
c 7-year property .....						
d 10-year property .....		107,737.	10.0 yrs	HY	150DB	8,080.
e 15-year property .....						
f 20-year property .....						
g 25-year property .....			25 yrs		S/L	
h Residential rental property .....			27.5 yrs	MM	S/L	
i Nonresidential real property .....			27.5 yrs	MM	S/L	
			39 yrs	MM	S/L	

**Section C – Assets Placed in Service During 2004 Tax Year Using the Alternative Depreciation System**

20a Class life .....					S/L	
b 12-year .....			12 yrs		S/L	
c 40-year .....			40 yrs	MM	S/L	

**Part IV Summary (see instructions)**

21	Listed property. Enter amount from line 28 .....	21	340.
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations — see instructions .....	22	36,921.
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs .....	23	

Part V Listed Property (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A - Depreciation and Other Information (Caution: See instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? [X] Yes [ ] No 24b If 'Yes,' is the evidence written? [X] Yes [ ] No

Table with 9 columns: (a) Type of property, (b) Date placed in service, (c) Business/investment use percentage, (d) Cost or other basis, (e) Basis for depreciation, (f) Recovery period, (g) Method/Convention, (h) Depreciation deduction, (i) Elected section 179 cost.

25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) 25

26 Property used more than 50% in a qualified business use (see instructions):

Table with 9 columns: (a) Type of property, (b) Date placed in service, (c) Business/investment use percentage, (d) Cost or other basis, (e) Basis for depreciation, (f) Recovery period, (g) Method/Convention, (h) Depreciation deduction, (i) Elected section 179 cost. Includes rows for COMPUTER and PICKUP.

27 Property used 50% or less in a qualified business use (see instructions):

Table with 9 columns: (a) Type of property, (b) Date placed in service, (c) Business/investment use percentage, (d) Cost or other basis, (e) Basis for depreciation, (f) Recovery period, (g) Method/Convention, (h) Depreciation deduction, (i) Elected section 179 cost.

28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1 28 340.

29 Add amounts in column (i), line 26. Enter here and on line 7, page 1 29

Section B - Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other 'more than 5% owner,' or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

Table with 6 main columns: (a) Vehicle 1, (b) Vehicle 2, (c) Vehicle 3, (d) Vehicle 4, (e) Vehicle 5, (f) Vehicle 6. Rows include 30-36 regarding miles driven and personal use.

Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

Table with 2 columns: Yes, No. Rows include 37-41 regarding written policies and information retention.

Part VI Amortization

Table with 6 columns: (a) Description of costs, (b) Date amortization begins, (c) Amortizable amount, (d) Code section, (e) Amortization period or percentage, (f) Amortization for this year.

42 Amortization of costs that begins during your 2004 tax year (see instructions):

Table with 6 columns: (a) Description of costs, (b) Date amortization begins, (c) Amortizable amount, (d) Code section, (e) Amortization period or percentage, (f) Amortization for this year.

43 Amortization of costs that began before your 2004 tax year 43

44 Total. Add amounts in column (f). See instructions for where to report 44

**Exhibit 3: Example of a Pro-Forma  
Return Prepared for § 1232 Purposes**

<b>Label</b> (See instructions.)	For the year Jan 1 - Dec 31, 2004, or other tax year beginning _____, 2004, ending _____, 20	OMB No. 1545-0074
	Your first name MI Last name Austin H Farmer	Your social security number 123-45-6789
	If a joint return, spouse's first name MI Last name Amy J Farmer	Spouse's social security number 987-65-4321
	Home address (number and street). If you have a P.O. box, see instructions. Apartment no. 911 Rural Road	▲ <b>Important!</b> ▲ You <b>must</b> enter your social security number(s) above.
City, town or post office. If you have a foreign address, see instructions. State ZIP code Anytown IA 55111		

**Presidential Election Campaign** (See instructions.)

▶ **Note:** Checking 'Yes' will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? .....

You  Yes  No Spouse  Yes  No

**Filing Status**

1  Single 4  Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here . ▶

2  Married filing jointly (even if only one had income)

3  Married filing separately. Enter spouse's SSN above & full name here . ▶

5  Qualifying widow(er) with dependent child (see instructions)

Check only one box.

**Exemptions**

6a  Yourself. If someone can claim you as a dependent, do not check box 6a .....

b  Spouse .....

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see instrs)	No. of children on 6c who: • lived with you ..... 4 • did not live with you due to divorce or separation (see instrs) . . .
(1) First name	Last name				
Jean	Farmer	444-44-4444	Daughter	<input type="checkbox"/>	Dependents on 6c not entered above . Add numbers on lines above ..... ▶ 6
Mike	Farmer	333-33-3333	Son	<input checked="" type="checkbox"/>	
Mary	Farmer	222-22-2222	Daughter	<input checked="" type="checkbox"/>	
Ann	Farmer	111-11-1111	Daughter	<input checked="" type="checkbox"/>	

d Total number of exemptions claimed .....

**Income**

7 Wages, salaries, tips, etc. Attach Form(s) W-2 ..... 7 9,803.

8a Taxable interest. Attach Schedule B if required ..... 8a

b Tax-exempt interest. Do not include on line 8a ..... 8b

9a Ordinary dividends. Attach Schedule B if required ..... 9a 608.

b Qualfd divs (see instrs) ..... 9b

10 Taxable refunds, credits, or offsets of state and local income taxes (see instructions) ..... 10

11 Alimony received ..... 11

12 Business income or (loss). Attach Schedule C or C-EZ ..... 12

13 Capital gain or (loss). Att Sch D if reqd. If not reqd, ck here ..... ▶  13 -500.

14 Other gains or (losses). Attach Form 4797 ..... 14

15a IRA distributions ..... 15a b Taxable amount (see instrs) .. 15b

16a Pensions and annuities ..... 16a b Taxable amount (see instrs) .. 16b

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E .. 17

18 Farm income or (loss). Attach Schedule F ..... 18 31,812.

19 Unemployment compensation ..... 19

20a Social security benefits ..... 20a b Taxable amount (see instrs) .. 20b

21 Other income ..... 21

22 Add the amounts in the far right column for lines 7 through 21. This is your **total income** . ▶ 22 41,723.

**Adjusted Gross Income**

23 Educator expenses (see instructions) ..... 23

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ ..... 24

25 IRA deduction (see instructions) ..... 25

26 Student loan interest deduction (see instructions) ..... 26

27 Tuition and fees deduction (see instructions) ..... 27

28 Health savings account deduction. Attach Form 8889 ..... 28

29 Moving expenses. Attach Form 3903 ..... 29

30 One-half of self-employment tax. Attach Schedule SE ..... 30 2,248.

31 Self-employed health insurance deduction (see instrs) ..... 31 6,780.

32 Self-employed SEP, SIMPLE, and qualified plans ..... 32

33 Penalty on early withdrawal of savings ..... 33

34a Alimony paid b Recipient's SSN .... ▶ 34a

35 Add lines 23 through 34a ..... 35 9,028.

36 Subtract line 35 from line 22. This is your **adjusted gross income** ..... ▶ 36 32,695.

**Tax and Credits**

**Standard Deduction for —**  
 • People who checked any box on line 38a or 38b or who can be claimed as a dependent, see instructions.

• All others:  
 Single or Married filing separately, \$4,850

Married filing jointly or Qualifying widow(er), \$9,700

Head of household, \$7,150

37	Amount from line 36 (adjusted gross income)	37	32,695.
38a	Check <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind. <b>Total boxes checked</b> <input type="checkbox"/> <b>38a</b>		
	if: <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind.		
b	If your spouse itemizes on a separate return, or you were a dual-status alien, see instructions and check here	<b>38b</b>	<input type="checkbox"/>
39	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	39	9,700.
40	Subtract line 39 from line 37	40	22,995.
41	If line 37 is \$107,025 or less, multiply \$3,100 by the total number of exemptions claimed on line 6d. If line 37 is over \$107,025, see the worksheet in the instructions	41	18,600.
42	Taxable income. Subtract line 41 from line 40. If line 41 is more than line 40, enter -0-	42	4,395.
43	Tax (see instrs). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	43	438.
44	Alternative minimum tax (see instructions). Attach Form 6251	44	0.
45	Add lines 43 and 44	45	438.
46	Foreign tax credit. Attach Form 1116 if required	46	
47	Credit for child and dependent care expenses. Attach Form 2441	47	
48	Credit for the elderly or the disabled. Attach Schedule R	48	
49	Education credits. Attach Form 8863	49	
50	Retirement savings contributions credit. Attach Form 8880	50	
51	Child tax credit (see instructions)	51	438.
52	Adoption credit. Attach Form 8839	52	
53	Credits from: a <input type="checkbox"/> Form 8396 b <input type="checkbox"/> Form 8859	53	
54	Other credits. Check applicable box(es): a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8801 c <input type="checkbox"/> Specify	54	
55	Add lines 46 through 54. These are your total credits	55	438.
56	Subtract line 55 from line 45. If line 55 is more than line 45, enter -0-	56	0.
57	Self-employment tax. Attach Schedule SE	57	4,495.
58	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60	Advance earned income credit payments from Form(s) W-2	60	
61	Household employment taxes. Attach Schedule H	61	
62	Add lines 56-61. This is your total tax	62	4,495.
63	Federal income tax withheld from Forms W-2 and 1099	63	282.
64	2004 estimated tax payments and amount applied from 2003 return	64	
65a	Earned income credit (EIC)	65a	
b	Nontaxable combat pay election	65b	
66	Excess social security and tier 1 RRTA tax withheld (see instructions)	66	
67	Additional child tax credit. Attach Form 8812	67	2,562.
68	Amount paid with request for extension to file (see instructions)	68	
69	Other pmts from: a <input type="checkbox"/> Form 2439 b <input checked="" type="checkbox"/> Form 4136 c <input type="checkbox"/> Form 8885	69	238.
70	Add lines 63, 64, 65a, and 66 through 69. These are your total payments	70	3,082.
71	If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you overpaid	71	
72a	Amount of line 71 you want refunded to you	72a	
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
73	Amount of line 71 you want applied to your 2005 estimated tax	73	
74	Amount you owe. Subtract line 70 from line 62. For details on how to pay, see instructions	74	1,413.
75	Estimated tax penalty (see instructions)	75	

**Third Party Designee**

Do you want to allow another person to discuss this return with the IRS (see instructions)?  Yes. Complete the following.  No

Designee's name \_\_\_\_\_ Phone no. \_\_\_\_\_ Personal identification number (PIN) \_\_\_\_\_

**Sign Here**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
 		Farmer	
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	
 		Housewife	

**Paid Preparer's Use Only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code	Self-Prepared		
		EIN	
		Phone no.	