

**To:** Authorized Representatives of Child Nutrition Programs  
School Nutrition Programs

**From:** Child and Adult Nutrition Services

**Date:** August 10, 2017

**Subject:** Determining Farm, Proprietorship (self-employment), Or Partnership Income

**Memo Number:** SNP 209-1

This memo replaces the previous memo on this topic dated February 5, 2002, memo number NSLP-50. The purpose of this memo is to provide guidance for determining income or proprietorship for the School Nutrition Programs.

This information should be shared with school food authorities, as well as the people affected by this memo- farmers and self-employed persons. Questions about this memo can be referred to a SD Dept. of Education Child and Adult Nutrition Services staff member.

For self-employed persons:

Gross receipts include the total income from goods sold or services rendered by the business. Deductible expenses include the cost of goods purchased, rent, utilities, depreciation charges, wages and salaries paid, and business taxes.

For Farmers:

Gross receipts include the value of all products sold; money received from rental of farmland, buildings, or equipment to others; and incidental receipts from the sale of items such as wood, sand, and gravel.

Operating expenses include the cost of feed, fertilizers, seed and other farming supplies, cash wages paid to farmhands; depreciation charges, cash rent; interest on farm mortgages, farm building repairs; and farm taxes. The Self-Employed are defined in program eligibility manuals.

The information to figure out income from private business operation is to be taken from the U.S. Individual Income Tax Return – Form 1040. Line numbers may change from year to year; therefore, line titles are most important.

Lines to be addressed here:

Line 12 – Business Income (Loss)  
13 – Capital Gain (Loss)  
14 – Other Gains (Losses)

- 17 – Rental Real Estate, Royalties, Partnerships, Corporation, etc.
- 18 – Farm Income (Loss)
- 21 – Other Income (Loss)
- 22 – Total Income (Loss)
- 33 – Adjusted Gross Income

**Line 12 – Business Income or Loss:**

For self-employed persons (not farmers). This is where they would report the income or loss from the “mainstay” of their business. Farmers who do custom combine work for another farmer would report this income on this line, but this would be a separate self-employment business, and not part of farm income. (This is consistent with how we have handled this type of situation in the past.)

**Line 13 – Capital Gain or Loss:**

Includes carryover from Form 4797 (see Line 14). The carryover goes onto Schedule D, which is completed for Line 13. As noted below, this gain or loss would be from sale of property, etc.

**Line 14 – Other Gains or Losses:**

Form 4797 is used and captures the sale of: (1) property used in the business, (2) depreciable and amortizable property, (3) Oil, gas, geothermal, or other mineral properties. The property includes: raised cattle, breeding cattle, and equipment.

**Line 17 – Rental real estate, etc.**

This includes rental of farmland, which can be a negative number as there may be a mortgage on the land and there would be property taxes to pay. For a self-employed (not farmer) individual, this could be a piece of property that was purchased and only a portion of it is used for the business and the rest of the property is rented to another individual/business.

**Line 18 – Farm Income or Loss:**

Grain, farm products (calves, dairy, other livestock). Includes Disaster and CRP payments.

**Line 21 – “Other Income (Loss)” often carries “Net Loss Carryover”**

This cannot be subtracted from other farm/business income nor can it be subtracted from any other income. Net loss carryover must count as “zero”.

One cannot assume numbers on the respective lines are farm related (with the exception of “Farm Income (Loss)”. “Sale of stock”, for example, needs to be evaluated to determine in that is livestock or paper stock as other investments.

The final number is then to be written on the application for free and reduced price meals on the income grid. Do not automatically use lines 22 or 33 for the total income. All other income on lines 7 through 21 must be listed separately on the application for free and reduced price meals.

Farm Income

Partnership Income

Proprietorship Income

Line 13 \$ _____	Line 13 \$ _____	Line 12 \$ _____
Line 14 \$ _____	Line 14 \$ _____	Line 13 \$ _____
Line 17 \$ _____	Line 17 \$ _____	Line 14 \$ _____
Line 18 \$ _____		
Total \$ _____	Total \$ _____	Total \$ _____

Losses on lines other than those used to determine proprietorship, partnership, or farm income must be counted as zero. These losses are not subtracted from other income. Net loss carryover is not to be included in the calculations.

Farm Income Example:

Line 7	=	\$35,000	wages/salaries
13	=	(\$22,500)	capital gain/loss
14	=	\$14,300	other gains/loss
18	=	\$ 4,000	farm income/loss
21	=	(\$85,000)	net loss carryover
22	=	(\$54,200)	total income

The income used to determine eligibility for the family size is \$35,000. The farm income (lines 13, 14, and 18) is a loss which counts as zero, and the net loss carryover on line 22 is also considered zero. The same principles apply to determining partnership and proprietorship income.

**Conclusion:**

There is clearly no one line that represents either farm or self-employment income for many farmers or self-employed persons. The lines identified above, when looked at collectively, provide an accurate financial representation of the entire business (self-employed or farm). Furthermore, this financial representation follows the guidance issued by USDA to subtract operating expenses from gross receipts.