

General instructions

Purpose of form

To qualify as an active farmer for purposes of the farm residence property tax exemption under N.D.C.C. § 57-02-08(15)(b), the individual occupying the residence must satisfy certain requirements. One of the requirements is that 66% or more of the occupant's total annual gross income must be from farming activities in one of the two calendar years preceding the year for which the exemption is claimed. The statute requires the occupant to complete and provide to the county a *Statement of Farm Gross Income* for one of the two preceding years to state and demonstrate compliance with the farm gross income requirement.

Note: The farm residence exemption must be renewed each year to continue the exemption, which requires the submission of a new application each year. A Statement of Farm Gross Income must be submitted with each year's application form.

Spouse's income. If the occupant is married, the spouse's gross income must be included for purposes of the farm gross income requirement. This applies whether they file joint or separate federal income tax returns.

Occupant other than property owner. If the occupant is someone other than the property owner, the property owner will complete and submit the application for the exemption, but the occupant must complete and submit the *Statement of Farm Gross Income*.

Example 1: If claiming the farm residence exemption for the 2021 property tax year, the occupant must complete and provide a Statement of Farm Gross Income for either the 2019 or 2020 calendar year. If the farm gross income requirement is satisfied in the 2020 calendar year, a Statement of Farm Gross Income needs to be filed for only the 2020 calendar year; a statement does not have to be filed for the 2019 calendar year.

Example 2: Same as Example 1, except that the occupant is unable to satisfy the

farm gross income requirement based on the 2020 calendar year income information. In this case, eligibility for the exemption will depend on whether the occupant is able to satisfy the requirement using the income information for the 2019 calendar year.

Use the proper year's form

The information needed to complete the *Statement of Farm Gross Income* is derived from the occupant's Form 1040 or Form 1040-SR, U.S. Individual Income Tax Return, filed for the same year for which the statement is being completed. Be sure to use the *Statement of Farm Gross Income* corresponding to the tax year used to comply with the farm gross income requirement. **If possible, use the MORE RECENT of the two calendar years preceding the year for which the exemption is being claimed to show compliance.**

Example 3: If applying for the farm residence exemption for the 2021 property tax year, and if the income information from the 2020 federal income tax return supports compliance with the farm gross income requirement, complete and file the 2020 Statement of Farm Gross Income.

Example 4: Same as Example 3, except that the income information from the 2020 federal income tax return does not support compliance with the farm gross income requirement. In this case, eligibility for the exemption will depend on whether the occupant is able to satisfy the requirement using the income information from the 2019 federal income tax return. If it does, complete and file the 2019 Statement of Farm Gross Income.

Farm gross income requirement

To meet the farm gross income requirement, 66% or more of the occupant's annual gross income must be from farming activities in either of the two calendar years preceding the year for which the exemption is being applied for.

Definitions

For purposes of the farm gross income requirement, the following definitions apply:

- “Gross income” means gross income as defined under the federal Internal Revenue Code.

This generally means income received in the form of money, goods, property, and services that is not exempt from tax that is reportable on the federal income tax return. In the case of a business, it means the amount of gross income received before any business expenses are subtracted. In the case of the sale or exchange of property, the gain from the sale or exchange is included in gross income.

- “Gross income from farming activities” means gross income from farming as defined for purposes of determining if an individual is a farmer eligible to use the special estimated income tax payment rules for farmers under Internal Revenue Code § 6654.

This generally means income from cultivating the soil or raising agricultural commodities.

Gross income from farming activities does not include (1) wages received as a farm employee, (2) income received from contract grain harvesting and hauling using workers and machines furnished by the applicant, or (3) gains from the sale or exchange of farm land and depreciable farm equipment.

Federal definitions. For more information on what is included in gross income and gross income from farming activities, see “Special Estimated Tax Rules For Farmers” in IRS Publication 225, *Farmer’s Tax Guide*.

When and where to file

Submit the completed *Statement of Farm Gross Income* with the *Application For Property Tax Exemption of a Farm Residence*, which is due on or before February 1 of the year for which the

exemption is claimed. If for some reason the statement cannot be filed with the application form by February 1, it must be submitted no later than March 31 of the year for which the exemption is claimed.

Example 5: *If applying for the farm residence exemption for the 2021 property tax year, file the Statement of Farm Gross Income with the Application For Property Tax Exemption of a Farm Residence that is due by February 1, 2021. Alternatively, the Statement of Farm Gross Income may be submitted separately from the application by March 31, 2021.*

Submit the completed *Statement of Gross Income* with the assessor's office where the application for the farm residence property tax exemption is filed.

Late filed statement. If a Statement of Farm Gross Income is not filed by March 31, resulting in the denial of the exemption, an applicant may apply for an abatement under N.D.C.C. ch. 57-23, by filing an Application for Abatement or Refund of Taxes with the county auditor.

Specific instructions

IMPORTANT—These specific instructions apply only for the 2020 calendar year. The amounts on these lines must match the amounts from the 2020 federal income tax return used to determine if an individual is a farmer for purposes of the special estimated tax rules for farmers under Internal Revenue Code § 6654.

Occupant's total gross income from both farm and nonfarm sources

Lines 6 through 24

Enter the gross income from all sources, both farm and nonfarm, from the occupant's 2020 Form 1040 or 1040-SR, U.S. Individual Income Tax Return. For guidance, the federal form and line number on which the gross income is reported on the federal return is provided on each line of the statement. If the occupant is married, the spouse's gross income must be included whether they

file joint or separate federal income tax returns.

Lines 12 and 15. For line 12 (capital gains) and line 15 (other gains from Form 4797), do not include any loss included in the amount reported on the federal return. An amount on the federal return may be a net amount that includes both gains and losses from the sale or exchange of property. The amount from the federal return must be adjusted to remove the losses. Only enter gains from the federal return on lines 12 and 15 of the statement.

Line 17. For line 17 (other income), do not include a net operating loss included in the amount reported on the federal return. The amount from the federal return must be adjusted to remove the net operating loss. Only enter income items from the federal return on line 17 of the statement.

Line 21—Partnerships and S corporations. Enter on this line gross income from partnerships and S corporations included in the amount entered on Schedule E, Part II, line 32. The amount on Schedule E, Part II, line 32, may be a net amount that includes income, losses, and deductions. Only enter gross income items on line 21 of the statement. Identifying the gross income items may be possible from a review of the Schedule K-1 received from the partnership or S corporation. However, it may be necessary to obtain the help of one's tax preparer or contact the partnership or S corporation directly to obtain the gross income information.

Note: To avoid duplication of numbers, do not enter on line 21 gross income items from a partnership or S corporation reported on federal forms other than Schedule E, which are reported on other lines of the statement.

Line 22—Estate and trusts. Enter on this line gross income from an estate or trust included in the amount entered on Schedule E, Part III, line 37. The amount on Schedule E, Part III, line 37, may be a net amount that includes income, losses, and deductions. Only enter gross income items on line 22 of the statement. Identifying the gross income items may

be possible from a review of the Schedule K-1 received from the estate or trust. However, it may be necessary to obtain the help of one's tax preparer or contact the estate or trust directly to obtain the gross income information.

Note: To avoid duplication of numbers, do not enter on line 22 gross income items from an estate or trust reported on federal forms other than Schedule E, which are entered on other lines of the statement.

Gross income from farming activities

Lines 27 through 29

Enter the gross income from farming activities from the occupant's 2020 Form 1040 or 1040-SR, U.S. Individual Income Tax Return. For guidance, the federal form and line number on which the gross income is reported on the federal return is provided on each line of the statement. If the occupant is married, the spouse's gross income from farming activities must be included whether they file joint or separate federal income tax returns.

Line 29—Form 4797. Enter on this line gains from the sale of livestock used for draft, breeding, sport, or dairy purposes. Do not include any loss. There is no specific line on Form 4797 on which the net amount of gains from the sale of qualifying livestock is reported. These gains may be reported on Form 4797, Part I, line 2, or Part II, line 10, or Part III, line 19. If a gain reported in any of the three sections of the Form 4797 is from a partnership, S corporation, estate, or trust, and the type of property sold is not separately identified on the Schedule K-1 received from the entity, it may be necessary to contact the entity to obtain this information.