

Beginning in 2002, a reduced tax rate is available if you sold or exchanged capital assets used in farming activities. The sale or exchange must represent a substantially complete termination of a farming business you own.

Farming activities include:

- Raising, harvesting, and selling crops.
- Feeding, breeding, managing, or selling livestock, poultry, fur-bearing animals, or honeybees or the produce thereof.
- Dairying and selling dairy products.
- Stabling or training horses, including providing riding lessons, training clinics, and schooling shows.
- Propagating, cultivating, maintaining, or harvesting aquatic species, birds, and other animal species.
- Growing and harvesting cultured Christmas trees or certain hardwood timber.
- On-site constructing and maintaining equipment and facilities used in farming activities.
- Preparing, storing, or disposing of products or by-products raised for human or animal use on land employed in farming activities.
- Any other agricultural activity, horticultural activity, animal husbandry, or any combination of these three.

Farming activities do not include growing and harvesting trees of a marketable species other than growing and harvesting cultured Christmas trees or certain hardwood timber.

You may not claim the special tax rate on a sale or exchange to a relative, as defined under Internal Revenue Code Section 267. A farm dwelling or farm homesite is not considered to be property used in the trade or business of farming.

Partnerships or S corporations. The sale of ownership interests in a farming corporation, partnership, or other entity qualify for the special tax rate. The taxpayer must have had at least a 10 percent ownership interest in the entity before the sale or exchange.

Worksheet FCG, Farm Capital Gain

Follow the steps in the worksheet below to determine your qualifying farm assets' net long-term capital gain (NLTCG). If you have a net loss from the sale or exchange from **all** assets during the year, you will not qualify for the reduced rate on the sale of farm assets.

The NLTCG eligible for the special tax rate is computed as follows:

A. Enter your NLTCG from farm assets	A	<input type="text"/>	<input type="text"/>
B. Enter the gain included in Form 40, line 8 (this is the gain shown on federal Form 1040, line 13); or from the Oregon column of Form 40N or Form 40P, line 13	B	<input type="text"/>	<input type="text"/>
C. Enter the smaller of A or B here and on line 2 below	C	<input type="text"/>	<input type="text"/>

1. Oregon taxable income from Form 40, line 28; Form 40P, line 49; or Form 40N, line 51	1	<input type="text"/>	<input type="text"/>
2. Farm NLTCG from line C above	2	<input type="text"/>	<input type="text"/>
3. Modified taxable income. Subtract line 2 from line 1	3	<input type="text"/>	<input type="text"/>
4. Oregon tax on the amount on line 3. See tables or tax rate charts in the full year resident or part-year/nonresident income tax booklets	4	<input type="text"/>	<input type="text"/>
5. Multiply line 2 by 5 percent (0.05) and enter the result here	5	<input type="text"/>	<input type="text"/>
6. Add lines 4 and 5 and the enter result here and on Form 40, line 31; or Form 40N, line 53	6	<input type="text"/>	<input type="text"/>
7. Part-year (Form 40P) filers. Compute Oregon income tax by multiplying line 6 by your Oregon percentage from Form 40P, line 40. Enter here and on Form 40P, line 52	7	<input type="text"/>	<input type="text"/>

Be sure to check the box labeled "Worksheet FCG" on your Form 40, 40N, or 40P. Do not attach this form to your return. Keep it with you tax records.