

FORM
FIA-40

OREGON FARM INCOME AVERAGING

2006

Name(s) as shown on Oregon Form 40	Social Security No. (SSN) - -
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- 1 Enter the taxable income from your 2006 Oregon Form 40, line 28 1
- 2 Enter your **elected farm income**. Do not enter more than the amount on line 1 2
- 3 Subtract line 2 from line 1..... 3
- 4 Figure the tax on the amount on line 3 using the 2006 Tax Tables or Tax Rate Charts from Form 40 instructions, whichever applies, and enter here 4

2003 Taxable Income

- 5 If you used FIA to figure your tax for 2003, 2004, or 2005, see instructions. Otherwise, enter the taxable income from your 2003 Form 40, line 28; or Form 40S, line 12. If -0- or less, see instructions..... 5
- 6 Divide the amount on **line 2** by 3.0 and enter here 6
- 7 Add line 5 and 6. If -0- or less, enter -0- 7
- 8 Figure the tax on the amount on line 7 using the 2003 Tax Tables or Tax Rate Charts, whichever applies (or fill in recomputed tax from Schedule Z, see instructions)..... 8

2004 Taxable Income

- 9 If you used FIA to figure your tax for 2004 or 2005, see instructions. Otherwise, enter the taxable income from your 2004 Form 40, line 28; or Form 40S, line 12. If -0- or less, see instructions 9
- 10 Enter the amount from line 6 10
- 11 Add lines 9 and 10. If -0- or less, enter -0- 11
- 12 Figure the tax on the amount on line 11 using the 2004 Tax Tables or Tax Rate Charts, whichever applies (or fill in recomputed tax from Schedule Z, see instructions)..... 12

2005 Taxable Income

- 13 If you used FIA to figure your tax for 2005, see instructions. Otherwise, enter the taxable income from your 2005 Form 40, line 28; or Form 40S, line 12. If -0- or less, see instructions..... 13
- 14 Enter the amount from line 6 14
- 15 Add lines 13 and 14. If -0- or less, enter -0- 15
- 16 Figure the tax on the amount on line 15 using the 2005 Tax Tables or Tax Rate Charts, whichever applies (or fill in recomputed tax from Schedule Z, see instructions)..... 16
- 17 Add lines 4, 8, 12, and 16..... 17

Computation of 2006 Tax

- 18 **2003 tax.** If you used FIA to figure your tax for 2005, enter the amount from your 2005 FIA-40, line 12; FIA-40N, line 12; or FIA-40P, line 11. If you did not use FIA in 2005 but did in 2004, enter the amount from 2004 FIA-40, line 16; FIA-40N, line 13; or FIA-40P, line 12. If you did not use FIA in 2005 or 2004 but did in 2003, enter the amount from 2003 FIA-40, line 4; FIA-40N, line 9; or FIA-40P, line 8. Otherwise, enter the tax from your 2003 Form 40, line 30 or 31; Form 40S, line 13; or Form 40N or 40P, line 51 or 52..... 18
- 19 **2004 tax.** If you used FIA to figure your tax for 2005, enter the amount from your 2005 FIA-40, line 16; FIA-40N, line 13; or FIA-40P, line 12. If you did not use FIA in 2005 but did in 2004, enter the amount from 2004 FIA-40, line 4; FIA-40N, line 9; or FIA-40P, line 8. Otherwise, enter the tax from your 2004 Form 40, line 29 or 30; Form 40S, line 13; Form 40N or Form 40P, lines 51 or 52 19
- 20 **2005 tax.** If you used FIA to figure your tax for 2005, enter the amount from your 2005 FIA-40, line 4; FIA-40N, line 9; or FIA-40P, line 8. Otherwise, enter the tax from your 2005 Form 40, line 29; Form 40S, line 13; or Form 40N or 40P, line 51 20
- 21 Add lines 18, 19, and 20..... 21
- 22 Line 17 minus line 21. Enter the result here and on Form 40, line 29, and check box 29b..... 22

INSTRUCTIONS FOR 2006 FORM FIA-40 Farm Income Averaging

You may elect to figure your 2006 tax by averaging, over the previous three years (base years), all or part of your 2006 taxable farm income.

You will need copies of your original or amended Oregon income tax returns for tax years 2003, 2004, and 2005. You can obtain copies of prior years' returns for a fee from the Oregon Department of Revenue. You will also need tax booklets for those years. You can download forms and instructions from our website or see Taxpayer Assistance on page 6 for numbers to call.

If you filed an Oregon part-year or nonresident return in any of the three base years, you will need Schedule Z, Computation of Tax, to complete Form FIA-40. If any of the three base years are part-year or nonresident returns, ignore the computation of tax for the applicable year on Form FIA-40 and complete Schedule Z. Fill in the computed tax from Schedule Z on lines 8, 12, and 16.

Elected farm income

Your elected farm income is the amount of your taxable income from farming that you elect to include on Form FIA-40, line 2. This is the amount on federal Schedule J, line 2, if you elect to use farm income averaging for federal. Do not enter more than the amount on Form FIA-40, line 1.

To figure elected farm income, first figure your taxable income from farming. Taxable income from farming includes all income, gains, losses, and deductions attributable to any farming business. Gains and losses from the sale or other disposition of property (other than land) must be from property regularly used for a substantial period of time in your farming business. However, it does not include gain from the sale or other disposition of land. You do not have to include all of your taxable income from farming on Form FIA-40, line 2.

Your elected farm income cannot exceed your Oregon taxable income. Also, the portion of your elected farm income treated as a net capital gain cannot exceed the smaller of your total net capital gain or your net capital gain attributable to your farming business. If your elected farm income includes net capital gain, you must allocate an equal portion of the net capital gain to each of the base years.

If, for any base year, you had a capital loss that resulted in a capital loss carryover to the next tax year, do not reduce the elected farm income allocated to that base year by any part of the carryover.

Farming business

A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

- Operating a nursery or sod farm.
- Raising or harvesting of trees bearing fruits, nuts, or other crops.
- Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots).
- Raising, shearing, feeding, caring for, training, and managing animals.
- Leasing land to a tenant engaged in a farming business, but **only** if the lease payments are based on a share of the tenant's production (not a fixed amount).
- Wages and other compensation you received as a shareholder in an S corporation engaged in a farming business.

A farming business does not include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else, or
- Merely buying or reselling plants or animals grown or raised by someone else.

Line instructions

Line 5, 2003 taxable income. If you used FIA-40 to figure your tax for 2005, enter on line 5 the amount from your 2005 FIA-40, line 11. If you used Schedule Z to figure your tax for 2005 on FIA-40, FIA-40N, or FIA-40P, enter on line 5 the amount from your 2005 Schedule Z, Computation for Tax Year 2003. If you used Computation A, use the amount on line 9. If you used Computation B, use the amount on line 6. If you used Computation C, use the amount on line 3.

If you used FIA-40 to figure your tax for 2004 but not 2005, enter on line 5 the amount from your 2004 FIA-40, line 15. If you used Schedule Z to figure your tax for 2004 on FIA-40, FIA-40N, or FIA-40P, enter on line 5 the amount from your 2004 Schedule Z, Computation for Tax Year 2003. If you used Computation A, use the amount on line 9. If you used Computation B, use the amount on line 6. If you used Computation C, use the amount on line 3.

If you used FIA-40 to figure your tax for 2003 but did not for 2004 or 2005, enter on line 5 the amount from your 2003 FIA-40, line 3. If you used FIA-40N, enter the amount from your 2003 FIA-40N, line 8. If you used Form FIA-40P, enter the amount from your 2003 FIA-40P, line 6.

If your 2003 taxable income was -0- or less, use the worksheet below to figure the amount to enter on Form FIA-40, line 5.

NOL means *net operating loss* and applies to the year of the actual loss. **NOLD** means *net operating loss deduction* and applies to the year the NOL is carried to.

2003 Taxable Income Worksheet

- 1. Figure the taxable income from your 2003 tax return without limiting it to -0-. Include any NOLD carryovers or carrybacks if you did not have a NOL in 2003. Do not include any NOLD carryover or carryback from other years if you had a NOL in 2003. Enter the result here \$ _____
- 2. If there is a loss on your 2003 federal Schedule D, line 18, add that loss (as a positive amount) and your 2003 capital loss carry-over to 2004. Subtract from that sum the amount of the loss on your 2003 federal Schedule D, line 17a. Enter the result here..... \$ _____
- 3. If you had an NOL for 2003, enter it as a positive amount here. Otherwise, enter the portion (if any) of the NOLD carryovers and carrybacks to 2003 that were not used in 2003 and were carried to tax years after 2003 as a positive amount here \$ _____
- 4. Add lines 1, 2, and 3. Enter the result here, and on Form FIA-40, line 5..... \$ _____

Line 9, 2004 taxable income. If you used FIA-40 to figure your tax for 2005, enter on line 9 the amount from your 2005 FIA-40, line 15. If you used Schedule Z to figure your tax for 2005 on FIA-40, FIA-40N, or FIA-40P, enter on line 9 the amount from your 2005 Schedule Z, Computation for Tax Year 2004. If you used Computation A, use the amount on line 9. If you used Computation B, use the amount on line 6. If you used Computation C, use the amount on line 3.

If you used FIA-40 to figure your tax for 2004 but not for 2005, enter on line 9 the amount from your 2004 FIA-40, line 3. If you used FIA-40N enter the amount from your 2004 FIA-40N, line 8. If you used FIA-40P enter the amount from your 2004 FIA-40P, line 6.

If your 2004 taxable income was -0- or less, use the worksheet below to figure the amount to enter on Form FIA-40, line 9.

2004 Taxable Income Worksheet

- 5. Figure the taxable income from your 2004 tax return without limiting it to -0-. Include any NOLD carryovers or carrybacks if you did not have a NOL in 2004. Do not include any NOLD carry-over or carryback from other years if you had a NOL in 2004. Enter the result here..... \$ _____

- 6. If there is a loss on your 2004 federal Schedule D, line 21, add that loss (as a positive amount) and your 2004 capital loss carry-over to 2005. Subtract from that sum the amount of the loss on your 2004 federal Schedule D, line 16. Enter the result here \$ _____
- 7. If you had an NOL for 2004, enter it as a positive amount here. Otherwise, enter the portion (if any) of the NOLD carryovers and carrybacks to 2004 that were not used in 2004 and were carried to tax years after 2004 as a positive amount here \$ _____
- 8. Add lines 5, 6, and 7. Enter the result here and on Form FIA-40, line 9 \$ _____

Line 13, 2005 taxable income. If you used FIA-40 to figure your tax for 2005, enter on line 13 the amount from your 2005 FIA-40, line 3. If you used FIA-40N enter the amount from your 2005 FIA-40N, line 8. If you used FIA-40P enter the amount from your 2005 FIA-40P, line 6.

If your 2005 taxable income was -0- or less, use the worksheet below to figure the amount to enter on Form FIA-40, line 13.

2005 Taxable Income Worksheet

- 9. Figure the taxable income from your 2005 tax return without limiting it to -0-. Include any NOLD carryovers or carrybacks if you did not have a NOL in 2005. Do not include any NOLD carry-over or carryback from other years if you had a NOL in 2005. Enter the result here..... \$ _____
- 10. If there is a loss on your 2005 federal Schedule D, line 21, add that loss (as a positive amount) and your 2005 capital loss carryover to tax year 2006. Subtract from that sum the amount of the loss on your 2005 federal Schedule D, line 16. Enter the result here \$ _____
- 11. If you had an NOL for 2005, enter it as a positive amount here. Otherwise, enter the portion (if any) of the NOLD carryovers and carrybacks to 2005 that were not used in 2005 and were carried to tax years after 2005 as a positive amount here \$ _____
- 12. Add lines 9, 10, and 11. Enter the result here and on Form FIA-40, line 13 \$ _____

Example 1. Kevin Crooper did not income average for tax year 2003 or 2004 but he did income average for tax year 2005 and he wants to income average for tax year 2006. For tax years 2003, 2004, and 2005 Kevin filed joint returns. His filing status for tax year 2006 is also married filing jointly. For tax year 2003, Kevin's taxable income from Form 40, line 28 is \$1,112. For tax year 2004, Kevin's taxable income from Form 40, line 28 is \$14,250. For tax year 2005, Kevin's taxable income from Form 40, line 28 is \$12,777. For tax year 2006, Kevin's taxable income from Form 40, line 28 is \$27,900 and his elected farm income is \$24,000. For the tax years above, he has no net operating losses, no net operating carryforwards or carrybacks and no capital losses.

Kevin income averaged for tax year 2005. Kevin had \$12,777 of taxable income and elected to farm income average \$9,000, leaving Oregon taxable income on his 2005 form FIA-40, line 3, of \$3,777. For 2003, Kevin's recomputed taxable income after adding one-third of elected farm income from his 2005 Form FIA-40, line 11 is \$4,112. For 2004, Kevin's recomputed taxable income after adding one-third of his elected farm income from his 2005 Form FIA-40, line 15 is \$17,250. For 2005, Kevin's recomputed tax after removing his elected farm income is \$188 from 2005 Form FIA-40, line 4.

For tax year 2006, Kevin's Oregon taxable income is \$27,900. On line 2 Kevin enters his elected farm income of \$24,000. He subtracts line 2 from line 1 and enters \$3,900 on line 3. This is his remaining Oregon taxable income. He calculates his 2006 Oregon tax using the tax tables under married filing joint status and enters \$198 on line 4.

For 2003, Kevin enters \$4,112 from line 11, 2005 Form FIA-40 on line 5 of the 2006 Form FIA-40. He divides his elected farm income of \$24,000 by 3 and enters \$8,000 on line 6 of the 2006 Form FIA-40. He adds lines 5 and 6 and enters \$12,112 on line 7. This is his recomputed 2003 Oregon taxable income. He calculates his 2003 Oregon tax using the 2003 tax tables under married filing joint status and enters \$749 on line 8.

For 2004, Kevin enters \$17,250 from line 15, 2005 Form FIA-40 on line 9 of the 2006 Form FIA-40. He enters \$8,000 from line 6 (2006 Form FIA-40) on line 10 of the 2006 Form FIA-40. He adds lines 9 and 10 and enters \$25,250 on line 11. This is his recomputed 2004 Oregon taxable income. He calculates his 2004 Oregon tax using the 2004 tax tables under married filing joint status and enters \$1,909 on line 12.

For 2005, Kevin enters \$3,777 from line 3, 2005 Form FIA-40 on line 13 of the 2006 Form FIA-40. He enters \$8,000 from line 6 (2006 Form FIA-40) on line 14 of the 2006 Form FIA-40. He adds lines 13 and 14 and enters \$11,777 on line 15. This is his recomputed 2005 Oregon taxable income. He calculates his 2005 Oregon tax using 2005 the tax tables under married filing joint status and enters \$717 on line 16.

On his 2006 Form FIA-40, he adds lines 4, 8, 12, and 16 and enters \$3,573 on line 17. He enters his recomputed 2003 tax of \$208 from 2005 Form FIA-40, line 12 on line 18 of the 2006 Form FIA-40. He enters his recomputed 2004 tax of \$1,189 from 2005 Form FIA-40, line 16 on line 19 of the 2006 Form FIA-40. He enters his recomputed 2005 tax of \$188 from 2005

Form FIA-40, line 4 on line 20 of the 2006 Form FIA-40. He adds lines 18, 19, and 20 and enters \$1,585 on line 21. This is the recomputed tax he paid for the 2003, 2004, and 2005 tax years.

He subtracts the recomputed tax of \$1,585 on line 21 from the recomputed tax of \$3,573 on line 17 and enters the result of \$1,988 on line 22. This is Kevin's 2006 tax liability from farm income averaging. He enters this figure on Form 40, line 29, and checks box 29b.

Example 2. John Farmington did not use farm income averaging for 2003, 2004, or 2005. For tax year 2006, John has elected farm income on Form FIA-40, line 2 of \$18,000. His Oregon taxable income shown on his 2003 Form 40, line 28, is \$6,150.

John had a net operating loss (NOL) for tax year 2004 of \$22,950, which he elected to carryback five years. Of the \$22,950 loss, \$9,000 was carried back to tax year 2003. To complete line 1 of the 2003 worksheet, John combines the \$9,000 net operating loss deduction (NOLD) with his 2003 Oregon taxable income of \$6,150 from Form 40, line 28. The result, a negative \$2,850, is entered on line 1 of the 2003 worksheet.

When John filed his 2003 tax return, he had a \$3,000 net capital loss deduction on federal Schedule D, line 18, a \$7,000 loss on federal Schedule D, line 17a, and a \$4,000 capital loss carryover to 2004. However, when John carried back the 2004 NOL to 2003, he refigured his 2003 capital loss carryover to tax year 2004 as \$7,000. To calculate line 2 of the 2003 worksheet, John adds the \$3,000 from federal Schedule D, line 18, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his federal Schedule D, line 17a, and enters \$3,000 on line 2 of the 2003 worksheet.

John had \$6,150 of Oregon taxable income in 2003 that reduced the 2004 NOL carryback. The \$3,000 net capital loss deduction also reduced the amount of the 2004 NOL carryback. Since these two figures together total \$9,150, there is no NOLD left to carry over to tax year 2005. Therefore, John enters -0- on line 3. John adds line 1, a negative \$2,850, line 2, a positive \$3,000, and line 3. He enters the result, a positive \$150, on line 4 of the worksheet and on 2006 Form FIA-40, line 5. This figure represents John's recomputed Oregon taxable income for tax year 2003.

For tax year 2004, John's taxable income from Form 40, line 28 is negative \$30,250, which he enters on line 5 of the 2004 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 21 and a \$7,000 loss on Schedule D, line 16, the carryover from 2003 to 2004. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on Schedule D, line 16, and enters \$3,000 on line 6 of the worksheet. John enters \$22,950 on line 7 of the worksheet, his 2004 NOL.

John adds lines 5, 6, and 7 ($< \$30,250 > + \$3,000 + \$22,950$) and enters the result, a negative \$4,300, on line 8 of the worksheet and on 2006 Form FIA-40, line 9. This figure

represents John's recomputed Oregon taxable income for tax year 2004.

For tax year 2005, John's taxable income from Form 40, line 28 is negative \$1,750. This amount includes an NOLD of \$2,300 which was the portion of the 2004 NOL that was remaining to be carried forward from tax year 2003. John does not have an NOL for tax year 2005. John enters a negative \$1,750 on line 9 of the 2005 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 21, a \$7,000 loss on Schedule D, line 16, and a \$5,000 capital loss carryover to 2005 (his 2004 capital loss carryover to 2005 was \$5,000, not \$4,000, because his federal taxable income before exemptions was a negative \$1,000). John adds

the \$3,000 from Schedule D, line 21, and the \$5,000 carryover. He reduces the result by the \$7,000 loss on his Schedule D, line 16, and enters \$1,000 on line 10 of the 2005 worksheet.

John enters -0- on line 11 of the worksheet because he does not have an NOL for 2005 and did not have any remaining NOLD to carryforward. John's \$2,300 NOLD for 2005 was reduced to -0- because it did not exceed his federal AGI as modified for the capital loss deduction, the net operating loss, and the standard or recomputed itemized deductions. John adds lines 9, 10, and 11 ($< \$1,750 > + \$1,000 + \$0$), and enters the result, a negative \$750, on line 12 of the worksheet and on 2006 Form FIA-40, line 13. This figure represents John's recomputed Oregon taxable income for tax year 2005.

Taxpayer assistance

Internet

www.oregon.gov/DOR



- Download forms and publications
- Get up-to-date tax information
- E-mail: questions.dor@state.or.us

This e-mail address is not secure. Do not send any personal information. General questions only.

Correspondence



Write to: Oregon Department of Revenue, 955 Center St NE, Salem OR 97301-2555. Include your Social Security number and a daytime telephone number for faster service.

Field offices

Get forms and assistance at these offices. **Don't send your return to these addresses.**

Bend 951 SW Simpson Avenue, Suite 100

Eugene 1600 Valley River Drive, Suite 310

Gresham 1550 NW Eastman Parkway, Suite 220

Medford 3613 Aviation Way, #102

Newport 119 NE 4th Street, Suite 4

North Bend 3030 Broadway

Pendleton 700 SE Emigrant, Suite 310

Portland 800 NE Oregon Street, Suite 505

Salem Revenue Building, 955 Center Street NE, Room 135

Salem 4275 Commercial Street SE, Suite 180

Tualatin 6405 SW Rosewood Street, Suite A

Telephone

Salem 503-378-4988
Toll-free from Oregon prefix..... 1-800-356-4222

Call one of the numbers above to:

- Check on the status of your 2006 personal income tax refund (beginning February 1).
- Order tax forms.
- Hear recorded tax information.



For help from Tax Services, call one of the numbers above:

Monday through Friday 7:30 a.m.–5:00 p.m.
Closed Thursdays from 9:00 a.m.–11:00 a.m. Closed on holidays.

Extended hours during tax season:

April 2–April 16, Monday–Friday 7:00 a.m.–7:00 p.m.
Saturday, April 14 9:00 a.m.–4:00 p.m.
Wait times may vary.

Asistencia en español:

Salem 503-945-8618
Gratis de prefijo de Oregon..... 1-800-356-4222

TTY (hearing or speech impaired; machine only):

Salem 503-945-8617
Toll-free from Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers for information in alternative formats

To get forms

Income tax booklets are available at many post offices, banks, and libraries. For booklets and other forms and publications, you can also access our website, order by telephone, or write to: Forms, Oregon Department of Revenue, PO Box 14999, Salem OR 97309-0990.