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YEAR-END TAX MANAGEMENT TIPS

by

Stan Falke and G. Ray Prigge

Tax management is an important part of good farm business management. The objective of the progressive farm business manager is to minimize his income taxes while maximizing after tax income. To do so he must have a knowledge of the tax consequences of farm business decisions made throughout the year. He need not be a tax expert but he must know enough about taxes to recognize the tax consequences of a farm business decision and to know when to call a tax consultant for advice. Income taxes, like other farm production costs, can be reduced by good management and can result in more money available for family living and for increasing net worth. A good tax manager finds complete and accurate records indispensable as he makes his business decisions throughout the year.

The purpose of todays program is to look at and evaluate opportunities for increasing after tax net income through effective year-end tax planning. Significant reductions in income taxes can be achieved via year-end tax planning procedures. However it is also very desirable to undertake a program of tax management planning and activities throughout the entire tax year rather than waiting to year-end. Such delay can only reduce the effectiveness of your tax advisor in helping you to take advantage of opportunities for achieving your personal farm income goals.

Tax Tips	Applies To	Remarks
1. Buying a Farm	Purchaser:	Reduce taxes by assigning value to fencing buildings, machinery, irrigation ditches and equipment, growing crops, livestock, water systems, etc. Depreciate each and where appropriate take investment credit.
	Seller:	Avoid depreciation recapture and maximize capital gain by assigning low value to depreciable assets and high value to land. Value crops sold with the farm at low values to possibly obtain ordinary loss.
2. Pay Wages to Children	Family members with a true employee-employer relationship	Assign definite jobs or responsibilities and pay regularly by check. Wages paid by parents to child under 21 are not subject to Social Security tax. Child can qualify for a personal exemption as can the parent paying for over 1/2 of the child's support. Children and others can certify to employer that they expect to have no tax liability and thus avoid withholding of Federal income taxes.
3. Gift Income Producing Property	Give to Children	Children report income from gift of land, cattle, machinery, partnership interest, etc. Spreads income over the lower brackets. May be important method for reducing future estate tax liabilities.
4. Postpone Income to Retirement	Persons aged 63 or 64	Postponement of income till 65 can reduce taxes by gaining the double personal exemption and by having lower retirement income. Problem: One may wish to retain net income at a higher level to obtain a higher Social Security retirement income later.
5. Qualify for Retirement Income Credit	Persons retired or approaching retirement	Plan for more income from rents, dividends, interest and pensions which qualify for the retirement income credit.
6. Reduce Annual Fluctuation in Income	Farmers whose profits fluctuate from year to year	Buy machinery and equipment in years of high income and take the additional 20% first year depreciation plus regular depreciation and investment credit. Accelerate expenses by prepaying costs such as feed, seed, fertilizer.
7. Report Timber Sales as Capital Gains	Sellers of timber	If you sell or harvest and sell timber report the proceeds as captial gain. Make election to treat the cutting of timber as a sale.
8. Qualify other Sales as Capital Gains	Sellers of farm machinery and breeding and dairy stock.	Careful selling can result in capital gains or ordinary losses. Cattle and horses must be held for 24 months or more, other livestock for 12 months or more, to qualify for capital gains treatment. Other items must be held for 12 months also.

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9. Plan Personal Deduction	Contributions and Medical Deductions	Many medical expenses or contributions that are normally spread over two years can be paid in one year and itemized as deductions. In the next year, the standard deduction may be taken if higher than actual deductions. Choose the largest of 1) the standard deduction 2) the low income allowance and 3) your actual itemized deductions.
10. Utilize Personal Deductions	Low income years	Plan to have enough income to use up personal deductions and exemptions that are allowed.
11. Evaluate Accelerated Depreciation	Purchasers of newly acquired machinery, equipment and improvements	Decide whether to recover costs quickly or spread them out against farm production over a longer period.
12. Carry Contract for Sale of Farm	Sellers of farmland	Consider using installment sales of property to spread income over a period of years and thus avoid high income in one year.
13. Check for an Unused Net Operating Loss Deduction	Losses in past years	Check for net operating losses in past years. If you have records to substantiate your losses, file for a refund.
14. File Tax Estimate	Farmers desiring additional time to evaluate and prepare returns	Filing an estimate by January 15 relieves the pressure on farm tax consultants allowing them time to improve the completeness and accuracy of your farm returns - generally saving the taxpayer taxes.
15. Net Operating Loss Election	Farmers expecting loss in current year	Carryback of Net Operating Loss may be forgone by proper election. Make election if you expect future years' income to be greater than the past three years.
16. Avoid Double Counting Government Loans	Commodities Under Loan	Be sure that Government commodity loans are not counted as income twice - in the year when borrowed and again in the year when sold. IRS allows income to be counted in either year, but farmers must be consistent with prior years when making election.
17. Earned Income Credit	Individuals who provide over 1/2 of cost of maintaining household for himself and a child who is under 19 or full time student	Amount of credit is 10% of earned income up to 4,000. The maximum credit of 400 (10% of 4,000) is reduced by 10% of earned income exceeding 4,000. Thus, the credit phases out at earned income level of 8,000.

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18.	Investment Credit	Farmers purchasing personal depreciable property used in trade or business	Investment credit can be taken in year qualified asset is purchased. Qualified assets purchased in December qualify for current year investment credit.
19.	Keep records of Room & Board Provided to Employees	Farmers with employees	Room & Board provided to employees (other than family members) are deductible for the farmer and not taxable to the employee.
20.	Avoid penalty on undeposited social security and income taxes withheld.	Farmers with employees	Deposits are required when social security taxes (both employer & employee's share) plus income tax withheld exceeds $200.00. 5% penalty imposed if deposits are not made as required.
21.	Deduct Office at Home Expense	Farmers who have office set up in personal residence	Pro rata share of depreciation on house, telephone expense, utilities expense, repairs, insurance, etc., can be claimed if office is used exclusively for business purposes. Expenses cannot exceed gross income of business to which office is alloted.
22.	Use per diem mileage allowance instead of actual expenses	Farmers using auto or pick-up in farm business	Takes place of depreciation, operating expenses, etc. This method often gives more deductible expense than deducting actual expenses. Allowance is 17¢/mile up to 15,000 miles and 10¢/mile thereafter. IRS allows taxpayers to switch back and forth between two methods as long as straight line depreciation is used.
23.	Make maximum use of new jobs credit	Farmers with employees	The credit is based on the first 4,200 of each additional employees salary but other limitations may lower the allowable credit.
24.	Defer gain on Sale of Personal Residence	Sellers of farms which included a residence	Gain on sale of a personal residence can be deferred if a new personal residence is occupied within 18 months. For persons over 65, the gain will be exempt from tax if the selling price is 35,000 or under. If the selling price is over 35,000 a portion of the gain is exempt.