

# Make it less taxing



**Editor's note:** Kent Vickre and Dwight Raab write a tax and finance column for each issue of *Pioneer GrowingPoint®* magazine. Vickre is state coordinator of the Iowa Farm Business Association. Raab is state coordinator of Illinois Farm Business Farm Management. They address issues that influence agribusiness success.



**A**s the end of 2009 approaches, producers might want to place recordkeeping and tax management needs at the top of the “to do” list.

It's hard to make a blanket statement to sum up 2009 financially. Was it great, good or awful? Profitability depended on many variables (price, yield, input costs, etc.). These levels fluctuated greatly this year. In addition, some livestock enterprises experienced very tight cash flows. With the great variation in incomes this year, it's essential to review your records and develop a good tax plan before Dec. 31.

The goal of a good tax plan is to minimize the total tax liability incurred over time. In general, you can do this by leveling income to use the lower tax brackets and avoiding a large income fluctuation that would push you into a higher bracket.

### Managing your income

Some years you may want to “adjust” this income, depending on specific situations. These may include tight cash flow, Social Security earning limits, college financial aid or use of

tax exemptions and credits. Below are some common examples for cash-basis farmers to use if they need to adjust farm income:

- **Prepay operating inputs.** Be sure to specify a quantity and price. Remember: Prepaid expenses are limited to 50 percent of deductible expenses.
- **Defer crop insurance proceeds.** You may elect to defer income to the following year if you normally sell in the following year.
- **Pay children a reasonable wage for farm work.** You don't have to pay Social Security tax for your children under age 18. However, you're required to file the appropriate payroll tax forms.
- **Pay any accrued interest.**
- **Consider income averaging.** Depending on your prior years' taxable income, the income averaging election may decrease your tax liability.
- **Give to charity.** If you itemize, consider doubling church and charity contributions or state income tax by paying in December instead of the following year.

# End-of-year planning can help you adjust income and control 2009 and future taxes.

- **Review CCC loan tax treatment.** If you have “sealed grain” carrying over at year end, simply electing to change the tax treatment may increase or decrease your taxable income. You may need to file additional forms with your return.
- **Consider purchasing needed capital assets.** You might buy items such as equipment, buildings or breeding livestock. However, just because it’s tax deductible doesn’t mean it will make your business more profitable. Consider the financial impact of purchasing an asset and using one of the depreciation options listed in “Depreciation options.”

## Fund a retirement account

Another way to manage your tax liability for 2009 is to fund your retirement account, either an IRA, a SEP or a Keogh. Because some plans must be set up prior to year end, be sure to check into this now. The limits for 2009 for the traditional deductible retirement accounts are:

**Traditional IRA.** These are available to any individual under the age of 70½ with earned income. For 2009, the maximum contribution is \$5,000 or your earned income (whichever is less). Additionally, a non-working spouse can put up to \$5,000 into a spousal IRA. For individuals age 50-plus, an additional \$1,000 “catch up” contribution is allowed. This increases the limit to \$6,000.

However, be aware of income phase-out limits. These limits differ depending on filing status (married filing joint, head of household, single, etc.) and the type of IRA (traditional or spousal). For example, if you’re married filing a joint return and were eligible to participate in any employer sponsored plan, such as a 401, the IRA contribution drops when your income exceeds \$89,000.

**SEP and Keogh.** These retirement

plans may permit greater contributions and deductions. However, you’ll generally run into provisions requiring contributions for other employees who meet certain minimum qualifications. The deduction is limited to a percentage of net self-employed income minus the self-employment tax deduction for a self-employed individual or a percentage of wages for an employee.


Currently, the maximum is 20 percent for a self-employed individual and 25 percent of wages for an eligible employee with a maximum limit of \$49,000. However, certain plans already established may have different contributions percentages and limits.

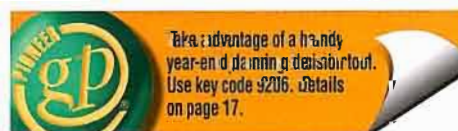
## What’s the best choice?

Perhaps the most difficult part of tax planning is to decide on your “optimum” taxable level. It’s important to review your current profit. You should consider both taxable income and accrued income when making financial management decisions.

- Taxable income is your income reported on the tax return.
- Accrued income is calculated using inventory change and economic asset depreciation. This method best reflects your “earned income.”

By comparing both of these incomes, you can gauge how much tax liability you’re shifting into coming years. This should help you decide on an optimum income level to use for your tax planning.

Remember: Tax planning should only be one part of your financial management. A good financial management system should be a year-round process starting with a good, detailed recordkeeping system. 



## Depreciation options

Here are some options for claiming depreciation on assets. The one you choose may impact your tax liability this year and in coming years.

1. “Bonus Depreciation” for purchased capital assets. An additional first-year depreciation deduction equal to 50 percent of adjusted basis for qualified property is available for both regular and AMT tax in 2009.

To qualify, a property generally must be:

- MACRS (Modified Accelerated Cost Recovery System) property with 20 years or less recovery period
- Original use required by taxpayer (a new requirement)
- Placed in service tax year 2009.

2. Use the “quick write off” depreciation for purchased capital assets. For 2009, the Section 179 deduction increases to \$250,000. The 179 election is limited to qualified capital purchases for items such as equipment, grain bins or breeding livestock with a dollar-for-dollar phase-out starting at \$800,000. Qualified items that exceed the \$250,000 limit are eligible for regular depreciation.

3. New Life Classification for 2009. The previous seven-year property is now five-year property. Under the 2008 Extenders Act, operators can classify certain machinery or equipment used in a farming business as property with a five-year MACRS recovery period. To qualify for the five-year treatment, the property must meet the following requirements:

- Original use must begin with the taxpayer after Dec. 31, 2008.
- Property must be placed in service before Jan. 1, 2010.
- The property cannot be a grain bin, cotton ginning asset, fence or other land improvement. 