Tax Review

Six strategies to consider to assist with tax time.

by Kindra Gordon, field editor

"It's a wheel that may not squeak very loud most of the year, but this time of year you need to give it your attention," says Dan Childs, an ag economist with the Noble Research Institute in Ardmore, Okla.

Childs is talking about tax season, which is looming as one year ends and another gets underway. He acknowledges most ag producers prefer to be outside doing projects on the farm or ranch as opposed to doing financial records in the office, but he advises, "The first thing that helps producers manage their taxable income is keeping a good set of books."

Childs underscores that tax planning can be critical to tax savings and long-term business success, and points out that tracking expenses and revenue throughout the year is needed to estimate what the operation's taxable income is going to be.

"That's powerful information to use for the rest of the year to help decide if any income or expenses should be generated before Dec. 31, or deferred until after the first of the year," he says.

Rather than postponing this number-crunching to a few hurried days at the end of the year, Childs suggests ag producers find a system of 30 to 60 minutes a few times a month to track income and expenses. "Make a commitment to get it done," he suggests.

Additional tactics

Along with putting a recordkeeping system in place, Childs says several other tactics may help create tax savings for the business. These include:

Keep business and personal expenses separated. Childs says a common mistake among ag producers is to be at a retail store like Walmart buying groceries while also purchasing a few pair of gloves, boots or tools to be used on the farm or ranch. Childs explains it is common to write one check and call it all groceries, when in actuality a few of those items can be business expenses.

"Be sure to capture and code correctly your business expenses throughout the year. If they are truly business expenses, keep record of those," he advises.

Track vehicle mileage for business purposes. For producers planning to deduct business expenses for vehicles, Childs says the safe harbor rule is to allow 75% of mileage. However, if producers keep a log book of vehicle use you may be able to claim as much as 100%, points out Childs.

Recognize capital gains tax timelines. For operations with breeding stock, Childs shares that selling animals after owning them for 24 months makes that income eligible for capital gains tax rates as opposed to regular income tax rates, which can be 10 to 15% higher. He recognizes it may not always work to own and sell animals after 24 months of ownership; but if it does, "It can be a substantial savings," Childs says of this strategy.

Consider using income averaging. Income averaging, which is a savings tool only available to farmers and fishermen, allows a farmer who has a high-income tax year to go back over the last three years and "fill up" unused lower tax brackets from those prior three years. Because a farmer's income can fluctuate wildly, this tax rule can be beneficial. It is used by filing a "Schedule J" with the farmer's tax return.

Discuss tax deferral options if crop or cattle payments were affected by weather-related events. For producers in areas eligible for federal disaster assistance, some deferral options are being offered. Producers should discuss this with their tax professional.

Work with professional advisors competent in agricultural taxation and agricultural issues. "This can be money well spent," Childs says. He notes that seeking counsel both for income tax preparation and estate succession planning can be helpful, but he emphasizes that it is important to work with someone who understands the issues unique to agriculture and farm families.

For more tax and estate planning resources, contact your state cooperative extension service or visit *www.noble.org*. AJ

Plan for estate transfer, too

In 2017, national tax legislation changes moved the exemption for estate taxes to more than $11 million per person, with unused portions of that transferable to a living spouse. Thus, for a married couple, there is a $22 million exemption, which greatly reduces the "death tax" burden many farm and ranch families faced.

That said, ag economist Dan Childs cautions farm and ranch families not to get complacent. He says, "Some people may think they don't need to plan because their estate is well below the $11 to $22 million valuation. But it is still important to have a plan in place so the estate goes to who you want it to, and so there is not excess probate cost or family contention afterwards."

He continues, "With estate planning there is a difference between transferring assets and transferring a business. If your goal is only to transfer assets, you need to plan and get the documents done. But if you are transferring an ongoing business, you must have the documents in place *and* bring the next generation in to teach them about the business."

Childs suggests a trust can be a useful tool to convey assets to successors, but setting up a trust still requires a lot of planning — it must be funded, successors and beneficiaries must be identified, and titles on land and other assets must be changed and put into the trust. Even with a trust, a will may still be needed for items that are not within the trust.

Childs encourages parents, "Please go through the estate planning process. Communicate with your heirs, talk about your ideas of transfer and listen to them, and make it as non-eventful as possible — that requires planning and communication."

He notes, "Children tend to respect mom and dad's decisions even though they may not like them. But if you leave assets among children to sort out, sometimes it can cause wedges in relationships that are never repaired."