



Don't Drown in Paperwork

Develop a system and a measure of discipline to keep your head above water at tax time.

Story & photos by Troy Smith, field editor

Boot boxes actually work pretty good. Quite a few farmers and ranchers bring their paperwork in boot boxes,” says tax preparation professional Amy Sullivan. “One client always delivers it in a metal 9-by-13 cake pan with a lid. Another has brought us ledger sheets rolled up and stuffed inside cardboard tubes from rolls of paper towels. We’ve had whole drawers from file cabinets brought in, and then some people bring Walmart bags stuffed with wadded-up receipts.”

Sullivan has seen just about everything imaginable in 36 years of preparing taxes for people in all walks of life. She owns two offices, in Ord and Broken Bow, Neb., which serve clients in several rural counties. A good many of those clients are engaged in agriculture, either part- or full-time.

“Usually, you can tell which clients have a pretty good handle on their business — the

ones that work at it consistently throughout the year. Others try to do it all in January, or later, for the previous year,” tells Sullivan.

“Those that do the best job of it have some kind of system. And some throw everything in the same sack and bring it to us at the last minute. It’s better to have a system.”

University of Nebraska Extension Economist Jessica Groskopf agrees, but she also knows that it’s sometimes easier said than done. Groskopf and her husband farm and ranch near Scottsbluff, so she knows ag producers handle a lot of invoices, receipts and other business documents. She occasionally retrieves receipts from the floorboards or under the seat of her husband’s pickup. That kind of thing happens sometimes. That’s reality.

“I think we’ve all had those moments when we need to find something and it never made it to the office,” says Groskopf grinning. “All production and financial

recordkeeping systems start with managing your paperwork. We need a system that allows us to file it fast and find it easily.”

What’s important?

While records can serve a variety of purposes, including making savvy business decisions, it’s also necessary for tax purposes. Groskopf recommends looking at the Internal Revenue Service (IRS) Form 1040 Schedule F to see how the IRS categorizes income and expenses. The *Farmer’s Tax Guide* (IRS Publication 225) explains how federal tax laws apply to ag businesses. It contains information about related income and expenses, including what kind of expenses are or are not allowed as business deductions. A tax accountant also can be a valuable source of information.

Generally speaking, says Groskopf, producers need supporting business documents showing the sources and



amounts of income received. For sales of livestock, for example, documentation should show how many animals were sold at what price, along with the name of the buyer or commission firm and the date of sale. Documentation of expenses must indicate the payee, amount paid, proof of payment and date of the transaction, along with a description of the item purchased or service received.

“Bank and credit card statements are not enough to satisfy the IRS,” warns Groskopf.

According to Groskopf, many producers have a goal to implement a better filing system for documentation. When asked what she recommends, Groskopf reminds producers there is no one-size-fits-all filing system.

Some people just assume it has to be file folders contained in a big cabinet, but that’s not necessarily so. Groskopf has seen very adequate filing systems that implement accordion files, Ziploc® plastic bags or even boot boxes. Some producers have adopted electronic or digital filing systems.

Dividing it out

“You can think outside the box and explore what works for you for collecting and storing your paperwork,” encourages Groskopf, reminding producers to also think about how to organize it. She suggests dividing files into four sections: active, current-year, on-file and non-farm.

- ▶ **Active files** are those used often, and their contents are moved to current-year files after monthly reconciliation.
- ▶ **Current-year files** are used only periodically, but still too often to be sent to long-term storage.

▶ **On-file or long-term storage** is for files that are seldom used but might need to be referenced occasionally.

▶ **Non-farm files** are for personal or family records not directly related to the farm or ranch operation.

Active files

Everything starts with active files, which should include some kind of ledger of accounts, whether it is part of a software accounting system

or a check register. However, active files would also include checks and cash for deposit, unpaid bills or invoices, and unreconciled documents such as bank statements. Also included in active files could be documents for which more information is needed.

Groskopf acknowledges that it’s easy to have paperwork pile up in whatever container is used as an “inbox,” so producers must exercise discipline in processing active files. Sharing a story about a friend’s bountiful garden, Groskopf says that friend keeps the garden virtually weed-free by devoting 20 minutes of each day to eliminating weeds — no more, but no less than 20 minutes daily.

“That’s something to consider when keeping records,” suggests Groskopf, noting how procrastination can turn weeding a garden or processing documents into an unbearable task.

“To manage your paper trail, try to set aside time every day or every week, to get it done,” Groskopf advises. “Remember that inboxes probably are the key to success, and it doesn’t have to be a box on the desk or even in the office. Those ugly, brown check folders available at any office supply store fit



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really well in the door pocket of a pickup.”

Collecting invoices and receipts in a folder or other inbox is the important first step, but they still have to be organized. While doing this, consider writing notes on receipts to help categorize the expenses for tax purposes.

Groskopf also advises keeping separate accounting for farm/ranch business and personal business. Don’t make a dumping ground of the inbox that is supposed to be the collection point for documents destined for farm/ranch active files. Consider maintaining a separate inbox for personal items.

To producers who don’t do it already, Groskopf recommends keeping separate accounting and separate checkbooks for the farm/ranch operation and personal/home use. Using different-colored checkbooks and credit cards may help avoid having personal expenses appear on business accounts or vice versa.

Security precautions

Groskopf notes that increasing numbers of producers are adopting digital filing systems to keep their documents in cloud-

Continued on page 182

based storage. This involves taking snapshots of invoices, receipts and other documents and emailing them to the chosen storage system.

However, there can be security concerns when using email and cloud-based storage. Groskopf recommends appropriate security precautions and particular care in protecting sensitive information such as bank account and social security numbers.

"The IRS will accept digital copies of documents (must be in printable format if IRS should request hard copies). So, if digital is the way you want to go, you don't have to keep the original paper copies," says Groskopf, "but think about the safety and security of your documents, and whether it's okay if your storage gets hacked."

Groskopf says her family's operation, like a majority of farm/ranch businesses, maintains a trail of real paper. She's learned that an important part of managing it is to "know what to throw." Many mailings received from businesses and banks include a lot of extra pages, promotions, sales pitches and other information not directly related to the purpose of the mailing. Discarding the extras early reduces the volume of paperwork that must be handled over time.

Ease of access to some important paperwork is necessary, but Groskopf warns that it can be a two-edged sword. Records need to be readily accessible to the user, but not to any Joe Schmo who walks into the farm/ranch office. She recommends consideration for security measures to protect sensitive personal information, whether it's included in paper or digital files. A lockbox or bank safety-deposit box is usually appropriate for some documents. If documents with private information are no longer needed, they should be shredded.

How long to save

When producers ask how long documents should be saved, Groskopf says, "It depends. Different kinds of documents have different lifespans."

Generally speaking, documents that should be kept on file permanently include tax returns for farm/ranch business entities, legal filings pertaining to those business

entities and proof of asset tax basis documents showing purchase prices, improvements and depreciation for assets such as land and equipment. The lengths of time it is necessary to keep warranty, loan or lease documents are variable, according to the terms of the specific warranty or agreement.

Supporting tax documents — the records of income and receipts for deductible expenses — probably should be kept for seven years, since an IRS audit can look back that far. Employment records (payroll and earnings) should be kept until four years from the year taxes are due or paid, whichever is later.

"But it does no good to have up to seven years of receipts if they're torn or crumpled

up, nasty and can't be read," states Groskopf, emphasizing the need to preserve the quality of documents.

Sullivan echoes that point, with a reminder that it starts with a disciplined approach to collecting the pieces and putting them in a safe place before they end up wet and sticky on the pickup floorboards. Sullivan jokes that she's finally got her contractor/farmer spouse trained.

"I give him a plastic file folder to carry in his pickup. He manages to get most of his receipts in there," says Sullivan. "It's taken most of three decades, but he's doing better." **ABB**

Editor's note: Troy Smith is a freelance writer and cattleman from Sargent, Neb.

Maintaining a check register: a lost art

A check register may be the primary ledger of accounts for many farmers and ranchers. However, University of Nebraska Extension Economist Jessica Groskopf fears maintaining an updated check register is becoming a lost art. Some people never use them. A few people aren't sure what a check register is.

Check registers are those little ruled check-size booklets that accompany every new package of checkbooks. They're free, and they're meant to be used as a handwritten record of payments and deposits for an individual bank account. According to Groskopf, the biggest benefit of a properly maintained check register is that it allows the user to see an accurate balance for the account. When maintained properly, it shows all transactions, including automatic withdrawals, fees and any interest an account may earn. The user can maintain a running balance, which may be compared against the monthly bank statement.

On some agricultural operations, however, the person writing checks is not the same person responsible for keeping the books and preparing tax returns. In such situations,



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it's very useful when the check writer records details of transactions in a check register.

"I like a two-line system, and it can also serve as a backup to digital accounting software," says Groskopf, explaining how the first line includes the check number, date, payee name and the amount. "On the second line, you write in the tax category and memo."

Two-line check registry systems also are useful to individuals using checks without carbon copies and when the bank doesn't provide scanned copies of checks with monthly statements. But a check register does little good if the user doesn't use it correctly and stay current.