



FARM TAXATION

SPECIAL ISSUES EFFECTING FARMERS

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Module Name: Special Issues in Farm Taxation

CASH VERSUS ACCRUAL METHOD OF ACCOUNTING



- CASH ACCOUNTING GIVES A FARMER MUCH MORE FLEXIBILITY IN TAX PLANNING AND ENABLES HIM TO USE THE SPECIAL TAX PLANNING OPPORTUNITIES DETAILED IN THIS PRESENTATION.
- THE PURPOSE OF AN "ACCRUAL" BASIS TAXPAYER IS TO CORRECTLY MATCH INCOME AND EXPENSES IN THE YEAR THAT IT IS PRODUCED.
- INCOME AVERAGING REDUCES THE NEGATIVE IMPACT OF "ACCRUAL" BASIS INCOME.
- CASH-BASIS TAXPAYERS SHOULD KEEP A SEPARATE SET OF "ACCRUAL" FINANCIAL STATEMENTS FOR MANAGEMENT DECISIONS. AN EXAMPLE IS KSU FARM MGT FINANCIAL REPORTS.

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Prepaid Expenses



- Deduction of purchases paid in the current year that will not be used until the following tax year
- Must meet the following tests to qualify:
 - a) Cash basis taxpayer
 - b) The pre-payment is for an actual purchase and not a deposit
 - c) The pre-payment has a business purpose and is not merely for tax avoidance
 - d) Deducting the pre-payment does not result in a material distortion of your income
 - e) Deduction limit (50% of farm expenses)

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Prepaid Expenses



- b) Criteria for purchase vs. deposit**
- Binding commitment to accept delivery of a specific quantity at a fixed price.
 - No right to refund of any unapplied payment credit at the end of the contract.
 - The seller cannot treat the payment as a deposit.
 - The seller cannot have the right to substitute other goods or products for those specified in the contract.

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Prepaid Expenses



- c) **Criteria that prepayment has a business purpose and is not merely for tax avoidance:**
- **Must have a reasonable expectation of receiving some business benefit by prepaying for the supplies.**

 - **Examples:**
 - **paying for seed to assure that you get the varieties you prefer or receive discounts.**
 - **fixing maximum prices and securing an assured feed supply.**
 - **securing preferential treatment in anticipation of a feed shortage.**
 - **purchasing fertilizer or chemical to lock in the price for economic purposes.**

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Prepaid Expenses



- d) **Determine that deducting the prepayment does not result in material distortion of your income.**
- **Is the expense your customary business practice?**
 - **Is the expense in relation to past purchases?**
 - **Is the expense in relation to your income for the year?**

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Prepaid Expenses



e) Deduction limit (50% of farm expenses)

- Your deduction for prepaid expenses may be limited to 50 percent of your other deductible farm expense for the year (all Schedule F deductions except for the prepays).

- **Exceptions:**
 - total prepaid expense for the prior 3 years is less than 50 % of the total deductible farm expense
 - If one can show an unusual change in your business operation.

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Promissory Note To Supplier



- If a farm producer pays for a farm input by giving the supplier a promissory note, the producer cannot claim a current deduction for the inputs.
 - Common examples:
 1. Seed
 2. Commercial feedlot bills
 3. Feed supplement

 - Deductible only when the promissory note is paid.

 - **Avoid limitation by financing from a third-party lender**



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Promissory Note Example #1



John farmer purchases seed costing \$30,000 from Biotech Seed Company. He paid for it with the proceeds of a loan obtained from First National Bank. Farmer can deduct the seed expense in the year of payment (assuming he satisfies the requirements of I.R.C. S464 and rev. Rul. 29-229).

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Promissory Note Example #2



John farmer purchases seed costing \$30,000 from Biotech Seed Company. He signs a promissory note directly with Biotech Seed Company for the \$30,000 amount of the purchase. He makes no cash payment in the year of purchase. According to rev. Rul. 77-257 and Chapman, Joe farmer will not be able to deduct the \$30,000 cost of the seed until the note is paid in cash.

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Promissory Note Example #3



John Farmer purchases seed costing \$30,000 from Biotech Seed Company. He signs a promissory note with Easy Finance Company, a lending subsidiary of Biotech Seed. He makes no payment on the note in the year of purchase. If Biotech were a partnership and Easy were a branch of that partnership, John Farmer would not be allowed to deduct the cost of the seed in the year of the payment. He could claim a deduction in future years as payments are made on the promissory note.

If Biotech is a corporation and Easy is a wholly owned subsidiary of Biotech, it is not clear whether John Farmer can deduct the cost of the seed in the year of purchase. John Farmer may be able to successfully distinguish these facts from rev. Rul. 77-257 since Biotech and Easy are separate corporate entities. However, the IRS could argue that Biotech's ownership of easy requires the note to easy to be treated the same as a note to Biotech.

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Promissory Note Observation



In reading the fine print of several of the big seed company's finance agreement with the seed company's finance subsidiary, it states that late payment or defaulting on the note also makes the farmer forfeit all early pay and/or volume discounts he received from the selling company. Giving a subsidiary company the right to collect extra money on a contract will likely give IRS authority to disallow the deduction until the note is paid.

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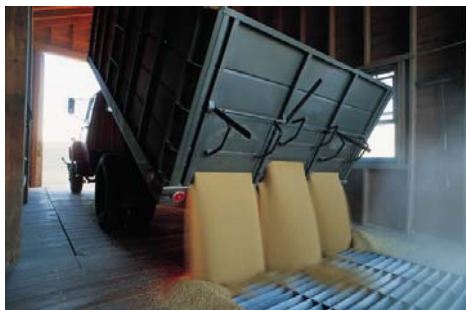
Promissory Note Problems



- **REMEMBER!**
 - **When a payment is made to a finance subsidiary in the year after the purchase, be sure to claim this as a deductible farm expense for seed or feed, or you may overlook the deduction.**

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Charitable Gifts Of Ag Commodities



Cash method farm operators have an opportunity to make “pre-AGI” charitable contributions of commodity inventory, which is readily marketable by the charitable recipient.



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Charitable Gifts Of Ag Commodities



- The increased standard deduction (\$ 10,900 for a married joint return) has eliminated the tax advantage of charitable contributions for many farmers.
- A charitable contribution of unsold inventory removes the income before recognition, and avoids the need to claim a charitable contribution as an itemized deduction. A charitable gift of commodities also decreases self-employment tax, since the donated inventory does not end up reported on Schedule F of the tax return.

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Commodity Charitable Gifts Example #1



- On Feb 1, 2008, Joe sells his 2007 bean crop and writes a \$ 3000 check as a donation to his church. This is his only charitable donation for the year and he cannot itemize, so the donation saves him no income tax.
- On Feb 1, 2008, Ted donates 600 bushels of his 2007 **soybeans worth \$ 3000 to his church**. Ted does not have to report the beans donated as income on his income tax return, so he has effectively received a deduction for the donation and has saved \$ 423 of self-employment tax for a **total savings of \$ 939** if he is in the 15 % Federal and 3.5% Kansas tax bracket.

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Commodity Contributions Mechanical Requirements



- The taxpayer **must be a cash basis farmer**. An accrual basis farmer receives no benefit because he must report income on the commodity as raised or must assign basis to the grain.
- A **two-step transaction** must be utilized by first transferring the grain to the charity with evidence of the transfer, then let the charity's representative sell the grain.
- Only applies to an active farmer, **not crop share landlords**. They trigger the assignment of income principle.
- Grain contributions are much easier to perfect than livestock.

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Non-charitable Commodity Gifts



- Same as Charitable Gift for Farmer. For the donee:
 - tax basis zero if raised grain carryover
 - a capital asset, thus not subject to self-employment tax
 - Will pay only federal and state income tax on the gift
- **Great Uses:**
 - Supporting parents of the taxpayer.
 - Assisting with college costs for children or grandchildren of taxpayer.
 - Moving income to donee in a lower tax bracket
 - be aware of kiddie tax for children.



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Non-charitable Commodity Gifts Tax Benefits



- There is no income recognition by the donor upon the gift of inventory.
- The farmer/donor avoids federal and state income tax on the value of the gift and also avoids self-employment tax.
- Commodity should be raised in a prior year.
- The donor's tax basis (zero if raised grain) carries over to the donee, but will be a capital asset in the hands of the donee, thus not subject to self-employment tax. Thus the donee will pay only federal and state income tax on the gift.
- Gift also acts to reduce donor's estate value.
- **Grain is much easier to gift than livestock.**

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AGRICULTURAL COMMODITY COMPENSATION



- Used to compensate wages for employees, not a gift
- A great tool for agricultural producers

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Commodity Compensation



- Benefits
 - Wages paid to agricultural employees in the form of commodities are not subject to FICA, FWHT, or FUTA.
 - FICA tax savings is the main motivation for commodity wages as it saves 7.65% for both the employer and the employee.
 - Ag labor paid in the form of commodities also does not count towards the \$ 20,000 quarterly threshold on cash wages which triggers FUTA tax on agricultural wages.

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Commodity Compensation



- Best for wages to:
 - children over 18 years of age
 - spouse, where the spouse is likely to draw SSA benefits based on the operator's earnings
 - may want to pay at least \$ 4,200 per year in cash wages for death & disability benefits
 - children or spouse of the primary shareholder in a family farm corporation.
 - key employees in excess of a base cash salary which achieves the desired level of SSA benefit coverage.

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Commodity Compensation



- Wage Guidelines
 - Written employee agreement should state that commodity compensation is defined as a percentage of the employer's overall production.
 - Employer transfers commodity to employee and values the commodity at the date of transfer to use on the employee's w-2.
 - Employee must hold the commodity for a reasonable period before selling and must separately pay for any storage or holding costs.
 - Employee sells the commodity, with the buyer's check issued directly in the name of the employee.
 - Employee records a gain or loss for the difference between the actual sale price and the w-2 value of the commodity at the time of transfer.

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Commodity Compensation



- Pitfalls
 - Never pay 100 percent of wages to a non-family member in commodities. Remember that social security also includes a death and disability benefit in addition to retirement income.
 - Source of commodity must be an employer raised or produced commodity, not a commodity purchased to accomplish employee compensation.
 - Employee dominion and control before the sale of the commodity is critical. The longer the employee holding period, the better.
 - Employer should never repurchase the commodity from the employee.
 - Very difficult to use livestock as a commodity wage. Grain is a much easier to adhere to all rules for commodity wages.

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"You have your choice of a weekly pay check or health insurance." By [Barbara Smaller](#)

Section 105 Medical Reimbursement Plans



PURPOSE

- Provide a deductible farm expense for medical expense reimbursed to employees
- Allowable under IRC Section 105
- Saves self-employment taxes as compared to "HSA plans" and not as restrictive on upper limits

HOW

- Employ Spouse
- Give employees fringe benefits
- **Must be non-discriminatory**

Section 105 Plans



- If employee meets all of the rules, then the employee is eligible for the plan.
 - You may be less discriminatory in any of the below categories, but not more.

NON-DISCRIMINATION RULES

- Employee must work at least 25 hours per week.
- Employee must work at least 7 months per year.
- Employee must be at least 25 years old.
- Employee must have been on payroll for 36 months.
- Employees hired after inception of plan must be on payroll for 36 months before they are eligible.

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Section 105 Plans



SPOUSE EMPLOYEES

- Be sure to have a valid employment agreement and job description.
- Be sure that spouse documents the hours worked and the type of farm duties performed.
- Be sure that the total compensation package of cash wages and fringe benefits is reasonable given the total hours worked or services provided.

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Income Averaging



- An individual engaged in a farming business may elect to average his electable farming business income (EFBI) over the prior three years, the base years.
 - does not include gain from the sale or other disposition of land
 - can include gain from the sale of equipment or breeding stock
 - can include landlord sharecrop income
- Exempt from Alternative Minimum Tax since 2004.

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Income Averaging Example



EXAMPLE 1:

John farmer has taxable income in 2008 of \$95,100, which is \$ 30,000 above the 15% tax bracket limit. All his income is from Schedule F (farm income). During 2005 to 2007, his taxable income was never within \$ 10,000 of the top of the 15% bracket.

By electing \$ 30,000 as his EFBI, he would carry back \$ 10,000 to each of the preceding 3 years, which would cost him only 15% instead of 25% .

Income averaging would save him \$ 3,000 (30,000 x 10%).

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Maxing Out Social Security Tax Example



EXAMPLE 2:

Joe farmer always maximizes his 15% tax bracket, and has \$200,000 more grain sales than normal in 2008. Rather than deferring the grain income to 2009, he is thinking about taking all the income in 2008.

- This would imply a taxable income of \$265,100 in 2008.
 - The taxable income above \$131,450 would be taxable at the 28 or 33% tax bracket.
 - Income averaging would keep income in the 25% bracket, which would save Joe \$ 7,250
 - Also, would be 9.7% savings on self-employed earnings over \$102,000, maximum social security taxable earnings.
- Conclusion:
 - Tax-wise not worth doing unless there is no chance of getting that income into lower tax brackets in future years.
 - Could be useful if other positive factors involved, such as price risk

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COMMODITY CREDIT CORPORATION (CCC) LOAN REPORTING



- **CASH METHOD – REPORT THE LOAN AS INCOME FROM THE SALE OF THE CROP**
- **LOAN METHOD – REPORT THE LOAN AS A REGULAR LOAN**
- **UNDER A RECENT IRS RULING, FOR YEARS ENDING ON OR AFTER 12-31-01, FARMERS MAY NOW SWITCH TREATMENT OF CCC LOANS FROM CASH TO LOAN METHOD AUTOMATICALLY WITHOUT IRS APPROVAL. THIS MAY BE VERY HELPFUL IF YOU WANT TO SWITCH BACK TO TREATING LOANS AS LOANS AND MAY BE ELECTED AFTER THE TAX YEAR HAS CLOSED**

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COMMODITY CREDIT CORPORATION
(CCC) LOANS
METHODS OF REPORTING CCC
LOANS



LOAN METHOD-CASH RECEIVED FROM THE CCC IS TREATED AS A LOAN AND NOT INCLUDED IN INCOME.

- INCOME IS RECOGNIZED IN THE YEAR THE GRAIN IS SOLD OR WHEN THE GRAIN IS FORFEITED TO CCC.
- CAUTION: THE LOAN METHOD OFTEN CREATES LARGE AMOUNTS OF INCOME BUT NO CASH FLOW IN THE YEAR THE GRAIN IS SOLD AND THE LOAN IS REPAYED.

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CCC LOANS
EXAMPLE #1



- FARMER A PUTS \$50,000 OF GRAIN UNDER CCC LOANS IN 2008 AND REPORTS CCC LOANS ON THE LOAN METHOD.
- IN 2009, FARMER A PAYS OFF THE LOAN AND SELLS THE GRAIN.

RESULTS:

- IN 2008, HE WOULD NOT REPORT ANY INCOME FROM THIS TRANSACTION.
- IN 2009, FARMER A MUST REPORT THE GRAIN SALES AS INCOME.
- IF HE HAS USED THE ORIGINAL LOAN PROCEEDS IN 2008 TO PAY OFF OTHER DEBT, PURCHASE CAPITAL ASSETS OR PAY EXPENSES, HE MAY LACK THE CASH TO PAY THE TAX ON THE INCOME IN 2009.

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COMMODITY CREDIT CORPORATION
(CCC) LOANS
METHODS OF REPORTING CCC
LOANS



INCOME METHOD-FOR A TAXPAYER WHO HAS MADE THE IRC SEC. 77 ELECTION, INCOME IS REPORTED IN THE YEAR GRAIN IS SEALED (PLACED IN STORAGE AND PLEDGED TO CCC AS COLLATERAL FOR A LOAN).

- A. THE AMOUNT REPORTED IS THE CASH PROCEEDS OF THE CCC LOAN.
- B. THE INCOME RECOGNIZED BECOMES THE TAX BASIS IN THE GRAIN [SEC. 1016(A)(8).]

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CCC LOANS
EXAMPLE #2



FARMER B PUTS \$50,000 OF CORN UNDER LOAN WITH THE CCC ON OCTOBER 1, 2008, AND HAS PREVIOUSLY MADE AN ELECTION UNDER IRC SEC. 77 TO REPORT CCC LOANS AS INCOME.

- ON JANUARY 2, 2009, HE "BUYS BACK" THE GRAIN (I.E., REPAYS THE \$50,000 LOAN), AND ON JANUARY 12, 2009 SELLS THE GRAIN FOR \$52,000.
- RESULTS:
- \$ 50,000 IS REPORTED AS INCOME IN 2008 WHEN THE LOAN IS EXECUTED.
- THE LOAN REPAYMENT BECOMES BASIS IN THE GRAIN OF \$ 50,000, SO IN 2009, FARMER B REPORTS THE \$ 2000 OF GAIN ON THE GRAIN SOLD (52,000 LESS THE 50,000 LOAN PAYOFF)

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CCC LOANS MARKETING LOANS



- UNDER THE FREEDOM TO FARM ACT IN 1996 AND THE 2002 FARM BILL, CCC LOANS WERE CONVERTED TO MARKETING LOANS. UNDER THIS PROVISION, A FARMER CAN PAY BACK THE CCC LOAN AT THE LOWER OF THE LOAN RATE OR THE POSTED COUNTY PRICE. IF A CCC LOAN IS REPAID AT LESS THAN THE FALL LOAN RATE, THE DISCOUNT IS CALLED "MARKET GAIN". THE FSA OFFICE REPORTS THIS "MARKET GAIN" ON THE 1099 ISSUED TO THE IRS.
- FOR FARMERS REPORTING CCC LOANS UNDER THE INCOME METHOD, THE "MARKET GAIN" BECOMES ADDITIONAL TAX BASIS IN THE GRAIN. THIS IS PERHAPS THE ENTRY MOST OVERLOOKED BY TAX PRACTITIONERS, RESULTING IN FARMERS OVERPAYING THEIR TAX BILL.

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CROP INSURANCE PROCEEDS



TAXPAYERS WHO REPORT ON THE CASH METHOD MAY ELECT TO POSTPONE REPORTING INSURANCE PROCEEDS FROM THE YEAR OF DAMAGE TO THE FOLLOWING YEAR IF THE PROCEEDS ARE RECEIVED IN THE YEAR OF DAMAGE. [SEC. 451(D) AND REG. 1.451-6.] THE FOLLOWING CRITERIA MUST BE MET IN ORDER TO POSTPONE REPORTING THE PROCEEDS AS INCOME:

1. TAXPAYER MUST BE ON THE CASH METHOD OF ACCOUNTING.
2. THE TAXPAYER'S NORMAL BUSINESS PRACTICE WOULD HAVE BEEN TO REPORT THE INCOME FROM THE DAMAGED CROP IN ANY YEAR FOLLOWING THE DAMAGE OR DESTRUCTION.
3. A STATEMENT IN SUPPORT OF THE ELECTION TO POSTPONE REPORTING MUST BE ATTACHED TO FORM 1040 IN THE YEAR THE DAMAGE OCCURRED. MERELY INDICATING ON THE RETURN THAT THE PROCEEDS ARE BEING DEFERRED DOES NOT CONSTITUTE AN ELECTION. [IRS PUBL. 225, CH. 4.]

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Livestock Sales Due To Drought



MCHUMOR by T. McCracken



Module Name: Special Issue

Source: http://www.pioneertelephonecoop.com/~mchumor/cow1_bframe.html

LIVESTOCK SALES DUE TO DROUGHT



THE GAIN FROM THE SALE OF LIVESTOCK SOLD EARLY DUE TO DROUGHT CONDITIONS MAY BE DEFERRED ONE YEAR. [SEC. 451(E).] THIS APPLIES TO BOTH FEEDER LIVESTOCK AND BREEDING STOCK.(COUNTY MUST BE DESIGNATED FOR ASSISTANCE BY THE FEDERAL GOVERNMENT)

THE GAIN FROM THE SALE OF BREEDING LIVESTOCK COULD BE REINVESTED WITHIN 2 YEARS IN SIMILAR PROPERTY.(NO REQUIREMENT FOR FEDERAL ASSISTANCE DESIGNATION)

THE NEW AMERICAN JOBS CREATION ACT OF 2004 HAS EXTENDED THIS REINVESTMENT PERIOD TO 4 YEARS, SO IF A WESTERN KS RANCHER SOLD ALL HIS COWS DUE TO DROUGHT IN 2004, HE WILL HAVE UNTIL THE END OF 2008 TO REINVEST THE PROCEEDS IN SIMILAR PROPERTY.

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LIVESTOCK SALES DUE TO DROUGHT RULES TO BE ELIGIBLE FOR DEFERRAL



1. THE TAXPAYER'S PRINCIPAL BUSINESS IS FARMING.
2. THE CASH METHOD OF ACCOUNTING IS USED.
3. UNDER NORMAL BUSINESS PRACTICES, THE SALE WOULD NOT HAVE OCCURRED IN THE CURRENT YEAR EXCEPT FOR THE DROUGHT.
4. THE DROUGHT RESULTED IN AN AREA BEING DESIGNATED AS ELIGIBLE FOR ASSISTANCE BY THE FEDERAL GOVERNMENT. [REG. 1.451-7.]

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LIVESTOCK SALES DUE TO DROUGHT



THE GAIN TO BE POSTPONED IS EQUAL TO:

1. THE TOTAL INCOME REALIZED FROM THE SALE OF ALL LIVESTOCK DIVIDED BY THE TOTAL HEAD SOLD, MULTIPLIED BY
2. THE EXCESS NUMBER OF HEAD SOLD BECAUSE OF THE DROUGHT (E.G., NUMBER OF HEAD SOLD IN CURRENT YEAR LESS AVERAGE HEAD SOLD IN 3 MOST RECENT YEARS).

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LIVESTOCK SALES DUE TO DROUGHT



- KEVIN IS A COW-CALF OPERATOR WHO OVER THE PAST 3 YEARS HAS SOLD RAISED CALVES AS FOLLOWS:

<u>YEAR</u>	<u>HEAD</u>
2005	105
2006	110
2007	<u>100</u>
TOTAL	315
AVERAGE	105

- IN 2008, DUE TO SEVERE DROUGHT, KEVIN WAS FORCED TO SELL, AT \$600 PER HEAD, 165 RAISED CALVES DUE TO A LACK OF AVAILABILITY OF FEED. RESULT:
 - KEVIN SOLD 60 MORE ANIMALS THAN HIS PREVIOUS 3-YEAR AVERAGE.
 - THE PORTION OF THE GAIN AVAILABLE FOR DEFERRAL IS \$36,000 (60 EXCESS HEAD X \$600).

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Retirement Plans

Can farmers afford to not
participate in traditional retirement
plans?

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Advantages Of Establishing A Retirement Plan



- Tax deferral of plan contribution each year
- Diversify your assets to spread market risk
- Retain or recruit good quality employees
- Satisfy perceived ethical obligation to employees
- Sets up mechanism to think about retirement goals each year

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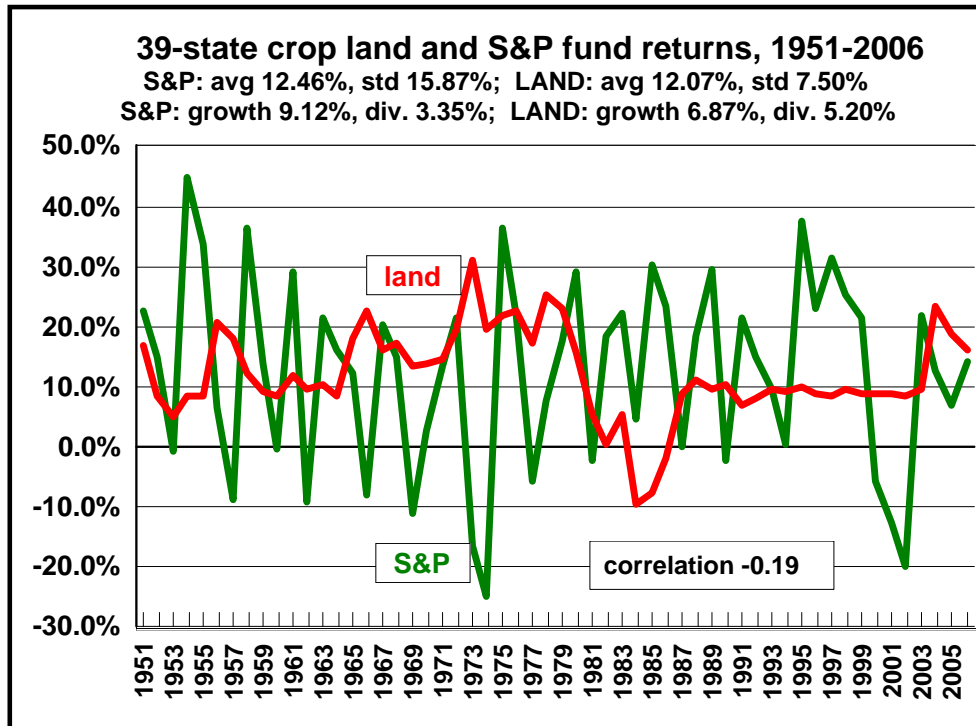
Negative Aspects Of Establishing A Retirement Plan



- Farm capital may be earning a higher return on equity than your retirement plan
- Stock investments are typically much more volatile than your agricultural assets
- Cannot operate farm real estate purchased by retirement plan (no self-dealing)

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An updated slide comparing stock and land returns . . .



Adding 7 years favored land's relative profitability more

Comparison Of Three Common Types Of Plans



1) Traditional IRA

2) SIMPLE IRA

3) SEP IRA

1) Traditional Ira



- Low cost and easy to set up
- Contribution limit of \$ 5000 for 2008 plus an extra \$ 1000 catch up for those over 50 years old
- Set-up deadline is taxpayer's tax filing deadline
- Contribution deadline is taxpayer's tax filing deadline, with no extension available
- Business owner can fund his own IRA without funding any retirement plan for his employees
- If taxpayer funds a traditional IRA, no Roth IRA contribution is allowable
- If taxpayer has another plan, the deduction for a Traditional IRA may be phased out

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2) SIMPLE IRA



- Employee requests a salary deferral from each paycheck, so there is administrative expense
- Contribution limit is \$ 10,500 for 2008 with \$ 2500 catch-up for those over 50 years old
- Set-up deadline is October 1 of the current year
 - It should be established early to allow time for salary deferrals
- Salary deferrals must be deposited by the 30th day of the month following deferral
- Matching & non-elective contributions are due by business tax filing deadline, including extensions
- Employer must offer a 3% match or give a 2% mandatory contribution to eligible employees
- Employer can require eligible employees must have earned \$ 5000 in each of any two prior years, but no age requirements
- Owner can also contribute to Roth IRA

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3) SEP IRA



- Completely funded by employer
- Contribution limit is \$ 46,000 for 2008
- Set-up deadline is business tax filing deadline, including extensions
- Contribution deadline is business tax filing deadline, including extensions
- Contribution limit is 25% of compensation
- Owner can require eligible employees to be 21 years old, must have worked 3 out of 5 immediately preceding years, and earn at least \$500 in current year
- Owner can also contribute to Roth IRA

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Comparison Of Simple Versus SEP



	<u>SIMPLE</u>	<u>SEP</u>
Net Farm Income	100,000	100,000
Eligible Compensation	80,000	
Owner Contribution Rate	<u>3%</u>	<u>25%</u>
Owner Contribution Amount	2,400	20,000
Net Income for Owner		
Contribution	97,600	80,000
Owner Contribution	10,500	16,000
3% Match	<u>2,928</u>	<u>0</u>
Total Contribution	13,428	16,000
Total Funding Needed	15,828	36,000

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Retirement Plan Comparison



- SIMPLE
 - Operator can limit his cost to 3% match, so is less costly than SEP
 - Employee must take ownership in his or her retirement plan
 - Plan must be set-up by October 1 of contribution year
 - Extra administrative time for elective deferrals
- SEP
 - Higher contribution limit
 - Works better if operator has no eligible employees
 - Can be established after end of year
 - Can be real expensive if you have employees

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Other Common Plans



- Safe harbor 401(k)
 - Similar to SIMPLE, but with higher contribution limits(15,500 instead of 10,500 for 2008)
- Profit sharing
 - Lesser of 25% of earnings or 46,000 in 2008
- Age weighted and comparability profit sharing
 - Greater contributions to older and more highly compensated participants
- Defined benefit
 - Contributions are not limited, but might be applicable for corporate shareholder/employee

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SUMMARY



- FARMERS HAVE MANY SPECIAL TAX PLANNING TOOLS TO UTILIZE THAT MANY OTHER TAXPAYERS DO NOT HAVE AVAILABLE.
- MANY OF THE PLANNING TOOLS ARE FAIRLY COMPLEX AND YOU SHOULD ALWAYS REVIEW THE TRANSACTIONS WITH YOUR TAX PROFESSIONAL.

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