

RIGHT RISK™

R I G H T R I S K N E W S

Information Available to Help File Taxes for Agricultural Enterprises

Tax management can be overwhelming for a variety of reasons, especially from a production agriculture standpoint. The massive size of the federal tax code and its accompanying regulations, along with the number of hours required for compliance can seem staggering, especially to new and beginning producers. Although it is tempting to hand it off to an accountant, tax management should be an integral part of your farm management and overall risk management planning.

Accounting for federal income and self-employment taxes is important for a number of reasons. First and foremost, the outcome of tax planning should be to maximize after-tax income. Proper planning and understanding can help you work more effectively with your accountant or financial advisor. Planning can also help address production and financial issues before they become major problems. Federal farm programs, including some crop insurance programs, are increasingly linked to information found on farm/ranch tax returns.

RuralTax.org was developed by academic professionals from several universities as part of the National Farm Income Tax Extension Committee, with an emphasis on providing current information on taxes (income and self-employment) for farmers, ranchers, extension educators, and others. The site includes informative articles and links to several agricultural tax topics, an in-depth tax guide for small and medium size farms, tribal tax information, and resources on other pertinent issues.

RURAL TAX EDUCATION



Tax Information for New Farmers

RuralTax.org includes a section dedicated to topics important to new and beginning farmers and ranchers. This section provides factsheets on subjects including the definitions of a farmer and a farm for tax purposes, self-employment taxes and methods for paying them, Form 1099s, and more. For example, defining a farm for tax purposes may seem simple at face value—one would assume that simply raising agricultural commodities makes one a farmer. However, the issue of how to define a farm operation becomes more complex for tax purposes. Many factors such as off-farm income are

How Much Risk is Right for You?

considered; many new farm operators rely on off-farm income. This highlights why it is important to educate yourself on the most up-to-date information, as well as rely on the counsel of a trusted tax professional.

A tax estimator tool is included in this section. The tool is based in Excel and includes instructions on what tax information to include (a YouTube-based presentation is also available). The tool is intended for informational purposes only; however, it can be extremely helpful in estimating farm taxable income. Users select their filing type and state income tax information, enter estimated farm income (revenue minus expenses), off-farm income (W-2 wages), rental income, short-term and long-term capital gains, and depreciation recapture values. The tool then provides an estimate for tax liability.

Example tax return, RuralTax.org

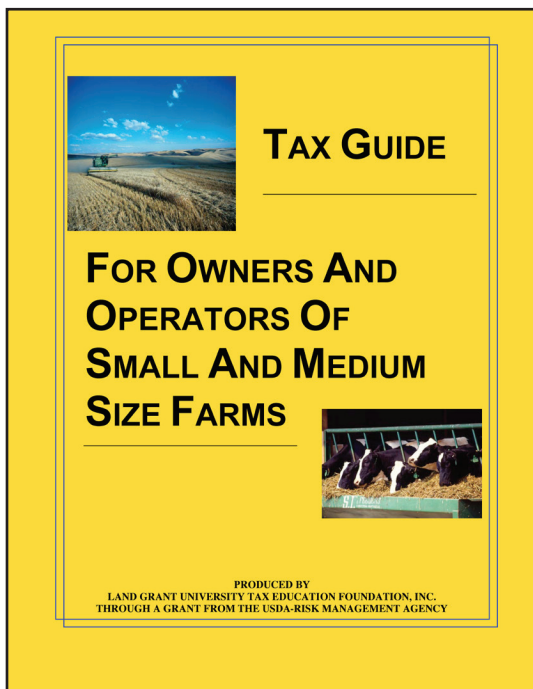
Filing Type	BASE		OPTION	
	Single/Individual	Single/Individual	Single/Individual	Single/Individual
Taxable W-2 wages (Farmer)	\$ -	\$ -	\$ -	\$ -
Taxable W-2 wages (Spouse)	\$ -	\$ -	\$ -	\$ -
Estimated Farm Gross Income	\$ -	\$ -	\$ -	\$ -
USDA Assistance for Distressed Borrower Program Payment	\$ -	\$ -	\$ -	\$ -
Estimated Farm Expenses (including wages and depreciation)	\$ -	\$ -	\$ -	\$ -
Estimated QBI Qualified Farm Wages	\$ -	\$ -	\$ -	\$ -
Estimated Tax Depreciation	\$ -	\$ -	\$ -	\$ -
Estimated Net Farm Income	\$ -	\$ -	\$ -	\$ -
Estimated Income (revenue minus expenses) Not Subject to Self-Employment Tax	\$ -	\$ -	\$ -	\$ -
Estimated Off Farm Income that may be subject to Self-Employment tax (i.e. Schedule C) (Farmer)	\$ -	\$ -	\$ -	\$ -
Estimated Off Farm Income that may be subject to Self-Employment tax (i.e. Schedule C) (Spouse)	\$ -	\$ -	\$ -	\$ -
Total Estimated Short Term Capital Gains Income and Depreciation Recapture value	\$ -	\$ -	\$ -	\$ -
Long-Term Capital Gain Income from Farm	\$ -	\$ -	\$ -	\$ -
Total Estimated Income subject to taxes before carry over Net Operating Losses (NOL's)	\$ -	\$ -	\$ -	\$ -
Enter Carry Over NOL's that the Farm may still have	\$ -	\$ -	\$ -	\$ -
NOL to be allowed to offset income (assumes all NOL's from 2018 or later)	\$ -	\$ -	\$ -	\$ -
Estimated Total Income	\$ -	\$ -	\$ -	\$ -
Deduction for Self-Employment Tax	\$ -	\$ -	\$ -	\$ -
SEP, SIMPLE, Qualified Plan Deduction	\$ -	\$ -	\$ -	\$ -
IRA Deduction	\$ -	\$ -	\$ -	\$ -
Self-Employed Health Insurance Expense	\$ -	\$ -	\$ -	\$ -
Self-Employed Health Insurance Deduction	\$ -	\$ -	\$ -	\$ -
Estimated Adjusted Gross Income	\$ -	\$ -	\$ -	\$ -
Standard Deduction based on Filing Status/Type	\$ 12,950.00	\$ 12,950.00	\$ 12,950.00	\$ 12,950.00
Itemization above Standard Deduction	\$ -	\$ -	\$ -	\$ -
\$199A Passthrough from Coop	\$ -	\$ -	\$ -	\$ -
Coop Per Unit Retain Allocations	\$ -	\$ -	\$ -	\$ -
Unadjusted Basis Immediately After Acquisition (UBIA)	\$ -	\$ -	\$ -	\$ -
\$199A Deduction*	\$ -	\$ -	\$ -	\$ -
Estimated Taxable Income/(Loss)	\$ (12,950.00)	\$ (12,950.00)	\$ (12,950.00)	\$ (12,950.00)
Total Estimated Income/(Loss) Subject to S.E. Tax (Not Including W-2 Wages or Rental Income)	\$ -	\$ -	\$ -	\$ -
Total Estimated Taxable Income Subject to Income Tax (W-2 Wage taxes may have already been paid)	\$ -	\$ -	\$ -	\$ -
Estimated Ordinary Income Tax	\$ -	\$ -	\$ -	\$ -
Estimated Long-Term Capital Gain Tax	\$ -	\$ -	\$ -	\$ -
Estimated Federal Income Tax Owed	\$ -	\$ -	\$ -	\$ -
a. Social Security (12.4%)	\$ -	\$ -	\$ -	\$ -
b. Medicare (2.3%)	\$ -	\$ -	\$ -	\$ -
Estimated Self-Employment Tax Owed (sech)	\$ -	\$ -	\$ -	\$ -
Additional Medicare (0.9% above Threshold)	\$ -	\$ -	\$ -	\$ -
Estimated Total Federal Income, and or Long Term Cap Gain, and or Self-Employment Tax Owed	\$ -	\$ -	\$ -	\$ -
Difference between Base and Option (if a positive number is derived, the Option has less tax liability)	\$ -	\$ -	\$ -	\$ -

Sample Tax Returns

RuralTax.org includes a section with example tax returns for various farming situations, including new and part-time farmers and ranchers. For example, one highlighted return features a producer who farms and raises cattle while his wife works off the farm. The description of how his expenses are structured demonstrates how his tax liability could change and identifies areas for reducing his total tax bill. Many of the example returns are specific to previous tax years, yet offer a basis for understanding how business taxes are estimated for a farm or ranch.

Small Farm Tax Guide

Taxes may not be your foremost concern when you are new to the record-keeping side of production agriculture. However, chances are good that most of your production decisions will have tax implications. It is important to account for uncertainty when making decisions about taxes, from a risk management perspective, which can also help maximize after-tax income.



One of the resources available from RuralTax.org is the Small Farm Tax Guide (SFTG). This comprehensive publication covers many aspects of income and self-employment taxes as they apply to production agriculture. The two most common mistakes farm and ranch managers make, according to the SFTG, are ignoring the tax consequences of their decisions entirely (reducing after-tax income by not taking advantage of tax reduction opportunities) and focusing so much on reducing business taxes that after-tax income suffers.

Once more, the goal of tax planning should be to maximize after-tax income not minimize taxes paid. The SFTG begins with a review of basic farm management, including budgeting, financial statements, time value of money, and marginal analysis. This helps the reader to build a basic management foundation before moving into tax issues. Next, the guide provides an overview of farm taxes, what qualifies as farm income and deductible expenses, followed by chapters on how to manage income timing and other tools to manage tax liability. The SFTG concludes with a discussion of buying and selling farmland, tax implications of farm losses and financial distress, and tax reporting.

A Wide Range of Tax Topics

The Tax Topics section covers more than 35 topics, each containing peer-reviewed articles. Topics discussed range from an introduction to federal income tax forms and issues of weather-related losses and disaster implications to estate tax issues, and implications of leasing versus buying machinery and equipment. Topics of particular interest for new and beginning producers include startup costs and tax implications, as well as important tax definitions. Other relevant topics include estate and gift tax issues and the employment of family members.

For More Information

RuralTax.org is an excellent resource for learning more about agricultural taxes, the risk associated with taxes, and how tax management can affect a business. When it comes to tax issues, there is always more to learn, regardless of your expertise. **RuralTax.org** includes links to resources such as the University of Illinois Farmdoc and Tax School programs, as well as sample tax forms and IRS Farm Tax guides.



HIGHLIGHTED COURSE

Farmers and ranchers, regardless of farm or ranch size, generate business through the sale of commodities, value-added products, and capital assets. Money flows out of the business through the purchase of operating expenses (such as fertilizer, fuel, seed, and animal feed) and capital assets (such as machinery, equipment, and breeding livestock).

Income and self-employment taxes are a direct result of business profitability. Thus, farmers and ranchers need to understand the impact of income taxes on their businesses. The better they understand the applicability of the tax code to agriculture the better they can help their tax preparers complete accurate tax returns and provide information for making management decisions.

RightRisk offers a free, on-line course pertaining to Taxes for Agricultural Enterprises. The course gives viewers an introduction to the definition of farms and ranches as a business, farm income, farm expenses, and cost recovery of capital assets (depreciation). There is also a section of the course which allows users to better understand farm taxes via various hands on exercises.

To access the course see:

<https://RightRisk.org> > Courses > *Taxes for Agriculture*

Taxes for Agricultural Enterprises



Taxes for Agricultural Enterprises

1. Introduction

3. Importance of Records

5. Farm Expenses

7. Agricultural Income Tax Issues

2. Definition of a Farm

4. Farm Income

6. Strategies for Managing Tax Liability

Course Resources

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How much risk is right for you and your operation?



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