

# Income Tax Planning for Farms that File a Schedule F

*Don't you wish we had a snappier title?*

Session 3: Strategies for Income Tax Planning

Wednesday, October 27<sup>th</sup>

7pm – 8:30pm

Dayton Maxwell, Nicole Tommell, and Katelyn Walley-Stoll

**GUEST SPEAKER: Paul VanDenburgh**

Cornell Cooperative Extension

CCE Farmer Tax School 3

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CCE Farmer Tax School 4

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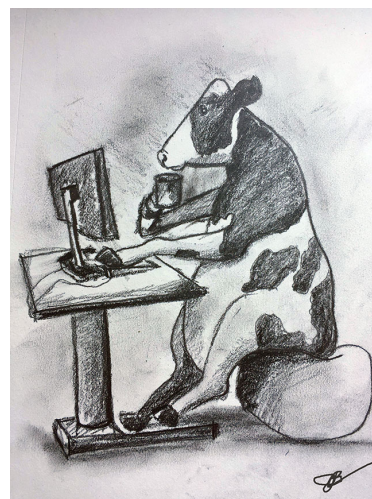
## Housekeeping

- Use the chat function (send a message to everyone or to just the hosts) to interact.
- You are muted & without video.



## Housekeeping

- Use the chat function (send a message to everyone or to just the hosts) to interact.
- You are muted & without video.
- Everyone received an email with Session 3 recording and a Q&A summary. Final paper mailings to go out on Friday.



This information is for educational and reference purposes only and is not a substitute for sound legal counsel and tax preparation. Cornell Cooperative Extension is dedicated to providing research-based information to our agricultural producers. Every effort has been made to provide correct, complete, and up-to-date recommendations. Changes occur constantly and human errors are possible.

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# FARM CREDIT EAST

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# NY FARMNET

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*Always free, always confidential – we offer services for NY farms including financial analysis, business planning, and personal well-being. FarmNet has a network of consultants, who work one-on-one with farm families to resolve financial and personal issues.*

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**[nyfarmnet.org](http://nyfarmnet.org)**

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## Today's Outline

- Paul BanDenburgh, Farm Credit East
- Q & A Session starting with your pre-submitted questions
- Evaluation at the end (link in the chat, follow up email)
- [https://cornell.ca1.qualtrics.com/jfe/form/SV\\_beVrr8m4QwFV6xU](https://cornell.ca1.qualtrics.com/jfe/form/SV_beVrr8m4QwFV6xU)



**As you navigate through the presentation, think about how to best utilize the information for your business.**



**As you navigate through the presentation, think about how to best utilize the information for your business.  
Go back to your “Why Bother” Farm Income Tax Planning Goals.**







**Cornell Cooperative Extension**

# FARMER TAX \$CHOOL

The collage features several images: a close-up of a calculator and a checkbook with a pen; a stack of coins and blue pens; a laptop displaying a spreadsheet with a hand using a calculator; a stack of tax forms including 'INCOME TAX' and '24'; and a stack of coins with small green plants growing from them, symbolizing growth and investment.

**Farm Credit East, ACA  
&  
Cornell Cooperative Extension  
Tax Planning Workshop**

Bringing it all together  
Strategies from a Farm Tax  
Accountant

Paul VanDenburgh, EA  
10/26/21

**Strategies for Income Tax Planning**

**Be Informed and Engaged**

- ✓ About the best you can do is take the peaks and valleys out of income swings.
- ✓ Know the tax brackets
- ✓ Ordinary income vs Capital gain income vs income subject to SE tax
- ✓ What other factors need to be considered?
  - ✓ Future income/expense/farm sale
  - ✓ Tuition
  - ✓ Retirement funding
  - ✓ Credits

## **Strategies for Income Tax Planning**

### **Decisions you can make with your accountant that influence your tax liability**

- ✓ Filing Status
- ✓ Cash vs. accrual reporting
- ✓ Prepaid expenses
- ✓ Deferred revenues
- ✓ Capital purchases
- ✓ Depreciation options
- ✓ Large debt payments
- ✓ Leases

## **Strategies for Income Tax Planning**

### **Timeline for Tax Planning**

- ✓ Keeping financial records up-to-date
- ✓ Share YTD income statement with tax accountant in the fall
- ✓ Discuss tax planning goals and strategies; make a plan
- ✓ Implement the plan before year-end and report progress
- ✓ Compile and file taxes
- ✓ Pay taxes

## **Tax Estimating**

### **Myriad of tools for Planning and Estimating**

- ✓ Knowing Tax Brackets
- ✓ ZERO Capital Gains in 2021
- ✓ Retirement Plans
- ✓ Tax Credits & Deductions –
- ✓ Year – end Gifts
- ✓ Income limitation for IT-217

Most important is to probe for where your business is going & what are the tax implications of your business decisions

## **Tax Planning**

### **Goal in High Income Year**

- ✓Defer Income
- ✓Accelerate Expenses

### **Goal in Low Income (Loss) Year**

- ✓Accelerate Income

## Prepaid Expenses

- ✓ Amounts paid for during the year for
  - ✓ Feed
  - ✓ Seed
  - ✓ Fertilizer
  - ✓ Similar Farm Supplies

### Deduction Limit

50% of other deductible farm expenses (excluding the prepayment amount)

## Prepaid Expenses

### Additional Tests for Prepaid Feed

- Payment is for the purchase of feed rather than a deposit
- The prepayment has a business purpose and is not merely for tax avoidance
- Deducting the prepayment does not result in a material distortion of your income

### **Facts and Circumstance Tests**

- Binding commitment to accept delivery at a fixed price and quantity and not entitled to a refund or repurchase
- Business benefits for advance payment – securing feed supply; securing preferential treatment in anticipation of feed shortage

Questions?

## **Depreciation Updates**

**2021 Section 179 Limit - \$1,050,000**

### **Qualifying Property**

Tangible Personal Property  
Single Purpose Structures  
Silos/Grain Bins  
Orchards  
Machinery  
Office Equipment  
Drain Tile  
Livestock

### **Non-Qualifying Property**

General Purpose Buildings  
Tenant Houses, Storage  
Barns, Machine Sheds

## **Depreciation Updates**

- ✓ Spread the word...
- ✓ Investment Limit is now....

\$2,600,000

## **Depreciation Updates**

### **Things to Know about Section 179**

- Property acquired by trade. The cash paid is eligible for Section 179
- Great tax planning tool if majority of purchases (>40%) are in the last quarter of the year.
- Must be more than 50% business use in the year of service to be eligible for Section 179

## **Depreciation Updates**

### **Differences between Capital Expenditure and Incidental Repairs**

- Capital Expenditure
  - Costs of new building
  - Permanent improvements to increase the value of the property and prolong life of the asset

## Depreciation Updates

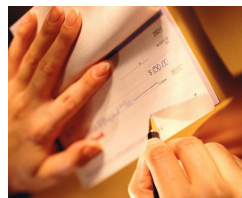
- Incidental Repairs
  - Ordinary and necessary business expense provided the repair does not materially add value to the property or prolong its life. Repairs keep the property in operating condition.

**Questions?**

SHOULD I  
TAX PLAN  
THIS YEAR?







- IS INCOME UP FROM LAST YEAR?
- HAVE YOU PAID DOWN DEBT?
- HAVE YOU LET YOUR PAYABLES RUN UP?
- DID YOU HAVE MAJOR CAPITAL SALES OR PURCHASES IN 2021?
- HAS YOUR INCOME TAXES BEEN HIGHER THAN NORMAL SINCE 2018?

- IF YOU ANSWERED YES TO ANY OF THESE QUESTIONS, YOU SHOULD TAX PLAN.



- DO NOT LET TIME GET AWAY FROM YOU. LOOK AT YOUR NUMBERS!
- DO YOU NEED TO SLOW DOWN OR ACCELERATE DEPRECIATION?
- DO YOU NEED TO PREPAY EXPENSES TO GET A BETTER PRICE?
- WHAT ARE YOU PLANNING FOR 2022?

Submitted questions

## Sales tax questions

- How does sales tax get reported on income taxes?
- Do we pay sales tax on monies we charge for taking a workshop at the farm?
- Are we supposed to pay NYS Sales tax on livestock animals we sell?

## Depreciation

- Trades
- Capital improvement vs. expense vs. 179 deduction

## Sale of business assets

- Sale of depreciated assets,
- Sale of purchased cows,
- Sale of cows raised,
- Sale of machinery
- Trade-in's now treated as a sale of the asset traded
  - Loans included in trades

## Retirement Contributions

- Traditional IRA vs. Roth IRA with self-employment taxes
- Social Security considerations

## Hobby vs Business

- **Here are nine things taxpayer must consider when determining if an activity is a hobby or a business:**
  - Whether the activity is carried out in a businesslike manner and the taxpayer maintains complete and accurate books and records.
  - Whether the time and effort the taxpayer puts into the activity show they intend to make it profitable.
  - Whether they depend on income from the activity for their livelihood.
  - Whether any losses are due to circumstances beyond the taxpayer's control or are normal for the startup phase of their type of business.

## Hobby vs Business

- **Here are nine things taxpayer must consider when determining if an activity is a hobby or a business:**
  - Whether they change methods of operation to improve profitability.
  - Whether the taxpayer and their advisors have the knowledge needed to carry out the activity as a successful business.
  - Whether the taxpayer was successful in making a profit in similar activities in the past.
  - Whether the activity makes a profit in some years and how much profit it makes.
  - Whether the taxpayers can expect to make a future profit from the appreciation of the assets used in the activity.

## Hobby considerations

- Requirement for NYS 217 farmers tax credit on a hobby farm
- Is it worth it to farm or the taxes of selling out
- How long can I lose and as my parents own the land but I still try to get income by selling hay?

## Apple grower example

- Timing of production year and sales
- Timing of crop insurance proceeds

## Entity considerations

- Husband/wife LLC
  - How do they get paid?
    - Salary
    - Draws
- Rental agreements between entities

## Farm Income Averaging

## Final Questions/Answers

Thank you

Paul VanDenburgh, EA

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