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Tax Planning Season

Tax planning season is here and ending soon for farms that are calendar year-based taxpayers. The steps to tax management include knowing where your income currently stands, managing tax brackets, and adjusting your income. Jennifer Rogers, University of Kentucky Farm Business Management Area Extension Specialist in the Purchase region prepared the following thoughts concerning tax planning.

Good, up-to-date records are the key to management. If you don't know what is going on financially, there is no way to know that you are making sound decisions. At this point in the year, you should be able to calculate your revenue and expenditures to date. Using this information, you should also be able to make some projections about what additional income and expenses will take place before the end of the year, and compare net income this year to last year or other previous years. This will provide some insight into whether to expect your tax liability to be up or down. When considering expenses, don't forget about the non-cash expense of depreciation. A farm business may or may not have depreciation available from the previous year's purchases to use in the current year

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While almost everyone wants to pay as few dollars in tax as possible, managing tax brackets, to take advantage of an entire lower bracket, may result in less tax paid over time. Tax liability is calculated based on the total taxable income and is calculated on the percentage rate of the tax bracket that income falls into. Everyone gets to take advantage of the lower brackets and only pays that lower rate on the income amounts that fill those brackets. As taxable income increases so does the tax rate for those additional dollars. Managing tax brackets may result in additional tax dollars paid this year as you fill up a lower bracket, but then save tax dollars in future years because you don't have income flow over to the higher bracket. This year, with lower revenues expected from crop sales, may provide opportunities for the opposite. Producers may expect lower taxable income next year, so they may try to manage tax into a lower bracket this year, knowing that they can move some taxable income forward to next year and stay in the same bracket or at the same rate.

Adjusting taxable income sounds like it might be an issue of tax manipulation, however, cash-based taxpayers are allowed a lot of flexibility about when they recognize both income and expenses. Adjusting income can be as easy as delaying sales to the next year or prepaying expenses in the current year that won't be used until the next year. If additional income is needed, a producer can sell more crop in this year, or take out a CCC loan and claim it as income. There are lots of ways to adjust income legally. If you have questions about what you can and cannot do, you should consult your tax professional. The flexibility of being able to adjust income is what allows producers to be able to manage tax brackets.

Tax management is one piece of total farm management. The key to almost all farm management issues starts with good records. Without complete, up-to-date, financial records,

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you can't manage tax brackets or know which way to adjust taxable income. In a down year like this, stay aware and don't get surprised by a sleeping tax liability that you have pushed forward. It may also be a year to "catch up" or slow the deferral of moving income forward. Review your records and have a discussion with your tax professional before the end of the year, while you can still adjust your taxable income.

Agricultural Lenders Conference

An agricultural credit lenders conference, hosted by the Ohio Valley Farm Business Analysis Association is planned for 9:00 am to noon this Wednesday, December 14 at the Daviess County Cooperative Extension Office. This program is open to all individuals or businesses involved in extending agricultural production credit, farm loans, and crop insurance to farmers and landowners in the Green River area. Credit Analysts, grain marketers, and farm business income tax preparers are also welcome.

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