



# TAX TIME

*Tips for Farmers and Ranchers*





## TAXES DON'T HAVE TO BE LIKE THIS

-Your Farm will Thank You

Too many times your tax advisor ends up acting as your bookkeeper. These should be separate roles. Randy Eikermann of the Farm Journal says it like this...

“

The value of your relationship with your tax professional rests in his or her advice and council, **not necessarily his or her ability to prepare taxes.** You might want to ask your tax adviser how you can organize and better prepare to make the most of your time together-and your tax return. It's amazing how the **value of the service and productivity of a meeting increases** when we're **NOT** sorting receipts or adding ledgers during a tax appointment.

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That being said, **someone** needs to do your record keeping for you. **That is the ultimate “Tax Time Tip” that you will find in this guide.** You can check out my services by [clicking here](#). But don't stop scrolling. The rest of the guide is pretty dang sweet too!



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## ASK YOUR ACCOUNTANT & TAX ADVISOR FOR HELP

- NO SHAME

They have these great worksheets that you get to (have to) fill out. Ask for one far in advance so that you, or preferably your bookkeeper, can fill it out. Preparation is key in all things tax related.

You should have someone besides your tax accountant in your corner. They are not as familiar with “farming” or, more

importantly, **your** farming. Having someone who knows your business can be very handy when it comes to taxes.

## DON'T SPEND YOUR MONEY IN SPITE

-It's Just NOT Worth it

It can be easy to go overboard in trying to get out of paying taxes. Temptation can lie in purchasing new equipment solely for the tax-deductions. But really, equipment should only be bought if it's needed. And it'd be wise to keep your eyes open for the sly salesman that says otherwise.

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**You don't go spending money just to save taxes on it.**

-Bob Parsons

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## BE SURE TO SAVE SOME FOR LATER

-Like When You're OLD

You may or may not be required to pay Social Security, so make sure that you put money **somewhere** for later. If you want to pay S.S. and you don't currently, you're

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able to through an option in the tax code that allows farmers to pay at least a quarter of their year's Social Security with each return. But look up the requirements first!



Now everything previously stated can be considered “*best practices*” for farmers and ranchers. However, the following will be IRS rules and just plain facts that you should be aware of while preparing for tax time. Always remember, playing fair pays off.



# INCOME TIPS

## 1. CROP INSURANCE

Remember that insurance payments from crop damage count as income. Generally counted for in the year that you got them.

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## 2. LIVESTOCK SALES

There are a few things to keep in mind when selling your livestock or poultry. A tax accountant that understands the tax laws will ask the proper questions. However, you should be prepared to give the correct information.

### 1. Not All Breeding Stock is Created Equal

Breeding stock that is held for 24 months before being sold is eligible for more favorable capital gains tax treatment. A range from 0-20%. However, purchased breeding stock sold is subject to **depreciation recapture**<sup>1</sup> and are taxed at ordinary gain rates.

### 2. Cost of Goods Sold

This pertains to more than solely livestock, but in most cases this is when it is used. If you sell livestock that you purchased for resale, you have to report the sale. Obviously, your profit & loss is the difference between the sale price and what you paid for it. You can count tax and freight in your cost. Also, you can take your deduction at the time of sale instead of when you buy it.

### 3. Make Next Year Take Some of the Beating

If you have to sell more livestock or poultry than you normally would in a year because of weather conditions, you may be able to report that gain in the upcoming year. Of course talk to your tax accountant about it!

## 3. AVERAGING IS AN OPTION

Your income might be higher than normal this year, even though grain and cattle prices are not. You might have carryover from grain and livestock inventory. Don't fret, you're able to average some or all of this year's income by spreading it out over the past three years. This works if your current year income is higher than the previous years. "Farm income" can be misunderstood, but it includes: crop share rent, wages of S corporation shareholders, and gains or losses on disposition of property (other than land). Bring this up yearly with your tax accountant.

(P.S. This used to be for everyone, but now only applies to farmers!)

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<sup>1</sup> The IRS way of collecting income tax on a gain realized by a taxpayer when they dispose of an asset that had previously provided an offset to ordinary income for the taxpayer through depreciation.

# EXPENSE TIPS

## 1. USE YOUR HOME

Remember to divide farm electricity, insurance, and phone bills from the home expenses, as these can count as deductions on the farm's income.

## 2. LOAN PAYMENTS

You can deduct the interest you pay on a farm loan. But only a farm loan. (IF you qualify, you may be able to deduct the interest paid on your mortgage.)

## 3. NET OPERATING LOSS

I hope this doesn't happen to you, but if it does at least there's a silver lining! On a year when your expense is more than your income, you can carry that loss over to other years and deduct it. It might even lower your taxes in the coming years.

## 4. FARM EXPENSES

"Ordinary and necessary expenses" are deductible. In farming that can include a great many things, so be sure to discuss questions with your tax accountant.



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Anything from fuel used for farming operations to clearing brush for more land. You can also deduct expenses for soil and water conservation as long as they don't add up to more than 25% of your income.

## 5. FARM MEALS

Farm meals can come as 100% deductible! That includes homemade meals delivered to the field. However, when it's a family farm in question, where the whole family works...where do you draw the line? You will have to talk to your tax accountant about your specific situation.

## 6. RENTAL PAINS

Rental properties are viewed differently than property you own. There is a separation of income and expenses tied to said rentals, and keeping track of these transactions can be difficult. You can always ask your accountant for a rental activity ledger...however, your best bet with all record keeping is to **outsource it to someone who has been trained**. It's okay that you specialize in farming and not bookkeeping. Besides, it's a lot more fun!

# WAGES

*Yes, this gets its own section.*

## 1. IT'S DEDUCTIBLE

Yeah, I know... you're thinking, "It better be!" You are able to deduct what you pay your part-time and full-time wranglers. Just remember to withhold Social Security, Medicare, and income taxes for them. Or better yet, get a payroll company to do it for you! After all, this tax thing is confusing.

*That being said, you should pay your children for the work they do!*

Those wages become deductible, no matter what they might be. Like paying the insurance on their vehicle...now your kids like me less than they did a few seconds ago. If you pay them enough, taxes will need to be taken out so be sure to find that line.

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## 2. PAY IN CHICKENS IF YOU WANT

Maybe not literal chickens. Unless your hired man really wants to deal with that. But commodity wages for your farm hands has some really great benefits!

It's not subject to FICA or unemployment tax, which means payroll tax savings for you and your help! Or a spouse that gets paid in commodity wages means less net income for the farm and less self-employment tax (a 15.3% tax savings). However, you will need to give complete control of the commodity wage to your hireling, for marketing's sake.



*Now what am I forgetting...?*

*Oh, yeah...*

# DEPRECIATION

## 1. SECTION 179 IS A GOOD READ

Actually, it's a confusing read. A short excerpt from Successful Farming says it best...

“The Section 179 deduction [includes] both new and used farm equipment purchases and purchased breeding livestock. However, this deduction is limited to the taxable income from your business. Bonus depreciation on new assets has been extended until 2020 and can be used on all farm assets with depreciable lives of 20 years or less (including general-purpose farm buildings). Unlike Section 179, bonus depreciation is allowed to create a net farm loss. Plan ahead on farm building construction. Beginning in 2018, the 50% first-year deduction begins to decline and will be completely phased out in 2020.”

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Always, always check tax info by your tax advisor. It's their profession, and they are the most up-to-date people on taxes.

## 2. MAKE YOUR BUILDING A SPECIAL ONE

No, really. Make it special. It's usually better for a farmer to depreciate his/her equipment as quickly as possible, on paper anyhow, before inflation flattens its value. There a tax-deduction savings to be had! So while general-use buildings depreciate over a 20 year span, according to the IRS, special-use buildings do it in 10 years. Look over the specifications for a "special" building before you hitch your buggy to it, but it could work for you!

*That's all she wrote...almost.*

Hopefully this guide was a little easier for you to read than **Publication 225**<sup>2</sup>! However, it certainly does not replace or override that publication, and I would highly recommend that you download it, skim through it, take an Advil...and I **don't** condone throwing it to the dogs.

Taxes are just rough, that's all there is to it. But like Jesus said, "Give to Caesar what is Caesar's." And we can be thankful that we live in the land that we do.

But before you slam your fists on the desk or pull your hair out, I will reiterate what I said at the beginning of this guide. **DON'T DO THIS!**



It can be tempting, I know. But a *great* bookkeeper can save you so much of that headache and tax-pain!

You're saying, "Yeah, I have a bookkeeper, but it doesn't make that big of a difference." Well then, you don't have a great one. Or one that understand agriculture. You get what

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<sup>2</sup> The Farmer's Tax guide, a publication written by the IRS.

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you pay for, the old saying goes.

Now, I'm **not** a tax advisor! But I am a great bookkeeper, and I can help tax-season to flow for you. The better you take care of your books, the better you take care of your farm.

Check out my site and view a [list of my services](#) here. Better yet, do what needs done, and [contact me](#) to schedule a consultation.

Maximizing yields starts here,

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