

# Uncertain times = a tax plan



## Expert Input

By KENT VICKRE

**T**HE 2008 growing season brought a year of extremes. Early summer brought extensive flooding in much of Iowa. Fears of extreme crop losses sent new-crop prices to a record high during summer. But by harvest, improving crop prospects slashed new-crop bids nearly in half.

These extremes had various effects. Cash grain farmers who aggressively forward-priced during the June rally may in 2008 have their most profitable year yet. Meanwhile, livestock producers caught in a cost/price squeeze may face cash-flow concerns.

As Dec. 31 quickly approaches, thoughts and concerns are now focusing on tax planning, which many farmers tend to sum up as "How much tax will I owe this year?"

I like to emphasize that tax management, not simply tax avoidance, is essential during these times of financial extremes. Tax management needs to be a big-picture plan that considers numerous variables such as tax brackets,

### Key Points

- Tax management, not tax avoidance, is essential during these times.
- Tax planning is one of the most important tasks you do as a farmer each year.
- Don't delay, as Dec. 31 is just a few short weeks away.

phase-out limits and tax deductions or credits.

### Need for tax management

By discussing all the variables, tax management becomes a multiple-year planning process that considers both your taxable income and your accrued income when deciding the most favorable taxable income level.

Some of the most common strategies farmers will use to adjust their taxable income level in 2008 are:

#### ■ Bonus depreciation

This is for purchased capital assets. It's an additional first-year depreciation deduction equal to 50% of adjusted basis for qualified property, and it is available for both the regular and the Alternative Minimum Tax in 2008. A general description for qualified property for bonus depreciation is: MACRS, or Modified Accelerated Cost Recovery System,

property with 20 years or less recovery period; original use is required by taxpayer (this is something new); and property must be put in service in tax year 2008.

#### ■ Quick write-off

You can elect to use the Section 179 deduction or "quick write-off" depreciation for purchased capital assets. For 2008, the Section 179 deduction increased to \$250,000. The 179 election is limited to qualified capital purchases for items such as equipment, grain bins or breeding livestock with a dollar-for-dollar phase-out starting at \$800,000. Additional qualified items that exceed the \$250,000 are eligible for regular depreciation.

#### ■ Prepayment of operating inputs

Be sure to specify a quantity and price. Also, remember that prepaid expenses are limited to 50% of deductible expenses.

#### ■ Deferral of crop insurance proceeds

You may elect to defer income to the following year if you normally sell in the following year.

#### ■ Review of CCC loan tax treatment

If you have "sealed grain" under a USDA Commodity Credit Corporation loan

that is carrying over at year-end, simply electing to change the tax treatment may increase or decrease your taxable income. Additional forms may need to be filed with your return.

#### ■ Income averaging

Depending on your prior year's taxable income, an election to use income averaging might decrease your tax liability.

#### ■ More to charity

If you itemize, consider doubling up on church and charitable contributions or state income tax by paying in December instead of the following year.

#### ■ Funding your retirement account

You can put money into an individual retirement account, simplified employee pension or Keogh. Because some plans need to be set up prior to year-end, be sure to check into this now.

These are several of the most common strategies. However, it cannot be emphasized enough that getting a tax estimate before Dec. 31 is essential. No magic bullets exist to manage taxes for your farm. You need to discuss your situation with your tax adviser and create a plan before Dec. 31.

Vickre is state coordinator for the Iowa Farm Business Association in Ames.

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