



IOWA FARM BUSINESS ASSOCIATION

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New Voice in State Office

Kathy Herman Joins the IFBA State Office

When you call the state office, Kathy will be the person to help you solve your PcMars support questions.

Kathy spent most of her life in various parts of Iowa. Before coming to IFBA, she worked for Cargill in a business support role for eight years before the Ankeny office was closed.

“Though mostly a city girl, I learned a lot about livestock and animal health while at Cargill; and now I’m gaining an even greater appreciation for the agricultural community around me. I’m quite impressed with how user friendly PcMars is. The tech support calls I’ve received have helped me gain a better understanding of the program; and everyone has been very kind as I go through this learning process. I look forward to developing a good working relationship with each of you.”



Year End Record Keeping Tips

You can avoid many year-end problems by a careful review of business records. Here is a list of some common missing information:

1. When capital purchases are “dealer financed”, those transactions often do not flow through your checking account. Therefore, be sure to record the amount borrowed as “**Loan Proceeds**” and as a “**Capital Purchase**”. Also, provide a copy of the purchase agreement to your consultant.
2. Record “Quantities” on all sales and purchases of grain and livestock.
3. Record Coop Patronage Dividend “Equity” received as well as cash paid.
4. Make a list of issues to be reviewed with your consultant when you meet!

Are You Planning to Fund a Retirement Account?

Be sure to check into this now, because some plans need to be set up by Dec. 31. The limits for 2012 for the traditional deductible retirement accounts are:

- **Traditional IRA.** These are available to any individual under the age of 70½ with earned income. For 2012, the maximum contribution is \$5,000 or your earned income (whichever is less). Individuals age 50 or older also can make an additional \$1,000 “catch up” contribution. This increases the limit to \$6,000. However, be aware of income phase-out limits. These phase-out limits differ depending on filing status (married filing joint, head of household, single, etc.) and the type of IRA (traditional or spousal). For example, if you’re married, filing a joint return and were eligible to participate in an employer-sponsored plan such as a 401k, the IRA contribution drops when your income exceeds \$92,000.
- **Sep/Keogh.** These retirement plans may permit greater contributions and deductions. However, you’ll generally run into provisions requiring contributions for other employees who meet certain minimum qualifications. The deduction is limited to a percent of net self-employed income minus the self-employment tax deduction for the self-employed individual or a percent of wages for an employee. The maximum level is 20 percent for a self-employed individual and 25 percent of wages for an eligible employee with a maximum limit of \$50,000. However, certain already-established plans may have different contribution percentages and limits. So, be sure to discuss this with your consultant.

Year End Income Adjustments for a Cash –Basis Producer in 2012

Prepay operating inputs. Be sure to specify a quantity and price. Remember, prepaid expenses are limited to 50 percent of deductible expenses.

Pay your children a reasonable wage for farm work. You don’t have to pay Social Security tax on your children under age 18. You must file the appropriate payroll tax forms.

Pay any accrued interest.

Consider income averaging. Depending on the prior year’s taxable income, income averaging may decrease your tax liability.

Double up on church or charity contributions. If you itemize, consider donating more or paying state income tax in December instead of waiting until the following year.

Review CCC loan tax treatment. If you have “sealed grain” carrying over at year-end, simply electing to change the tax treatment may increase or decrease your taxable income. You may need to file additional forms with your return.

Don’t Forget!

Section 179 election: Iowa DID “couple” with this Federal Tax Provision. So the Iowa 179 election is \$139,000.

50 % Bonus Depreciation: Iowa did NOT couple, so there is not any Bonus Depreciation deduction on the Iowa Tax Return.

New PcMars 2.3 Update Available this December

This December, PcMars users will receive a notice in the mail announcing the new 2.3 update. We urge you to update your software by completing the update form and returning it to SoftShell promptly. By having the current version you will be able to immediately update your program, via the internet, if there is any unexpected payroll changes, (as we have seen in the past). All the new features will be useful to users, however we believe the reconcile and capital purchase changes will be the most beneficial to users. Here is an overview:

Reconcile: The reconcile has been changed to help user reconcile the previous year's transactions. In this updated version, user will be able to specify the exact bank statement that a check cleared in the previous year's set of books. Because of this change, user will be able to print a check register report that also includes the previous year's cleared transactions. This will allow user to easily compare their PcMars check register report with their bank statement.

Reconcile, Check Register Detailed Report attachment: This new report option will print the check register entries in a "monthly detailed report format", that will provide an income and expense summary that coincides with their bank statement.

Capital Purchase Wizard: This "wizard" is designed to simplify capital purchase transactions by prompting the user for required information. For example, if a used combine with a loan balance was "rolled" to a new combine, this wizard prompts the user for any cash paid, the "new" loan amount, and the rolled over "old" loan amount. This should help solve some of the confusion when trading capital assets. The capital purchase wizard includes...

- Purchase by cash and/or financing
- Trading in the asset
- Rolling traded assets loans into the new assets purchase

Other new features include:

- ◆ New restore features allows users to restore multiple sets of PcMars books at once.
- ◆ Ability to specify background screen for various set of books. This will help user with multiple set of books easily recognize various books based on the screen color.
- ◆ "Multiple Asset Vendor" added as a right click feature on deposit, checks and revolving transaction screens.
- ◆ Backup Warning: PcMars warns user if a "removable" backup location is not selected.
- ◆ Revolving Credit Transaction updates with the following features:
 - Ability to specify which loan vendors are available to select
 - Updated re-use feature so users can easily find previous transaction
 - Added multiple loan vendor option as a right click feature
 - User can now select if "memo" is first description, or vendor (pay to) prints on reports for loan vendor description
- ◆ Check and deposit printing: Users can now use the "F9" shortcut key to quickly print these.
- ◆ Added ability to set up a default description for vendors.
- ◆ Updated PcMars "carry over": Any vendor or inventory item added to the previous year's books after they had been carried into "new" year, can now be updated in new year's set of books.
- ◆ Check transaction has been updated to "save" a manually entered payee address.
- ◆ Tack Note Report update to include details such as transaction number, transaction date, business ID, and etc.
- ◆ Employee YTD Report: Added "option to skip employees that have no paycheck".
- ◆ PcMars now "warns" user prior to deleting a cleared transaction.
- ◆ Users can sort by set of books, year, version, or date modified.
- ◆ Can select "view as a transaction" report for Journal Transactions.
- ◆ Improved the "find" functions to reduce users errors.

2012 Quick Tax Facts

- Self employment tax limits for 2012:** Social Security=\$110,100 and Medicare=Unlimited.
- IRS standard mileage rates:** Business=\$0.555, Charity=\$0.14 and Medical or Moving=\$0.23.
- Social Security benefit:**
 - ◆ Earning limits are \$14,640 for those under full retirement age (FRA). If under FRA, benefits are reduced by \$1 for each \$2 over.
 - ◆ Year FRA reached limit is \$38,880 for months up to FRA only, benefits are reduced by \$1 for each \$3 over.
- Annual exclusion for gifting for 2012 is \$13,000.**
- Standard deductions:**
 - ◆ Married filing joint = \$11,900
 - ◆ Head of household = \$8,700
 - ◆ Single & married filing separate = \$5,950
- Personal exemptions per person = \$3,800**

Classroom Booklets

Available at www.pcmars.com for free download are these booklets:

- PcMars Set Up
- PcMars Beginner
- PcMars Advanced



Advanced Payroll Module Update: The new 13.1 Advanced Payroll Module (available in January 2013) will be only compatible with this updated 2.3 version. Hence, if you are an Advance Payroll user, you will need to update your PcMars prior to installing the 2013 (13.1) advanced payroll module. As a review, the enhance payroll module must be renewed yearly to receive the updated Federal and State Withholding tables and these additional features:

- Ability to customize up to seven custom pay types and ten withholding
- Ability to track money loaned out or advanced to employees through paycheck deductions
- Ability to calculate retirement deductions and matching (in the non-simplified payroll method)
- Options to automatically round withholding to the nearest dollar
- Pension withholding: the "subject to" tax preference option is available for all ten paycheck withholdings

The cost for this yearly subscription is \$100. If you have any questions regarding this subscription, just give us a call at 515.233.5802.

Year End Income Adjustments for a Cash –Basis Producer in 2012, (con't from page 1)

Defer crop insurance proceeds. You may elect to defer income to the following year if you meet the following conditions:

- You use the cash method of accounting.
- You receive the crop insurance proceeds in the same year that the crops were damaged.
- You can show that, under normal business practice, you would have included income from the damaged crops in any tax year following the year the damage occurred.

Note: On this point, the taxpayer must establish a history of reporting more than 50 percent of the crop sales in the subsequent year.

Several other “key” reminders for crop insurance are:

- ☑ The elections cover all crops in the “farming” business (Schedule F). You cannot elect to defer only corn insurance and not soybeans.
- ☑ If you have multiple entities in the “farming” business, each must make their own elections.
- ☑ Both crop insurance and disaster insurance payments *must* be treated the same way if received in the same taxable year.
- ☑ Crop insurance proceeds received in the year following harvest must be reported as income in the following year even if the producer normally sells the crop in the year that is harvested. (You can’t report them in the year of damage if you don’t receive them in that year).
- ☑ Be sure to enter the gross amount of proceeds and any offsetting entries in your recordkeeping. Often the crop insurance company will deduct unpaid premium from your proceeds. In this situation, producers often enter only the “net” check in their records. This discrepancy may not be discovered until the producer receives the 1099 form at year end.
- ☑ Only crop insurance proceeds paid because of crop damage or the inability to plant crops are eligible for the deferral under Internal Revenue Code 451(d). Thus, crop insurance payments based on low county yield such as Group Risk Income Protection (GRIP) are not eligible for deferral. Also, payments made for a decline in the price of the commodity, rather than a physical loss, do not qualify for deferral. Insurance policies that have both a yield and price component such as Revenue Protection (RP) will require a separate calculation to determine the amount that can be deferred. See “Revenue Protection Crop Insurance Calculation” on page 4 for more details and an example of this calculation.



Capital assets. Consider purchasing needed capital assets such as equipment, buildings or breeding livestock. The federal depreciation rules are described below; however, each state decides if it will couple or decouple from these. Check on the depreciation rules for your state.

- **Bonus depreciation for purchased capital assets.** An additional first-year depreciation deduction equal to 50 percent of adjusted basis for qualified property is available for both regular income and AMT; (Iowa is NOT coupled). A general description for qualified property is:
 - MACRS (Modified Accelerate Cost Recovery System) property with 20 years or less recovery period
 - Original use required by taxpayer (new)
 - Property must be placed in service before Jan. 1, 2013.
- **Utilize the “quick write off” depreciation for purchased capital assets.** For 2012, the Section 179 deduction is \$139,000; (Iowa DID couple). 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 \$560,000. Additionally qualified items that exceed the \$139,000 are eligible for regular depreciation.

Looking Ahead to 2013...Several Changes That Could Affect You

- **Bonus depreciation for purchased capital assets.** This is not available in 2013.
- **“Quick Write Off” depreciation for capital assets.** The Section 179 deduction limit is reduced to \$25,000 (index for inflation)
- **Medicare Surtax:** Beginning on Jan. 1, 2013, “high income” tax payers will be subject to a new Medicare Surtax. The rate and limit depend on the “type” of income.

For Earned Income: This will be an additional 0.9 percent charge on wage income in excess of \$250,000 for a married person (\$200,000 for single). This 0.9 percent surcharge will be added to the current employee Medicare withholding rate of 2.9 percent for a total rate of 3.8 percent.

For Unearned Income: This surtax will be 3.8 percent for a married couple on unearned income in excess of \$250,000 based on a Modified Surtax AGI calculation (\$200,000 for single). Unearned income examples are interest, dividend, capital gains and passive rental. However, tax-free interest and retirement plan annuities are exempt from the surtax.

Payroll Tax Reduction Expires: The 2 percent payroll tax reduction is scheduled to expire on Dec. 31, which will result in employers withholding the 6.2 percent social security tax from employees (vs. the previous rate of 4.2 percent). In the past, this reduction has caused some confusion for employers, mostly because it’s been scheduled to expire several times before being extended at the last minute. If you have employees, watch and see what happens this time.



**IOWA FARM
BUSINESS
ASSOCIATION**

**2515 UNIVERSITY
BLVD, STE 107
AMES, IA. 50010**

Phone: 515-233-5802

info@iowafarmbusiness.org

We're on the Web!

www.iowafarmbusiness.org

www.pcmars.com

Revenue Protection Crop Insurance Calculation

When the insurance payment is based both on the crop damage and the price loss, as in the case of Revenue Protection (RP) insurance, only the portion attributed to crop damage is eligible for deferral. To calculate the deferral amount, you must calculate a percent of physical loss compared to the total loss. The formula for this calculation would be: physical loss/ (physical loss + price loss). **Note:** Normally if the harvest price *exceeds* the base price, the physical loss amount will constitute 100 percent of the total loss amount (this could depend on when the payment was received). Here is an example of the calculation:

Facts:

- (a) Approved yield = 170 bu/acre
- (b) Base Price = \$6.50/bu
- (c) Harvest Price = \$7.50/bu
- (d) Insurance Coverage = 75%
- (e) Harvest Yield = 100 bu/acre
- (f) Insurance Proceed Per acre = \$206.25 (received in December)



Deferral Calculations:

- (g) Physical Loss Calculation=\$525 per acre; (70 bu/acre (a-e) x \$7.50(c))
 - (h) Price Loss Calculation=0 per acre; ((harvest price (c) exceed base price (b)))
 - (i) Deferral Formula Percentage=1; (525(g)/(525(g) + 0(h)))
- Amount Eligible to Defer is 206.25; (\$206.25(f) x 1(i))

For more details see the "Tax and Legal Issues Associated With The 2012 Drought" article written by Roger McEowen, Center of Agricultural Law and Taxation, posted at <http://www.calt.iastate.edu/cropdrought.html>

Pioneer Growing Point Magazine Articles

The Iowa and Illinois Farm Business Associations will be co-authors of the tax/ financial articles in Pioneer's Growing Point magazine again this year. The last two articles that have been written are:

- 📖 "Production date for the 2011 for Illinois & Iowa.
- 📖 "Crop Insurance Proceeds: Can I defer? To read these articles, go to our website and click on "[News & Articles](#)".