

FARM CLIENT NEWS

For NEFAA clients and ACES co-workers served by Robert Page, Extension Economist.



Thirty Days and Counting – Putting in the hours to be ready for January 1st.

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As of today, most of my farm clients are still harvesting crops. My carefully planned 60-day-in-advance schedule of November tax estimate meetings fell by the wayside as we all waited for sunshine and for fields to dry up enough to get equipment into the fields. My original goal was to finish all farm tax planning meetings before December 1. The plan was to allow all of December for farmers to make year-end decisions based on their November tax estimates. Well, so much for good ideas. I'm talking to farmers daily and they're still telling me to wait another week or so to come to the farm. So, the new goal is an all-out push for 20 days of tax estimate meetings, leaving farmers at least 11 days to make year-end tax adjustments. I would prefer not to work during the holidays.

For those of you who don't even think about taxes until March or April, I can assure you that farmers are thinking about taxes right now. As we discussed in last month's newsletter, farmers make equipment, supplies and crop sale decisions based on their projected taxes calculated from their projected 2009 profits before the end of December. Good tax planning can cut farm federal and state income and self-employment taxes by 50% or more, depending on the farmer's tax goals. That's why the 4th quarter tax planning meeting is our most important meeting of the year. After December 31st, tax planning is done, other than some choices on depreciation and treatment of expenses. But until the farmer has a reasonable idea of their final harvest income, there's no need for a meeting.

Special points of interest:

- Q & A on 2009 farm depreciation.
- Modifying QuickBooks to fit the needs of a farmer.
- 17 county territory – helping farmers across North Alabama.

Fourth Quarter Goals – Items checked off in November.

While tax estimate meetings were mostly put on hold, November was still a busy month. Here's a recap of my activities for the month.

- Made 10 farm visits during the month in Clay, Jackson, Dekalb and Blount counties. Completed 3 tax estimates with 2 poultry/cattle farmers and 1 fruit grower. Row crop farmers still gathering harvest.
- Attended Auburn Outreach Office's 2 day tax school in Gadsden to earn 16 hours of CPE credit to maintain my CPA certificate.
- Attended the Central Alabama Farm Analysis Association annual meeting in Autaugaville to honor retiring Economist Hal Pepper and to meet Dr. Paul Brown, Extension's new Associate Director.
- Wrote my portion of 2010 Farm Analysis Business Plan for Extension administration. With one Economist retiring, Farm Analysis is under top-to-bottom review. Changes are coming.
- Continued posting farm client bank statements and other records in preparation for tax meetings.



We strongly recommend that farmers visit the IRS website at www.irs.gov and download the **2009 Farmers Tax Guide – Publication 225** for use in preparing 2009 returns.

If you have a question, this is the first place we're going to look for answers.

Your local County Extension office may also have received a supply of these publications.

If you have any questions on this publication, please call or email me any time.

2009 Tax Notes: Items to consider for all farmers.

Extension Economists study farm taxes. It's a big part of what we do. Here are some questions and answers that my Extension co-workers (REA's and Specialists) may find helpful with farmers.

Question 1: Farmer buys a new pickup truck in 2009 for \$35,000 for full time use on farm business. Can they write off or fast depreciate the entire \$35,000 through Section 179 depreciation on their federal tax return?

Answer: No, Section 179 depreciation will be limited to \$25,000 for 2009 return. If the farmer traded in their old truck on the new truck purchase, Section 179 depreciation is reduced further. You will need a copy of the vehicle bill of sale to calculate the exact amount of depreciable basis (cost) available on either Section 179 or regular depreciation. See pages 38-45 in Pub 225 for more details and limitations.

Question 2: What is the total amount of Section 179 depreciation available for 2009 on their federal tax return?

Answer: The total amount you can elect to deduct under section 179 for most property placed in service in 2009 is \$250,000. This 2008 and 2009 amount is double the 2007 total of \$125,000. See Pub 225, page 39-40.

Warning: In 2008, Alabama tax code decoupled from federal tax code on this extra \$125,000 in Section 179 depreciation. That means section 179 depreciation on Alabama 2009 tax returns is still limited to \$125,000.

Question 3: What is Bonus depreciation for 2009?

Answer: For qualified property placed in service in 2009, you can take 50% special depreciation allowance on your federal tax return. This allowance is an additional deduction you can take after any section 179 expense deduction and before you figure regular depreciation under MACRS. See Pub 225, pages 41-42.

For example, assume a farmer pays \$30,000 to build a new general farm use barn or metal building in 2009. If they elect to take the available "Bonus" depreciation, the farmer can deduct \$15,000 in special depreciation for 2009, plus regular depreciation on the remaining \$15,000 in cost to be depreciated over the building's 20 year useful life.

Question 4: A farmer routinely pays for fertilizer and seed using credit cards or Farm Plan. If they have not paid off their credit card balance in full by year-end, can they deduct their unpaid purchases as 2009 expenses?

Answer: Many farmers file their tax returns using the cash basis of accounting. In general, purchases made by credit card are considered as "cash" purchases because the farmer has purchased them through a financing institution that has a specific finance and interest terms agreement with the farmer, just as if the farmer had drawn on their local bank line of credit to purchase fertilizer and seed. On the other hand, if a farmer has a year-end balance on an open account with a non-financing institution (the local feed and seed store), these purchases are not to be counted as 2009 expenses for cash-basis farmers. These purchases have not been "paid for" through any type of pre-agreed finance agreement.

Tax Audit Tip: Farmers using credit cards to purchase farm supplies should keep copies of each month's credit card statements with their accounting and tax records. If audited, these statements will document which expenses were posted to each month, and substantiate that the purchases were valid farm expenses.

Success Stories – Solving problems and saving farmers money.

This month, I had two problem solving sessions that are typical of an Extension Economist's work with farmers.

Farmer 1. This client farmer has a large commercial vegetable operation. He tracks both dollar sales and unit sales by box for each type of vegetable using QuickBooks and his expanded Farm Analysis Chart of Accounts. He asked how to track different sizes and types of the same vegetable. The answer was to develop unique item numbers for each vegetable.

Item Number	Item Description	Number of Units	Price per Unit	Total Sales
Squash – SNS	Squash – straight neck - small	10	8.00	\$80.00
Squash – SNL	Squash – straight neck - large	10	10.00	100.00
Squash – CNS	Squash – crook neck - small	5	7.50	37.00
Squash – CNL	Squash – crook neck – large	6	9.00	54.00
Zucchini – SM	Zucchini – small	8	9.50	76.00
Zucchini – LG	Zucchini – large	10	11.00	110.00

By asking the right questions, the problem was solved. The QuickBooks Sales report will track unit sales of four different categories of squash sales. The QuickBooks Financial report (the Income Statement) will track squash sales with a single Squash sale account. Similarly, two different types of Zucchini sales will be tracked in the Sales report with a separate Zucchini sale account in the Income Statement. If the farmer needs additional sub-categories, such as a 5 pound, 10 pound or 50 pound box sales, this can be solved by adding even more item numbers.

This additional detail will allow the farmer to track squash and zucchini sales on a month-by-month and year-by-year basis and quickly see changes in the both total income and price per sales unit of his vegetables.

Now, the farmer will enter sales of different types of vegetables through the cash receipts function in QuickBooks which allows him to enter this level of unit and customer sale information. The resulting reports help him manage better while requiring slightly more time than simply entering accounting information. It's more work, but he thinks the new data is worth the time.

Farmer 2. This farmer was not one of my Farm Analysis clients, but operated a farm and a separate agricultural side business. As we discussed his QuickBooks records and reviewed his prior year tax returns, the topic of inventory control came up on his side business. We discussed how he might improve his inventory items and accounts to track his different inventories.

The farm was a sole proprietor farm on the cash basis of accounting for tax purposes. The side business was operated as a single member LLC on the accrual basis of accounting for tax reporting, which is generally required when a business has inventory. As we walked through each step of his routine business transactions, it became questionable whether the farmer actually had business inventory. Rather, he acted as a broker who bought and sold agricultural items without ever taking physical possession. With no inventory, the farmer may be able to convert to the cash basis of accounting, reducing his sales by the adjusted amount of accounts receivable outstanding, thus reducing his taxable income and saving him money.

We will be reviewing this possible accounting change with his tax preparer and if we are all in agreement after studying the matter further, the farmer will file Form 3115 to convert to the cash basis of accounting for the single member LLC business.

Reminder: Extension Economists do not prepare and sign tax returns. We perform bookkeeping services and prepare the Schedule F – Farm Tax Return worksheet, depreciation worksheet and other tax work-papers for the farmer's tax preparer. In return for these fee-based services, Farm Analysis Economists compile and publish farm statistical and financial data in our Annual Summary and individualized five year average statistical and other financial reports for each client farmer.

Need a hand-written Farm Record Book for 2010?

Each County Extension Coordinator in the 17 counties served by the Northeast Farm Analysis Association recently received a hand-written farm record book and order forms from Illinois Extension. If you know of a small (or large) farmer who prefers to keep hand-written rather than computer records, they can call their local Extension office for an order form. The softbound binder with its 18 column worksheets is very reasonably priced at \$11. Hand-written farm record books are no longer printed by Alabama's Extension Publications. After reviewing several other hand-written record books from other state Extension publications, we recommend the Illinois Farm Record Book for FA clients.

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Northeast Farm Analysis Association

Holt Hardin and Robert Page are the two Extension Economists for the Northeast Farm Analysis Association. The association recruits and serves farm client/members in the following 17 counties.

Blount County, Calhoun County, Cherokee County, Colbert County, Cullman

County, Dekalb County, Etowah County, Franklin County, Jackson County, Lauderdale County, Lawrence County, Limestone County, Madison County, Marshall County, Morgan County, St. Clair County and Winston County.

If you know of a farmer who needs information or assistance with their farm records, you can direct them to their County Extension office or call either Holt Hardin at 256-574-2143 in Scottsboro or me at SMREC.

It is always a pleasure to meet and assist farmers with their record keeping needs.

The Alabama Farm Business Management and Financial Analysis Program.

For more information on the Farm Business Management and Financial Analysis Program, please visit the Alabama Cooperative Extension System website at www.aces.edu.



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