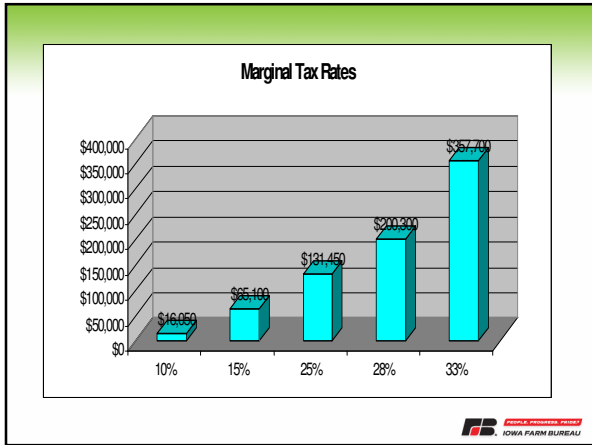




Iowa Farm Bureau Branded for Success

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Marginal Tax Rate

- Your marginal tax rate — including federal, state, and local income taxes and federal payroll and self-employment taxes — is the percentage that will come off the top of your next dollar of incremental taxable income. Put another way, the percentage of that next dollar of income that you'll actually be allowed to keep is 100% minus your marginal tax rate.



Marginal Rates

	A	B
Schedule F	\$75,000	\$102,000
Exemptions	(\$14,000)	(\$14,000)
Standard Deduction	(\$10,900)	(\$10,900)
SE Tax Deduction	(\$5,737)	(\$7,803)
Taxable Income	\$44,363	\$69,297

	Marginal Rates	
Tax bracket	15.00%	25.00%
Effective SE tax %	14.10%	2.53%
	29.10%	27.53%



Self-employment Tax(SE)

- For 2008 you pay 15.3% up to \$102,000
- Pay 2.9% after \$102,000
- Deduct ½ of SE tax paid



SE Tax Savings

- Title land in spouse's name
- Pay spouse rent
- Rent is deductible on Schedule F
- Taxable as income on Schedule E
- 80 ac @ \$200/acre rent would save about \$2200 in SE tax



SE Tax Savings

- Sub S Corporations pass through income to shareholders, but income not subject to SE tax
- Must pay wages to employee/shareholders, but now you can manage wages paid



Section 179 & Bonus Depreciation

- First take the Section 179 amount and then 50% bonus on the remainder
- Any basis left will depreciate over the recovery life of the property
- Section 179 applies to new and used property
- Bonus applies only to new property, but can be used on boot paid plus remaining basis on traded property
 - Landlords can use



Depreciation Example

	New Combine	Used Tractor	
Purchase price	\$350,000	\$150,000	
Trade allowance	\$100,000	\$0	
Cash paid(boot)	\$250,000	\$150,000	
Section 179 taken	\$100,000	\$150,000	
Cash paid available for bonus dep.	\$150,000	\$0	
Basis of traded property	\$75,000	\$0	
Amount available for bonus dep.	\$225,000	\$0	
50% bonus depreciation	\$112,500	\$0	
Remaining basis	\$112,500	\$0	
Depreciation	\$12,037	\$0	
Total Depreciation	\$224,537	\$150,000	\$374,537
MACRS Depreciation	\$34,775	\$16,050	\$50,825
		Difference	\$323,712



Depreciation on Vehicles

- Auto with GVW(unloaded) 6000# or less
 - Up to \$10,960
- Truck or van with GVW(loaded) 6000# or less
 - Up to \$11,160
- Car, truck or van GVW over 6000#, but less than 14,000#
 - SUVs(unloaded)
 - No limit on deprec., limit of \$25,000 – Sec.179
 - Pickups(loaded)
 - If cargo box at least 6 ft. long – Maximum Sec. 179



Depreciation for 2009

- New farm machinery is 5 year property
 - Only for 2009
- Used farm machinery is 7 year property
- Section 179 is **\$133,000**
- No bonus depreciation



Health Savings Accounts(HSAs)

- Need a high deductible plan
 - \$1100 if individual
 - \$2200 if family
- HSA funding
 - \$2900 if individual
 - \$5800 if family
 - + \$900 if age 55 and over
- Enroll by 12/1/08 and fund by 4/15/09



Wages Paid to Children

- Under age 18 – No FICA withholding
- Reduces SE tax for employer
- Can have earned income of \$5450 and pay no tax
- Wages must be reasonable
- Issue W2
- Child could invest in Roth IRA
- \$5000 in wages could save \$1750 in taxes



Grain Gifted to Children

- No income to report by donor
- Eliminates SE tax
- Gift crops that have been raised in prior year to avoid expense adjustments
- Keep value of gift under \$12,000
- Donee sells crop & reports income on Sch D
- Donee can not loan proceeds back to donor
- Kiddie tax now kicks in on dependents younger than 19 and those under 24 years of age and full time students



Giftting to Charity

- Donor gifts commodity to charity
- Charity sells commodity
- Donor reports no income
 - Save SE tax and income tax if not able to itemize
 - \$5000 grain donated saves \$1750 in taxes
 - Net cost equals \$3250
- Corporations can also gift to charities
- No tax forms to file
- Can gift commodities raised in current year



Charitable Contributions

- Must have canceled checks or receipts for all contributions
- If you normally can't itemize, then double up every other year
 - Same is true for property taxes and state income taxes



Paying with Commodities

- Saves SE tax
- Doesn't count as wages for FUTA
- Report as income and wage expense on Sch. F
- Issue W2
- Employee reports wage income and additional gain or loss from sale of commodity
- Employee must have control and dominion over commodity before it is sold
- **Follow the rules!**



Prepaid Expenses

- Cannot be a deposit
- Receipt should state quantity, quality and price
- Non-refundable
- Serve a business purpose
- Can't prepay interest
- Can prepay rent
- 50% rule
- **Know your supplier, you are at risk**



Prepaid Expenses

- Must write a check
- Borrowing money from your supplier to purchase inputs does not allow a deduction in current year
- Borrow money from the bank and then write a check for the inputs
- Can borrow money from supplier to purchase machinery



Fertilizer Allocations and Elections

- Farmers are entitled to treat the purchase of fertilizer, lime, and other materials used to enrich the soil as a direct expense or to be capitalized (IRC Sec. 180)
- To elect to direct deduct simply include it on Schedule F
 - Effective for taxable year in which made



Defer Income

- Avoid constructive receipt of income
- Need signed contract
 - State quantity & price
 - State payment date after current tax year
- Can't hold checks
- Can elect out of deferred contracts on a per contract basis



Deferred Contracts

- Not covered by indemnity fund
- **Know your buyer, you are at risk**



Beginning Farmer Tax Credit

- 5% of cash lease
- 15% of share lease
- Credit goes to owner
- Offsets Iowa income tax
- Carried forward 5 years
- 5 yr. leases must be recorded
- www.iada.state.ia.us



Thank You!!!!

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