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Women ag producers and leaders listen last Saturday to information given by local accountant Stephanie Urban on what needs to be done when preparing a tax return at K-State Research and Extension’s Women in Agriculture Conference at the Seward County Activity Center.

By ROBERT PIERCE

• Leader & Times

In the next three-plus months, millions of Americans will file federal and state tax returns. A significant portion of that population are farmers, and while all tax codes can seem a bit complicated, those for farmers can be even trickier.

Stephanie Urban of the local accounting firm, Byron Bird and Associates, gave some area farmers and ranchers some tips for navigating the waters of tax preparation at last week’s Women in Agriculture Conference hosted by K-State Research and Extension.

Urban said when preparing a return, farmers first need to have accurate records and everything ready for tax preparers. The first item, she said, should be income, which includes all items received during the year.

“This includes money, property or services,” she said. “If you’ve received property or services in exchange for something, those are recorded at whatever the fair market value of them are on that date.”

Urban said all ag producers need to remember that income is defined as income when it is available.

“If you received a check from somebody in December, just holding that check till January to deposit it in the bank does not make it become the next year’s income,” she said.

Urban said this is key when it comes to dealing with contracts with grain elevators.

“Sometimes, those contracts will say that income is available upon receiving the crop,” she said. “In that case, even if you don’t take the income from the elevator until the next year, it really is income when it’s available to you.”

Other sources of income include grain, livestock, pasture rent, agriculture program payments and crop insurance.

“There is an option to elect to defer crop insurance proceeds,” Urban said. “If someone comes in and they damage your crop and they pay you for that crop, that is considered farm income.”

Next, Urban talked about expenses, which she said farmers need to track continuously throughout the year.

“Expenses include the current costs of operating your farm, but do not include items that must be capitalized or included in inventory,” she said. “Ordinary expenses means what most farmers do. Necessary expenses means what is useful and helpful in the farm. Some expenses may be personal and part business and will need to be allocated between your personal and your business. The personal part is not deductible.”

Urban gave some examples of farm expenses, including hired labor, which she said includes hiring children to work on the farm.

“If you do hire your children, they do need to actually do work,” she said. “You’re allowed to hire your spouse to work for you too and pay them a wage.”

Repairs and maintenance of farm property equipment are also considered expenses.

“It’s not considered repair and maintenance if it extends the life of that piece of equipment,” Urban said, however. “That then makes it a capitalized expense.”

Other examples of expenses are interest paid on farm loans or mortgages, breeding fees, fertilizers, real estate and personal property taxes on farm equipment and land, insurance on farm assets, crop insurance, health insurance for employees, rent or lease payments and depreciation and costs of livestock sold during the year.

“There are a lot of other expenses that I didn’t list here,” Urban said. “Basically, anything that is for the farm can be a farm expense.”

The next thing farmers should track is inventory.

“Inventory should include all items held for sale or for use whether raised or purchased that are unsold at the end of the year,” Urban said. “Livestock held primarily for sale must be included in that inventory.”

Growing crops are not required to be put in inventory unless the crop has a pre-productive period of more than two years, something, Urban said, that rarely happens in this area.

“Most crops are planted and harvested within a year,” she said.

Urban next defined capital expenses.

“Capital expenses should include payments for acquisition improvements or restoration of any assets that is expected to last more than one year,” she said. “They are generally not deductible, but may be depreciated. Land is never deductible, nor depreciated. It is an investment. Land improvements can be depreciated.”

Urban said some capital expenses do not have to be depreciated over five or seven years, but rather can be counted as an expense in the year of purchase.

“Your records on your capital expenditures should show the purchase price, the costs of any improvements you’ve made, when and how the item was aquired, any depreciations or deductions that have been taken over the years since you’ve owned that piece of equipment,” she said.

No matter what, Urban said farmers must keep supporting documents on all transactions.

“You should have an invoice or a receipt,” she said. “If you ever do get audited, a canceled check alone is not proof that it’s a farm expense.”

Urban said taxpayers can be audited for up to three years after a return is filed or the due date, whichever is the latest.

“We usually recommend you keep them a little longer than that just to be safe,” she said. “We recommend that you always keep your tax returns because if they ever wanted to accuse you of fraud, you have proof that you filed that tax return.”

Urban said personal expenses cannot be deducted, and this includes any that, in some way, relate to farm business.

“Your personal expenses include expenses paid on your property you use for your home, any life insurance, maintenance on your personal vehicle and your household expenses,” she said. “Your electricity you pay for your house is not a deductible expense.”

Personal expenses also include the purchasing or raising of livestock or products that are used for family consumption.

Urban then outlined some examples of non-deductible items, including the loss of growing plants, produce or crops and repayment of loans.

“Loss of livestock raised that die if you’ve deducted the cost of raising them as an expense,” she said. “You have livestock that was born on your farm. You’ve fed them all through the years. You have deducted that feed. When that particular animal dies, there’s no deduction to take at that point.”

“You can elect to postpone some or all crop insurance proceeds as income till the following year if you meet these conditions,” she said. “You have to be a cash basis taxpayer. You receive the crop insurance proceeds in the same year as the damage. You can show that under normal business practices, you would defer that crop to the next year.”

“There’s also options to defer livestock sales if the livestock sales is because of drought and is something that you would not normally do,” she said.

Urban said farmers can also take advantage of income averaging, which allows them to take income from the past three years and find what is the average amount of income for that period.

“This is a very good advantage if you have a lot of farm income in the third year, but in one of the last three years, you had a loss or you had very little income,” she said. “That could put you at a lower tax rate.”

Finally, Urban talked about unemployment, something she said the agriculture industry is not subject to.

“You’re not subject to state unemployment or federal unemployment until you have paid out so much per quarter to your employees,” she said.