

Plan All Year for Income Tax Reporting

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Farmers often can make personal and business decisions during the operating year that help determine the amount of income tax they will pay at the end of the year.

The following remarks and suggestions are offered Arizona farmers to help them avoid paying unnecessary income taxes.

Special tax consideration has been given to the sale of foundation (breeding) and dairy stock that has been sold as a result of the drought. Money received from such sales is not subject to income tax if it is used to buy replacement stock within 12 months from the date of sale. In some cases extensions can be had.

All breeding and dairy animals are classed as Section 1231 assets. If they have been owned by you for 12 months, they get long-term capital gain treatment. This means that only half the "gain" or profit is taxed, or that the maximum tax cannot exceed 25%. It may be possible in some cases for the farmer to realize a net gain on sale of such assets by delaying sales for a few days or weeks to fulfill the 12-month-ownership requirement so that the money received can be considered a long term capital gain.

Get Paid For Farm Gradually

If you sell your farm, consider using the installment-sales method to spread tax liability on gain over a period of years. This can be done if payments received in the year of sale are not over 30 per cent of the sales price.

If you buy a farm, immediately assign values to the purchased items so as to divide the total cost of the farm among (1) depreciable equipment and improvements, (2) land, (3) dwelling, and (4) growing crops. Such a division will allow



wiser tax management and may help you better determine what was paid for the farm.

Depreciate Facilities Quickly

It is usually to your advantage to depreciate items as quickly as is legally possible. Some farm items (such as grain storage facilities) are subject to very rapid depreciation rates. It would be wise to determine the allowable depreciation (or amortization) rates on your depreciable items.

Give particular attention to payment of bills where you have the choice of paying in 1956 or 1957. If your taxable income for 1956 is expected to be considerably less than it will be for 1957, it may be wise to delay payment of bills until 1957. If the opposite is true, then plan to pay bills, and also pay for goods to be delivered in 1957, before the end of 1956. This will help even out your taxable income and avoid higher-bracket rates in the year you expect your gross income to be larger.

Plan to make optional expenditures in years of high gross income. The cost of upkeep and repair of farm improvements, installations, equipment, and machinery, the outlays for small tools, seeding legumes and grasses, etc., do not come every year, and these costs are deductible in the year they occur.

Scan Deductible Items

Expenditures for erosion control and certain other soil and water conservation practices may, within limits, be deducted as a farm expense. Check your tax instructions or consult a tax expert on this.

Pay your children wages for the farm work they do. These wages can be counted as farm labor expenses, even though

these children are listed as your dependents. Give your children income-producing property—land, livestock, machinery—and let them report income from their work and the gift property. This is another way to spread family income over the lower brackets. It also, in effect, allows a double deduction for dependent children, since you can still claim them as exemptions and they each can claim the normal \$600 exemption for themselves in reporting their income.

Delay Income Until Retirement

If you are almost 65 years old consider postponing income until you are 65 to take advantage of the double personal exemption. Also as you near 65, plan income from rents, dividends, interest and pensions to qualify for retirement income credit.

Plan your personal deductions so you can benefit by itemizing them one year and then take the standard 10% (or \$1,000) deduction the next year. For instance you could buy a 1956 license for your personal auto in January 1956 and your 1957 license in December, 1956. Other deductible items such as religious or charitable contributions, etc., that would normally be paid over a two year period, could be paid within one calendar year and itemized as deductions for that year.

Records Are Most Important

Good records are a "must" for good tax management. Particular attention should be given to recording the many small and often-overlooked expense items ordinarily paid for in cash. It might be advisable to keep charge accounts at places where you buy most of your farm supplies. Also record bank service fees, interest payments, membership dues to farm organizations, expenses for farm magazines, overnight business trips, losses on household goods used by hired help, etc. Keep records to identify the source of each bank deposit—otherwise some of these business fund deposits may be counted as taxable income if your tax returns are audited.

Although good tax management offers many opportunities for real savings it has its limitations. Where tax management decisions conflict with wise farm management decisions it usually pays to give precedence to good farming procedures. It pays the farmer to consult with a reputable income tax expert, and not just to have him file a return. Usually the services of such experts are well worth their cost, both from the standpoint of money savings and your increased knowledge regarding income tax management.