TelFarm Newsletter

Volume 18, Issue 2 Fall 2018

Important Dates to Remember

Late October:

If you are on Pc Mars and would like your accounting records reviewed prior to receiving tentative reports, **please submit a backup to the TelFarm Center by Monday, October 22, 2018.** Files received after this date will not be reviewed, they will only be printed as is for tentative tax documents. If you submit them for review and have corrections to submit, please send your updated copy of your books by Tuesday, November 6, 2018.

Early November:

Accounting and depreciation transactions are due in the TelFarm office on or before Tuesday, November 6, 2018 (not "postmarked by") in order for you to receive:

- Cash Flow Report
- Tentative Tax Planning Package
- Depreciation Schedule

We will only print accounting reports for clients that have submitted books/records to us completed through at least September. All clients will still receive tentative depreciation schedules and tax planning handouts.

Late November:

Items mailed to clients:

- Tentative Tax Planning Packages and Depreciation Schedules
- 2019 Enrollment Contracts

December:

- Tax Planning meetings by local or District Extension Educators. Submit your changes in accounting and depreciation made during Tax Planning meetings to TelFarm upon completion.
- Enrollments due by Friday, December 14, for 2019 year. (A signed enrollment contract is needed to get supplies)

January:

- Employers prepare W2s and give to employees and SSA by January 31, 2019 as well as Form 943 to the IRS.
- Furnish 1099s to recipients and 1099-MISC for employee compensation to the IRS by January 31, 2019.

February:

Tax Package Deadline - final 2018 records are due at the TelFarm office on or before Friday, February 1, 2018 in order for you to have some time to file and pay taxes by March 1, 2019 to the IRS.

Overview of Tax Changes for 2018

The Spring newsletter mentioned that there have been some changes to the tax code with the TCJA passed in December 2017. Below is a list that highlights some of those changes.

- The corporate tax rate of 21% down from 35% but most farmers only pay 15% so C-corporations still pay about a 40% higher income tax
- You can fully deduct all farm assets purchased between September 28, 2017 and December 31, 2022 with Bonus Depreciation with a few exceptions
- Section 179 Expense Election is set at $1 million
- A reduction in overall tax rates by 5-10%
- Almost an automatic 20% deduction from net farm income
- Doubling of lifetime estate tax exemption to $11.2 million (2018)
- Almost all farmers should be able to deduct all interest expense
- Net Operating Losses can only be carried back 2 years and can only offset 80% of income going forward.
- Meals are only 50% deductible for farmers who provide meals to employees on-site
- No more Domestic

Tax Changes, Continued

Production Activities Deduction (DPAD) deduction, but 20% deduction is twice as much anyway

- Co-ops may pay out a deduction similar the old DPAD at their election. It will vary.
- Section 1031 exchanges are applicable to real-estate only, so machinery trade-ins are not allowed, but 100% bonus depreciation or Section 179 can wipe out gain anyway at your election (other than state issues). See later article in this newsletter.

As you can see there are likely some wins and losses for your tax bill. We recommend visiting with your accountant to determine how these changes will specifically impact your business.

New MSUE Farm Business Management Agents Ready to Work with TelFarm Program

There are four new MSUE Farm Business Management Agents that are working with the TelFarm Program. Jon LaPorte started last fall and was able to participate in check-ins and business analysis appointments for the 2017 year. Corey Clark, Florencia Colella and Dan Ochs have just recently joined the MSUE staff to cover the remaining vacancies. All of the new agents are excited to work with you.

Corey Clark

Corey is covering most of the area previously covered by Dennis Stein, the Thumb/Eastern Lower Peninsula area. Corey is originally from a mid-Michigan dairy farm and a proud MSU grad. Her background includes degrees in Animal science and Agricultural Economics, plus six years working with Clemson Extension assisting farm business owners in developing, maintaining and analyzing their financial records. Her office is located in the Saginaw County MSUE office (phone 989-758-2503).

Florencia Colella

Florencia is covering the West Central Lower Peninsula. She is originally from Buenos Aires, Argentina, and comes from a family of farmers, butchers and accountants. She has degrees in agronomy and agricultural economics. She got her masters degree from MSU through a Fulbright Scholarship. Some of her experience/areas of interest include agrifood logistics and marketing; producer-consumer food networks; microeconomic research; impact evaluation of ag, food and resource production systems at a regional level; the role of minorities in farm labor, ownership and management; and facilitating rural/urban business development. Her office is located in the Newaygo County MSUE office (phone 231-928-1052).

Jon LaPorte

Jon is covering the Southwest Lower Peninsula, most recently covered by Adam Kantrovich. Jon is originally from a small Cass County cash crop farm. Jon has a degree in Agribusiness Management and Agronomy from MSU. He is also a Certified Crop Advisor. His background is as a USDA loan officer and as salesman for an ag retailer. His office is located in the Cass County MSUE office (phone 269-445-4356).

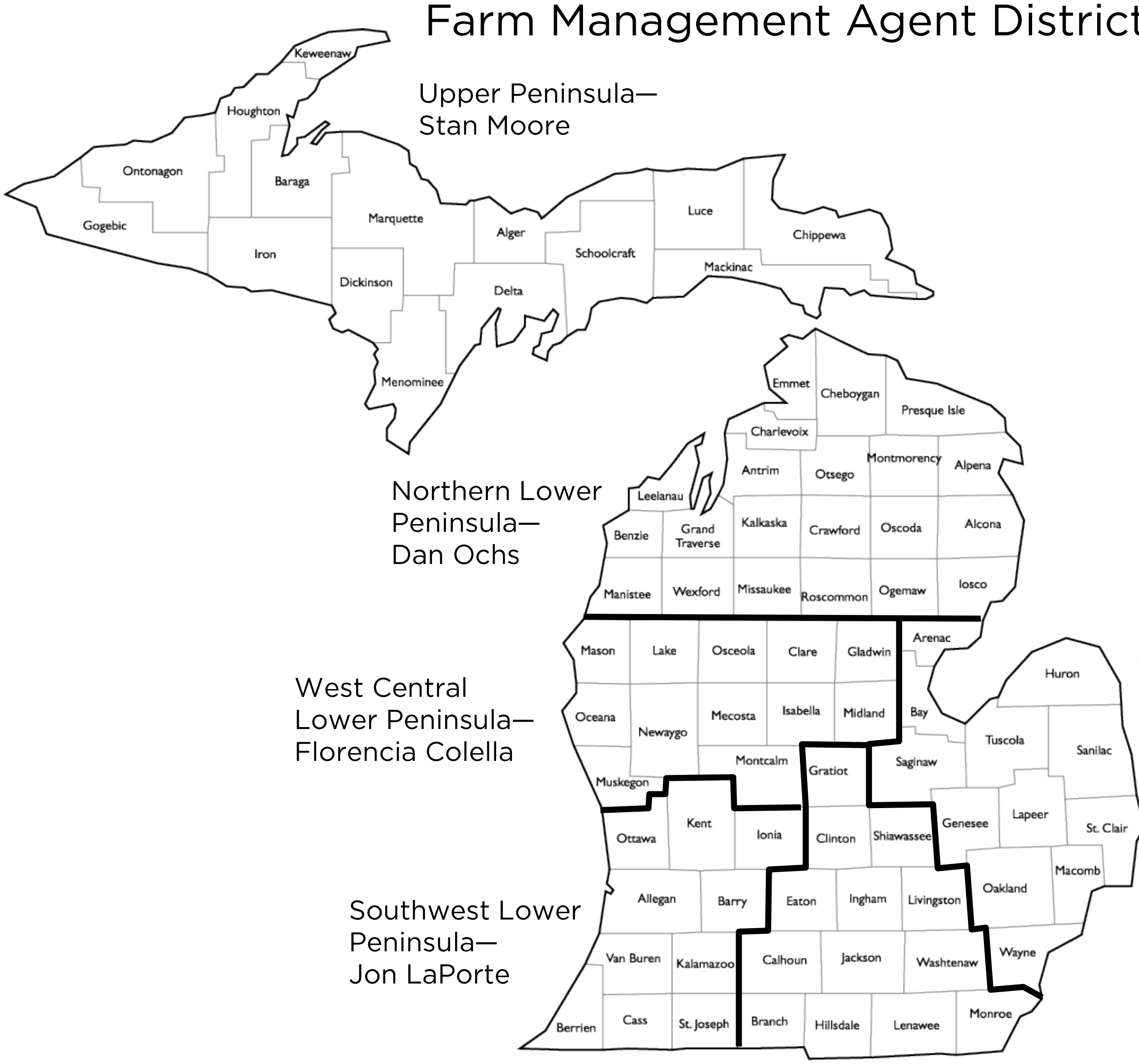
Dan Ochs

Dan is covering the Northern part of the Lower Peninsula, most recently covered by Curtis Talley, Adam Kantrovich and Dennis Stein. Dan is originally from the finger lakes region of New York state. His family operates a crop consulting agency there. His background includes degrees in Applied Economics and Management from Cornell as well as Agricultural Economics from MSU. He too is a Certified Crop Advisor and has a lot of experience with precision agriculture. He also had a stint in Mexico City working in ag finance. His office is located in the Antrim County MSUE office (phone 231-533-8818).

The Southeast Lower Peninsula is still being covered by veteran Farm Business management agent, Roger Betz. The Upper Peninsula is being covered by Stan Moore also a veteran Dairy/Farm Business Management agent and additional MSUE agents as needed.

Current MSUE Farm Business Management Educators: (l to r) Jon LaPorte, Florencia Colella, Roger Betz, Corey Clark and Dan Ochs.

Farm Management Agent District Map



Upper Peninsula—
Stan Moore

Northern Lower Peninsula—
Dan Ochs

West Central Lower Peninsula—
Florencia Colella

Thumb/ Eastern Lower Peninsula—
Corey Clark

Southwest Lower Peninsula—
Jon LaPorte

Southeast Lower Peninsula—
Roger Betz

Depreciation and Trade-In Update

Farm Equipment Depreciation

Beginning in 2018, the Tax Cut & Jobs Act (TCJA) will allow "new farm equipment" to be depreciated over a period of five years. Farm assets will now be allowed to depreciate using the 200% declining balance method, the same as with non-farm taxpayers. Purchased "used farm equipment" must still depreciate using the IRS regulations in place when the item was new (ie 150% DB and 7-yr. life). The Act also removed the requirement that new farm property depreciated using the 150% declining balance method (except for 15 or 20-year property). Straight-line depreciation is still available and the Alternate Depreciation System –ADS is still required for many of our fruit and vegetable farms who choose not to capitalize pre-productive expenses. These provisions apply to property placed in service after December 31, 2017.

New Tax Law and Equipment Trades

The TCJA preserved the like-kind exchange treatment (Sect. 1031) for real property, but eliminated it for personal property so it impacts machinery and equipment trades. Changes to how the Form 3 is completed is explained below.

Old Law Treatment

Gains or losses on the value of the trade-in, typically called the trade-in allowance, were generally deferred. This meant that if a farmer traded-in a fully depreciated piece of machinery the taxable income recognition the depreciation recapture was deferred. The gain recognition was rolled ahead until such time as the replacement property was sold.

New Law Treatment

Without Sect. 1031 exchange treatment being available to machinery, equipment and livestock (personal property) trades, the "trade-in" value will become a taxable event or a "sale". The outcome will then be a sale of the traded-in item at the trade-in allowance value and the new basis for the replacement item will be the value of the trade-in allowance plus the cash boot paid above the trade-in value. The full replacement basis (trade-in value plus the cash boot) will then be available for regular depreciation, Bonus Depreciation or Section 179 Expense Election, which has been increased (see previous article).

For most farms, the net result will reduce self-employment taxes.

Call us at the Telfarm Center if you have concerns or questions regarding this area or completing you Form 3. We will attempt to make contact with you regarding any Form 3 machinery/equipment trade-ins not listed as a sale and purchase.

Wishing you a safe harvest season this fall!

Current PcMars Software Version is 2.5.5.0

MSU is officially closed on these days:

Thanksgiving — November 22 & 23

Christmas — December 24 & 25

New Years— December 31 & January 1

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FIRM team Farm Information Resource Management

MICHIGAN STATE UNIVERSITY | Extension