



Newsletter

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Hedging and Accounting

Many farmers buy and/or sell commodities in the futures market. The IRS has some specific rules which differentiate hedging transactions from speculative transactions.

Hedging reduces a risk that the farmer faces in the production process. A commodity transaction must be identified as a hedge on the date of the transaction. The gain or loss of a hedge is treated as ordinary income and is reported on the Schedule F (Form 1040). If it's not a hedge, then it is a speculative contract and gains or losses will be reported as short-term and long-term capital gains or losses. Capital losses are subject to a deduction limit of \$3,000 per year from ordinary income in conjunction with other rules. There are three key elements in identifying a hedge.

- 1) *An opposite and equal position in futures market offsets a position in the cash market.* For example, a corn producer sells corn futures or a cattle feeder buys corn futures to lock-in feed prices for his cattle feeding operation.
- 2) *The quantity traded is limited.* It should not be greater than (a) the anticipated production by a corn producer or (b) the anticipated use by a cattle feeder. Actual production may be less than anticipated due to weather or disease or pests.
- 3) *Timing should correspond to activities in the cash market.* For example, a corn producer who buys or sells corn futures after the crop is harvested and sold is no longer hedging but now has a speculative contract (according to the IRS).

In general, the accurate way to track the gain or loss for a hedge is to LOAN money to the broker for the margin calls on the futures contract using an asset account. When brokerage fees are taken out by the broker, enter RECD from the asset account and MKTCROP for that amount so the expense is recorded and the checkbook reconciles. When the contract is settled by buying back corn futures, take a HEDGE for the gain and LOAN this amount back to the asset account. If you have a loss then enter HEDGELOSS (income code) with a *negative* amount and a RECD from the asset account as a *positive* number. When the broker sends a check, enter RECD from the asset account. These entries track the cash, the asset account and the tax implications correctly. Like most accounting issues, other entries may give the right result in most circumstances but not necessarily all situations. —LB

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CURRENT PROGRAM VERSIONS

<i>TfWAccountant/Checkwriter</i> ®	1.5.4 or higher
PENSOFT PAYROLL PLUS®	3.07.0138 or higher
<i>Telfarm PAL</i> ®	2.2.5
Update Online: www.canr.msu.edu/telfarm and/or www.pensoft.com	

Self-Employed Health Insurance Deduction

100 percent of amounts paid for health insurance can be deducted as an adjustment to income for a self-employed person, spouse and dependents.

The deduction is limited to net earned income from the business that has the insurance plan *minus* half of self-employment (SE) tax and *minus* the deduction for retirement plans (including traditional IRA, SEP, SIMPLE, but not Roth IRA because Roth contributions are not deductible).

If you have two businesses, you can only use the earned income for the one trade or business for which the plan was established. —LB

2007 W2 Ordering

- Telfarm no longer offers blank W2s for computer program clients. If you need just a few W2s, we suggest you order them from the IRS at **1-800-TAX FORM** (1-800-829-3676) or purchase them from an office supply store (any brand, 2-up format should work).
- **Clients using PenSoft Payroll Plus** may order W2s through **PenSoft**. You can view the different styles at www.pensoft.com/tax_forms.asp. Check the help screens in PenSoft for the correct setup for the style you order. You may “test print” W2s at any time.
- **Clients using PenSoft Payroll Plus Professional or higher** can print W2s on plain paper. Yes, even *Copy A for Social Security Administration* (red form) is approved to be printed from PenSoft Payroll in *black ink!* —NH

MINIMUM WAGE INCREASE

On March 28, 2006, Governor Granholm signed into law a bill that increased Michigan's minimum wage (currently higher than the Federal minimum wage) as follows:

October 1, 2006	\$6.95
July 1, 2007	\$7.15
July 1, 2008	\$7.40



The law applies to Michigan's farm workers. Michigan farmers paying piece-rates should track hours worked; wages for a workweek should equal at least the minimum wage multiplied by hours worked. To change the minimum wage in the PenSoft program, go to **Company Screen > Modify > Settings**.

Microsoft® **Windows Vista**® has been released and is available on new computers or as an upgrade to older computers. It is their latest PC operating system, and comes in a variety of versions. Most users will find that one of the "Home" versions or the "Business" version will adequately serve them. Any new computer purchased now will come with Vista preloaded.

At this time, we do not have extensive field experience with Vista. During our office testing, some small issues were discovered and patches have been posted to address them. **The only major change is in the installation process of our software. Thus, we have a new 2007 Master CD available to lead you through it.** If you have a computer with Vista and need to do an installation of our software, you should:

1. Call or email us to obtain an updated "Telfarm 2007 Master" CD. (*Do not use the current "2007 Telfarm Master" CD*).
2. Use the new CD *dated "April 2007"* to do the installation, and follow the directions on your screen.
3. Obtain the latest patches from our website and apply them.

Patch versions required for Vista: Windows Accounting: 1.5.4 (*or higher*)
PAL: 2.2.4 (*or higher*)

For Pensoft's system requirements, please visit <http://www.pensoft.com/ShowKDB.asp?Doc=561> —BN

Resale Items

When items are purchased for resale and not immediately sold, three entries are required instead of two. For most farmers, the cost of items purchased that will later be resold cannot be deducted for tax purposes until the item is sold. Telfarm accounting entries should reflect this. If items are bought and sold in the same tax year, then there may not be a problem. However, if items are purchased in one year and sold in a later year, then the cash expense of the purchase is in a different year from the deduction for income taxes.

For example, the cost of a feeder steer purchased is entered as FEEDERSTR which correctly decreases the amount in the checkbook but does not show up as a taxable expense for the Form 1040 (Schedule F). When the animal is sold, we enter the amount under STEERRSL which increases the checkbook and counts as income for tax purposes. We also need to enter the original cost of the animal as STEERPUR. This third entry does not affect the checkbook but does count as an expense for tax purposes. Using the Telfarm codes also puts the cost of items for resale in the correct line on the Schedule F. —LB

\$179 Direct Expensing Update

Tax law was changed in May 2007 to allow **\$125,000** of direct expensing (also called section 179) of qualified property purchased in 2007. The amount is *decreased* by each dollar of qualified purchases over **\$500,000**. Last year the numbers were \$108,000 and \$430,000. Eligible qualified property includes machinery, tile, grain bins, fencing, single purpose livestock structures or single purpose greenhouses. This does not include machinery sheds and other general purpose farm buildings. Also, if purchased in 2007, passenger automobiles are limited to a total of **\$3,060** and trucks and vans are limited to **\$3,260** of regular depreciation and direct expensing so we normally just use regular depreciation on them. These limits decrease if used less than 100% for business.

If the gross vehicle weight rating is over 6,000 pounds (most ½ ton pickups are in this category), then the entire cash boot paid (total cost if there is no trade) is eligible for direct expensing. For 2007, if the vehicle is a large SUV, then the limit is a maximum of \$25,000 direct expensing. —LB



Due to new mailing regulations, Telfarm will no longer return 3.5" floppy transmit disks OR disk mailers to clients after **August 1, 2007**.

You may continue to mail us transmits on floppy disks; however, we highly encourage you to **consider emailing** your transmits using instructions found on the Telfarm web site at www.msu.edu/telfarm (Processing | Transmit Instructions) or in the

HELP files of your *Telfarm for Windows Accountant*® program. You may also wish to use the electronic (Excel) version of the Form 3 for capital transactions and email it along with your transmits; this file is also on our web site (Processing | Form 3 Template). This is a quick way to get your transmit and Form 3 information to us for faster processing. We will continue to use US Mail to return your monthly reports to you as always. —KW

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NEWS

Telfarm Calendar

Tuesday - Thursday, July 17 - 19

- Ag Expo on the MSU Campus (*Telfarm will not be participating this year, but you are welcome to stop by and see us in 414 Agriculture Hall during these dates.*)

Monday, September 3

- Telfarm Center closed for Labor Day Holiday

Telfarm Center

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- Or contact your local MSU Extension Agent -

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