



Newsletter

VOLUME 9, No. 3

FALL 2009

Year-End TelfarmTips

- Accountant:** Minimize un-reconciled cash by having a January 1 beginning checkbook balance (CASHBEG) and a December 31 ending checkbook balance (CASHEND). It is best to report balances each month.
- Checkwriter:** See if your records are balancing by going to Help > Diagnose, to see if there are problem records.
- PenSoft:** Check the accuracy of your employees' W2s any time by going to REPORTS | TAX REPORTS | W2s. Before printing and distributing W2s to employees, compare the totals that are reported on the W3. The W3 totals in lines 1, 3, 5, and 16 are automatically generated from the employees' combined W2 totals.
- Handwritten Clients:** you may now use the green column marked "leave blank" to enter actual account names you want for your reports. You may continue to describe income and expenses in column 4 for your own information, but when you use your own choice for a Telfarm code there is no doubt about your intention.
- Is That Your Final Answer ?** Review your last 2008 Depreciation schedule ASAP. If bull or heifer calves have been put into service, then depreciation needs to be started for those animals (typically if they have been on the schedule for more than one year) let us know which ID numbers. Trees may take a little longer than animals to go into service, just let us know.

Upcoming Spring Workshops

Be watching for announcements about Spring Telfarm Training Workshops for March 2010. Morning sessions will be for beginners or less experienced Telfarm users and afternoon sessions will be advanced training. We will likely hold evening sessions again for bookkeepers who can not attend the day-time sessions. If you have topic ideas or recommendations for conducting the trainings, please contact Phil. He would be glad to hear from you.

Current Software Versions

| | |
|---|-----------|
| TfW Accountant/Checkwriter [®] | 1.7.2 |
| Telfarm PAL [®] | 2.4.1 |
| PENSOFT PAYROLL PLUS [®] | 3.09.4.07 |

Update Online: www.canr.msu.edu/telfarm
and/or www.pensoft.com

Year-End Reminders

- Friday, November 6, 2009:** Deadline to have records to the Telfarm Center in order for them to be included in your **Tentative Depreciation Schedule and Tax Package**. Remember, LEVEL I clients do NOT send or email transmits to Telfarm (*only Form 3 information*).
- Telfarm enrollment forms** will be mailed in late November. Please call if you have questions about changing from Form 2 handwritten to software.
- Friday, December 18, 2009:** Date to have your annual **Telfarm Enrollment Contract** to the Telfarm Center in order to receive **supplies** and/or computer **2010 program updates** in time to begin your record keeping in January. Supplies and updates will be sent upon receipt of a 2010 Enrollment *after* December 18. Clients currently using **PENSOFT PAYROLL PLUS[®]** should renew for 2010 directly through PenSoft.
- Form 3 Purchases and Sales:** Match accounting entries of MACHPURCH, MACHSOLD, DAIRYPURCH, etc. with corresponding entries on Form 3 in order for complete and reconciled records at year-end.

Financial Education Opportunities for Women

Annie's Project is returning to Michigan this Winter in a big way. Six Annie's Project series will be conducted around the state. These are exceptional opportunities for farm women to learn about farm management topics as well as develop long-lasting friendships and business associations.

This year's Annie's Project locations are below with contact information. Most sessions run 6 consecutive weeks from the starting date listed.

- | | | |
|----------------|----------------------|---------------------------------------|
| 1) January 18 | Imlay City | Jeannine Schwehofer (989) 269-9949 |
| 2) January 19 | Bad Axe | Bob Battel (989) 269-9949 |
| 3) January 19 | Stevenson | Warren Schauer (906) 786-3032 |
| 4) January 20 | Laingsburg | Marilyn Thelen (989) 224-4126 |
| 5) February 4 | Alpena | Mary Dunckel (989) 354-9870 |
| 6) February 15 | Benton Harbor | Bruce MacKellar (269) 944-4126 |

Tax Items for 2009

- Qualified farmers (2/3 of gross income from farming in either 2008 or 2009) do not have to pay estimated taxes as long as they file AND pay by March 1, 2010.
- The top of the 10% bracket for taxable income is \$8,350 for single filers and \$16,700 for married, filing jointly. The top of the 15% bracket is \$33,950 for single and 67,900 for married.
- The long-term capital gains rates remain at 0% to the top of the 15% bracket (\$33,950 & \$67,900; see above) and 15% for gains above these taxable income levels.
- Net operating losses from a farm business may be carried back either five years or two years, or carried forward.
- An earned quarter of coverage for social security requires self-employment taxes to be paid on \$1,090 of earnings. An optional method for taxpayers with low or negative net farm profit on Schedule F may allow earning 4 quarters of coverage by paying on \$4,360. The Earned Income Credit may pay for part of all of the self-employment tax.
- Cooperatives may pass Domestic Production Activities Deductions (DPAD) on to members. This DPAD is not subject to the farm's W-2 wages or member's Adjusted Gross Income. Any payments received for products delivered to the cooperative, probably cannot be used by a farmer to calculate the farm DPAD.
- Several credits will reduce taxes. Refundable credits can be received even if no taxes are owed. Non-refundable credits can be used only if income taxes are owed.
 - **Making Work Pay Credit**-maximum of \$400 (\$800 if married, filing jointly). Refundable. Limited to 6.2% of earned income. Phase-out at Modified Adjusted Gross Income (MAGI) of \$75,000-\$95,000 single (\$150,000-\$190,000 married, filing jointly)
 - **Earned Income Credit (EIC)**- Maximum of \$5,657 for 3 children, AGI phase-out \$21,420-48,279. Maximum of \$5,028 for two children, \$3,043 for one child, \$457 for no children. Michigan also has an EIC, which will probably be 10% of federal EIC.
 - **Education Credits**- An increase to the Hope Credit, the American Opportunity Credit is a maximum of \$2,500 per student in their first 4 years of college. Expires in 2010. AGI Phase-out of \$80,000-\$90,000 single or \$160,000-180,000 married, filing jointly. Lifetime learning credit up to \$2,000 but phase-outs of \$48,000-58,000 single or \$96,000-116,000 married.
 - **Residential Energy Credits**- 30% of qualified purchases up to \$1,500 for all of 2009 and 2010.
- **CARS Act (Cash for Clunkers) Credit**- For those who used this credit up to \$4,500, it is not income to the car purchaser.
- **First-time Homebuyers Credit**- for qualified buyers who haven't owned a home for 36 months, 10% of the purchase price up to \$8,000. A refundable credit for homes purchased after December 31, 2008 and before December 1, 2009.

Depreciation Schedule Updates

- Note on Form 3 whether items are New or Used
- 50% additional first year depreciation is required for most new, farm depreciable property. Fruit and vineyard farmers normally cannot use this because they elected out of the uniform capitalization rules and must use the alternate depreciation system. Taxpayers can elect out of this by class of property (3,5,7,10,15 or 20 year property). Unless told otherwise on the Form 3, Telfarm assumes that cooperators **will elect out** of 50% additional on all classes. It's easy for us to change after tax planning is done.
- Direct expensing of up to \$250,000 is allowed in 2009 on boot paid for either new or used, qualified property placed in service. Phase out begins at \$800,000 of qualified purchases.
- For calendar year 2009, farm machinery and equipment that is not a grain bin, fence or other land improvement, will be depreciated over 5 years rather than 7 years. This is a requirement for new, original use purchases. Used machinery and equipment is still depreciated over 7 years. As always, a farmer may still elect to depreciate all farm machinery and equipment over 10 years. Most fruit farmers must use 10 years.

943 Deposits using PenSoft

The 943 report option in PenSoft shows the current amount of social security and Medicare taxes as well as federal income tax due on the next deposit to the IRS. When using the report, check the total balance due (Line 13) with the monthly summary (Line 15, sections A-L). If reporting and depositing monthly, Line 13 should equal the amount of the most recent month in the line 15 section. If these do not agree, be sure to make deposits based on line 13, the balance due. The discrepancy would result when a previous payment was short of the actual balance due and carries forward. The IRS imposes severe penalties for late payment. More information can be found at the IRS web site – www.irs.gov. Look for the publication called "Instructions for Form 943".

CCC Loans As Taxable Income

If taxable income is low, CCC loans from the government could be treated as income rather than loans. The commodity would then have a basis equal to the loan. When the commodity is sold, then the basis is subtracted from the sale price to determine the gain or loss. The loan would be repaid and interest on the loan would be a taxable expense. Next year, a new CCC loan on a commodity would still be required to be treated as income unless a farmer wants to change it. This requirement may be revoked by properly filing a Form 3115, Application for change in Accounting Method.

Tax Estimate and Business Analysis Preparation Using FINPACK Report

Whether you are scheduling a visit with your MSU Extension District Farm Management Educator or with your tax preparer, there is a report in the TelFarm for Windows Accountant (TFWA) program that can help you be prepared for your visit.

The report is called the FINPACK Extraction report and can be found under the Reports menu in TFWA. With the report options window open, be sure to select the correct dates for the report. In the case of a tax estimate, the end date will be the last date for which you have a CASHEND recorded in the accounting, while for a business analysis conducted after years end, the end date would be December 31.

Once the date is set, determine for which owner numbers you want the report generated. Select the destination for the data created. For tax estimates, a printed report is sufficient. For the business analysis, create both a disk exchange file and printed report. The disk exchange file allows exporting the TFWA data directly into the FINPACK program. Once all input options are selected, click the green “GO” button. Checkbook balances will be shown for the beginning of the year and the set ending date. If no balance is reported, then either there was no CASHBEG/CASHEND entered, or you selected more than one owner number. Select the “OK” button and the report will be shown.

The first page of the report is a summary of the assets (top half) and liabilities (bottom half) being tracked in TFWA. Key items to examine on this page include:

- Make sure all assets and liabilities are included that are meant to be included. Look for savings accounts, equity accounts, credit card balances and internal farm loans as well as mortgage, equipment, and operating loans.
- Review the category in which assets and liabilities are listed (current, intermediate, or long term). If an account is not in the correct category, (such as a mortgage in the current liabilities) review information in the TFWA Help screen on assigning vendor numbers. The 2-digit vendor codes are the key to properly assigning categories.

- Look for negative balances in the far right-hand column, which result from incorrect beginning balances, missing LOAN or BORR account name transactions, or from inaccurate assigning of RECD or PAY account names to transactions.

The second page is a summary of capital purchases and sales. Be sure that capital activity shown here also appears on the depreciation schedule. Check non-farm asset purchases and sales for accuracy.

Page three includes farm income and should include all sources of farm income with corresponding quantities. For business analysis, quantities like lbs, bushels, cwts, etc. are often used to calculate financial performance ratios. Also, to determine cost of production per unit, an accurate number of units sold is essential. Under “other” income sources, be sure all items are accurate. If “other” farm income is a large number, review income transactions to be sure they are entered under the proper account name.

Page four lists farm expenses, non-farm income, and other information including family living expenses. Review these lists and be sure that totals look realistic. Page five is a cash flow check. It shows all sources of farm cash inflows and outflows and compares them to the reported family living expense. If inflows less outflows is different than the reported family living, then there will be a discrepancy. Achieving a zero discrepancy is the goal and means that the cash flow for the owner reported is balanced.

The last page is a report on management type inputs. Hours of paid labor and hours of unpaid labor (account name “WORK”) are listed and should represent the actual hours worked by employees and at least a good estimate of the hours worked by unpaid labor. These numbers are important for arriving at accurate financial analysis measures dealing with labor efficiency. The rest of page six includes livestock production management numbers of animals born, died, and monthly inventory. These numbers are important in analyzing financial measures based on a per head analysis.

Microsoft's® Windows® 7

By the time you read this, Microsoft's® Windows® 7 operating system will have been released. We have not yet received our copy of Windows 7, so we have not been able to test Telfarm software under it. This should occur soon, but we have no firm timetable. Opinions of the new system are mixed, *but generally favorable*, especially when compared to Windows Vista™! As with any new major release there are bound to be problems, unforeseen issues and incompatibilities. For this reason, we do not recommend undertaking the time, trouble and pain of upgrading an older system to Windows 7 AT THIS TIME. You do not need to feel deprived if you're still running either Windows Xp or Vista. Xp, in particular, is a very solid, stable platform and will be for years to come.

Note, upgrading any computer from Xp to Win 7 is something you probably don't want to do – it requires a clean, fresh install of Win 7, an upgrade is not allowed. Thus you will lose everything in the process. Upgrading from Vista allows a normal upgrade process and (should) save your current configuration.

If you buy a new computer, Microsoft is offering “downgrade” rights: Computers with Windows 7 Professional or Windows 7 Ultimate can be downgraded to either Vista or Xp at time of purchase. This option will be available for 18 months. **IF** you elect to bypass Windows 7 for now, we recommend Vista Business 64-bit. Then after the initial shake-out of problems, upgrade to Windows 7. Microsoft, Windows and Vista are either registered trademarks or trademarks of Microsoft Corporation.

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NEWS

Telfarm Calendar

Friday, November 6

- Date for records to be at Telfarm to be included in Tentative Reports

Thursday-Friday, November 26-27

- Telfarm Center closed for Thanksgiving Holiday

Friday, December 18

- Date for 2010 Enrollments to be at Telfarm to receive programs/supplies by January (*PenSoft will mail updates after December 14*)

Thursday-Friday, December 24-25

- Telfarm Center closed for Christmas Holiday

Thursday-Friday, Dec. 31, 2009-Jan. 1, 2010

- Telfarm Center closed for New Year Holiday

Telfarm Center

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- Or contact your local MSU Extension Agent -

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