

# TelFarm Newsletter

Volume 16, Issue 2

Fall 2016

## Important Dates to Remember

### Early November:

Accounting and depreciation transactions due in the TelFarm office on or before Friday, November 4, 2016 (not "postmarked by") in order for you to receive:

- Cash Flow Report (Handwritten Form 2 & PcMars)
- Tentative Tax Planning Package and Depreciation Schedule (All Clients)

### Late November:

Items mailed to clients:

- Tentative Tax Planning Packages and Depreciation Schedules

- 2017 Enrollment Contracts

### December:

- Tax Planning meetings by local or District Extension Educators. Send TelFarm changes in accounting and depreciation made during Tax Planning meetings.
- Enrollments due by Friday, December 2, for 2016 year. (A signed enrollment contract is needed)

### January:

- Employers prepare W2s and give to employees and SSA by January 31, 2017.
- Furnish 1099s to recipients and 1099-MISC for

employee compensation to the IRS by January 31, 2017.

### February:

Tax Package Deadline -- final 2016 records are due at the TelFarm office on or before Friday, February 3, 2017 in order for you to have some time to file and pay taxes by March 1, 2017 to the IRS.



## Payroll Options

We wanted to give you a brief summary of the features of the payroll options within the TelFarm Program PenSoft Business Solutions is a full featured payroll software program. PcMars provides basic assistance with payroll check generation and labor records. PcMars Advanced Payroll will provide somewhere in the middle. Please talk to someone at the TelFarm Center, your District Agent or review the PenSoft website if you would like more details.

	PenSoft	PcMars Payroll
Labor Deposit Totals	Yes	Yes
W2 and W3	Official Forms	W2 report to use to fill out
FUTA & SUTA	Official Forms	Optional reports with totals
Payroll Check printing	Yes	Yes
Automatic Withholding	Yes	Yes with Advanced Payroll
Track hours	Yes	Yes
Cost per year	\$399-1000+	Basic included,

# Year End PcMars Meetings

Year end PcMars update and refresher meetings have been scheduled. There are dates in November and in January scheduled around the state. **All meetings will be held from 1-4pm.** This will not replace the check-in meetings with your District Agent but rather assist in preparing for year end activities and making sure you're set for the end of 2016.

Proposed topics (flexible depending on the attendees):

- Checkbook balance management and reconciliation
- Payroll options—PenSoft vs. PcMars

- Net taxable income calculation and year end final reports
- Patronage Dividend entry
- Depreciable breeding livestock, machinery and building purchases
- Enterprise accounting
- PcMars program updates and changes

**Please contact the TelFarm office to RSVP for the meetings. The office number is 517-355-4700.**

Date	Location
November 2	Ottawa Co Fillmore Complex, Upper Main Conference Room, West Olive
November 3	NW Michigan Hort Research Station, 6686 S Center Hwy, Traverse City
November 9	Lenawee MSU-Extension, 1040 S. Winter St. #2020, Adrian
November 10	Arenac Co Building, 120 Grove St, 2nd Floor, Co. Commissioner Rm,
January 4	Tuscola MSU-Extension, 362 Green St, Caro
January 6	Mecosta MSU-Extension, 14485 Northland Dr, Big Rapids
January 9	Van Buren ISD Conference Center, 490 S Paw Paw St, Lawrence
January 11	Calhoun MSU-Extension, 315 W Green St, Marshall
January 13	MSU Pavilion, 4301 Farm Ln, Room B, Lansing

## Staff updates

Brooke Schluckebier is our new student assistant this year. Brooke is a freshman studying Veterinary Technology. She comes from a cash grain farm in Bridgeport. Brooke joins our other student assistant Jacqueline DeClerg. Our former student assistants have moved on to some exciting opportunities. Erin Lauwers is spending this fall studying in Valencia, Spain. She will be graduating upon her return to the US. Emily Middleton is doing an internship this fall and helping with research projects in the dairy cow gestation field of study.

## Current Software Versions

**PcMars** 2.4.5.0  
**PenSoft Payroll Plus®** 4.16.4.XX

# Why complete a FINAN Business Analysis?

## Profits: Choice or Chance?

In any business the importance of financial records cannot be over emphasized. Generally, the three objectives of why any business should keep good records are to monitor profitability, risk and liquidity. Profit is the ability to cover all costs and accumulate wealth. Any business seeks to reduce risk to avoid losses in wealth and the ability to pay all financial obligations when they become due.

Given the low commodity prices over the last two years, this has challenged

the profitability for agricultural producers. As the industry continues to face challenges, farmers are asking, "How can I increase the profitability of my business?" The performance of an operation can be measured by using good records, resulting in a good business analysis.

Planning for the future should include an analysis of the current situation, setting your business goals and implementing objectives to achieve those goals. To target business improvement, we need to know both your costs

of production and prices received.

Analysis of the current situation using FINAN business analysis can be done on the whole farm level. It can also be done with enterprise accounting to identify your cost of production per commodity produced, giving you a report on the strengths and weaknesses your business. The records that are needed to complete the business analysis are:

- income and expense records,
- beginning and ending balances sheets,
- crop and livestock budgets.

Using the FINPACK program, we can also develop a monthly cash flow and a long range plan for your farm.



## Getting the most out of TelFarm while using PcMars

For those using PcMars to record your income and expenses for tax preparation, we want to make sure you are utilizing TelFarm to it's fullest extent.

One way to do that is to send in your backup file to the TelFarm Center at [tfpcmars@msu.edu](mailto:tfpcmars@msu.edu).

We will review your files and can provide suggestions on entries if something looks out of place. This helps to streamline your year end check-in meeting with your District Agent. It also provides you a second place to have a backup in the event of a computer failure. Backups should be updated whenever new entries are made during

the year. As a reminder, PcMars works differently than Microtel—every time you do a backup it saves the entire year, rather than just the changes. Send us the most recent backup file regularly to receive the most benefit from TelFarm.

Secondly, utilizing the year end tax reports and depreciation schedules. The generation of your year end tax reports and depreciation schedule are triggered by your communication to us that your final entries are here and we should run them.

Don't forget to complete a Form 3 with your depreciable asset

purchases. These should be taken from your PcMars asset accounts 150-180, typically found on page 1 or 2 of your detail report. Please make sure these entries are both on Form 3 and in your accounting for tax purposes.

Finally, schedule a year end check-in meeting with your District Agent. Your check-in meeting works best if you bring along your PcMars backup file or your computer that is loaded with PcMars. Follow your District Agents directions to have a FINAN business analysis run with your farm's PcMars data.

# Depreciation and Expensing for Farmers

In addition to normal depreciation, which can be 150% declining balance or straight line, a business may also use direct expensing, bonus depreciation and/or the tangible property deduction.

Normal depreciation has three options for farmers (using machinery as an example), it can be 150% declining balance (faster at first) for 7 years, straight line for 7 years or straight line for 10 years. Farmers are not allowed to use 200% declining balance.

Businesses may deduct or direct expense up to \$500,000 of the cost of qualified property when placed into service in 2016. The \$500,000 limit decreases when over \$2,010,000 of property is placed into service in 2016. The \$500,000 is permanent unless Congress passes new laws to change it. Qualified property includes farm machinery and equip-

ment, most livestock structures, drainage tile, and breeding or dairy animals. It does not include machinery sheds or general purpose buildings.

Bonus depreciation is available for original use (new) property or major renovations to old property. It applies to virtually all new farm property that is depreciable. The deduction allowed is 50% of the basis left after direct expensing for both 2016 and 2017. It then decreases to 40%, then 30% and will no longer be available starting in 2019.

The tangible property deduction changed in 2016 and allows a farmer to select an amount between zero and \$2,500, then deduct the cost of all items purchased under that amount. The amount could be as high as \$5,000 if someone had an applicable financial statement, which farms seldom have. If the item is ever sold,

then all proceeds would be ordinary income (no long term capital gain rates). Expect a future Farmer's Tax Guide from the IRS to tell us that these proceeds will not be subject to self-employment taxes.

To adjust depreciation, the tax planning method could be to calculate ordinary depreciation, then take bonus on machinery sheds or general purpose buildings, use direct expensing on purchased used property then new property, and, finally, take bonus depreciation on remaining new property.

To minimize depreciation, use straight line and the longer time period and buy 40% or more of the qualified property placed into service during the last quarter of the year. This would put depreciation in the mid-quarter convention rather than the half-year convention, which should result in less depreciation.

## Depreciation Schedule Updates

We mentioned in the last newsletter that new depreciation schedules were coming. We have completed the software upgrade and successfully converted everyone's schedules over to the new software. You will see your new schedule when we mail out the preliminary tax packages next month. Please be sure to take extra time reviewing this new schedule and contact us with any questions you may have. We have started entering the 2016

depreciation information and encourage you to send us your updates sooner than later to ensure getting your records to you in a timely manner.



This new software allows for faster turnaround times for last minute updates and the ability to email reports to clients easily. Also, look for a new input form (Form 3) by the end of 2016 to start using in 2017 to help streamline the input process for the new software.



# How can I possibly owe taxes this year?

For cash based taxpayers, if I have used all my cash and still have expenses to pay, how can I owe taxes? Family living and principal payments are not deductible expenses. If depreciation does not offset them, taxable income may be possible. Deductions and exemptions will reduce the taxable income but there still may be some income taxes and self-employment taxes to pay. You'll see in the example at the right how a net cash of \$0 can still result in owing taxes.

Net income is \$60,000 after deducting cash expenses and depreciation. Then after subtracting common tax deductions the taxable income is still \$26,961. That results in a \$3,147 federal tax liability. One modification to that is if one child was under 17 years old you could get a \$1,000 credit, so you are down to \$2,147 federal income tax plus the \$8,478 self-employment tax.

Since you still have lots of bills to pay but don't have the cash to pay them and don't want borrow money to pay them, you can't subtract the bills that you haven't paid on the farm business and still owe too much in taxes.



## Example: Family of 4

Gross Farm Income	\$400,000
Tax-deductible Cash Expenses	-\$300,000
Family Living	-\$45,000
<u>Loan Principal Payments</u>	<u>-\$55,000</u>
Net Cash	\$0

Gross Farm Income	\$400,000
Tax-deductible Expenses	-\$300,000
<u>Depreciation Expense</u>	<u>-\$40,000</u>
Net Income	\$60,000
Standard Deduction (Married Filing Jointly)	-\$12,600
Exemptions (4x\$4050)	-\$16,200
<u>Half Self-Employment Tax</u>	<u>-\$4,239</u>
Taxable Income	\$26,961

Federal Income Tax based on example	\$3,147
<u>Self-Employment Tax</u>	<u>\$8,478</u>
Total Federal Tax	\$11,625

Wishing you a safe harvest season this fall!



MSU is officially closed on these days:

Thanksgiving —  
November 24 & 25

Christmas —  
December 23 & 26

New Years—  
December 30 & January 2

TelFarm Center  
Morrill Hall of Agriculture  
446 W Circle Dr Rm 414  
East Lansing, MI 48824  
517.355.4700 (Phone)  
517.432.9805 (Fax)  
telfarm@msu.edu  
<http://telfarm.canr.msu.edu/>

**MICHIGAN STATE**  
**UNIVERSITY**  
**EXTENSION**



MSU is an Affirmative Action/Equal Opportunity Employer.