



# Year-End Farm Tax Webinar

Paul Neiffer, CPA

November 24, 2015

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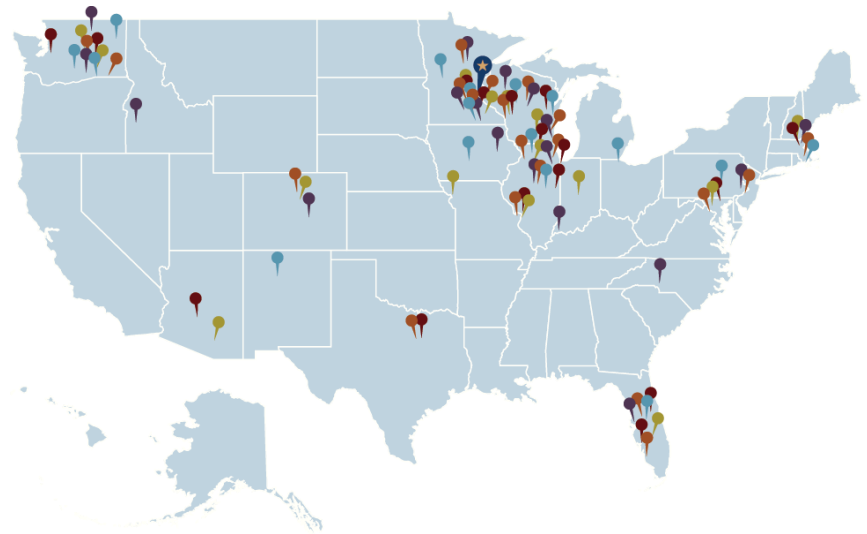
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# Agribusiness



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# Speaker

## Paul Neiffer, CPA

Principal, Agribusiness & Cooperatives group

509-823-2920

Paul.Neiffer@CLAconnect.com



FarmCPAtoday.com  
Blog

## Farm CPA Today!

A blog for farmers & others involved in the agricultural industry.

### Base Reallocation Q & A

By: Paul Neiffer | [Trackback URL](#) | [Leave a Comment](#)

October 19th, 2014

We have gotten numerous questions regarding the base reallocation election available to owners and we are summarizing these in a Q & A format: Q. Can I increase my base acres? A. No. You cannot increase or decrease your base acres. Those total acres are set; however, you are allowed to reallocate those acres from [...]

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### Join Andy Biebl, Lance Woodbury and Myself

By: Paul Neiffer | [Trackback URL](#) | [Leave a Comment](#)

October 15th, 2014

DTN/Progressive Farmer puts on an Ag Summit in Chicago every year in December. This year on Sunday December 7 from 1 pm to 5 pm, Andy Biebl, Lance Woodbury and myself will be doing a joint presentation on Farm Retirement and Transition Planning. Some of the key topics that Andy and I will be presenting [...]

[More](#)



# Agenda

- Quick Update on ARC-CO Payment Recalculations
- Understand Tax Law Changes for 2015
- Accomplish Effective Tax Planning with Multiple Entities
- Manage Income Taxes with a Cash Balance Plan
- Take Advantage of Deferred Payment Contracts (even with Section 179 Uncertainty)
- Determine if an IC-DISC makes sense for you
- Maximize your Income Tax Credit Opportunities
- The DPAD Deduction when Dealing with Cooperative Sales





# Quick Update on ARC-CO Payment Recalculations

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# How Payments Were Made

- ARC-CO payments were mailed in October and payments are based on county where the farm is administered
- If your farm is located in a county with low payments and it is administered in a county with high payments, you got a windfall
- If your farm is located in a county with high payments and it is administered in a county with low payments, you were penalized
- FSA has just announced you have an option to recalculate your 2014/2015 crop year payments based on your farm's physical location (if desired)



# Recalculation Details

- Must make the election by February 1, 2016
- Can elect for 2014 or 2015 crop year or both
- Election is binding on all covered crops, you can't pick and choose
- All producers have to sign off on the election
- 2016-2018 farm are based on actual administration. If you want to reconstitute your farm to county where it is located, you will need to do with FSA office. There is no recalculation for those years.





# Understand Tax Law Changes for 2015

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# New Laws That Were Passed in 2015

- Revised Due Dates for Partnership and Corporation tax returns
- FinCen Report Due Date Revised
- ABLÉ Accounts
- Form 1099 Penalty Changes
- Estate Basis Reporting Requirements
- Lender Reporting Requirement Changes
- Section 179 and Bonus Depreciation?????????



# Partnership & Corporation Due Dates

- Old Law
  - Corporations due on March 15 (calendar year-ends) or 15<sup>th</sup> day of 3<sup>rd</sup> month after fiscal year-end
  - Partnerships due on April 15 (calendar year-ends) or 15<sup>th</sup> day of 4<sup>th</sup> month after fiscal year-end (not common)
- New Law
  - Partnerships and S corporations due on 15<sup>th</sup> day of 3<sup>rd</sup> month (March 15 for calendar year-ends)
  - Corporations due on 15<sup>th</sup> day of 4<sup>th</sup> month (April 15 for calendar year-ends)
  - Effective for 2016 tax returns
  - June 30 corporation returns deferred for 10 years (budget plug)



# Extension Due Dates

- Partnership tax returns
  - Old law 5 months
  - New law 6 months (September 15 for calendar year-ends)
- Trust tax returns
  - Old law 5 months
  - New law 5 ½ months (September 30 for calendar year-ends)
- Form 5500 series (pension plans)
  - Old Law 2 ½ months
  - New law 3 ½ months (November 15 for calendar year-ends)



# FinCen Filing Requirements

- Taxpayers with interest in foreign accounts must file FinCEN Form 114, Report of Foreign Bank & Financial Accounts (FBAR)
  - Old law – Due June 30, no extensions
  - New law – Due date April 15 with a maximum 6 month extension to October 15



# ABLE Accounts

- States may establish tax-exempt “Achieving a Better Life Experience” (ABLE) accounts
  - No deduction
  - Maximum \$14,000 contribution (2015 amounts)
  - Earnings tax-free
  - Distributions tax-free and penalty free if used for qualified support for disabled persons
  - 10% penalty for non-qualified distributions





# Miscellaneous Changes

- Form 1099 penalty for not filing increases to \$500 per form not filed (\$250 for IRS copy & \$250 for Payer Copy)
- Executors required to report tax basis in inherited assets to IRS for estates required to file a return
- Lenders must report additional information on Form 1098
  - Origination date
  - The amount of outstanding principal
  - Property's address



# Section 179 & Bonus Depreciation

- Section 179
  - Current law - \$25,000 (zero if you spend more than \$225,000)
  - Tax Extender Bill expected before year-end (Congress Christmas gift to farmers) to increase back to \$500,000 for 2015 and perhaps 2016
- Bonus depreciation
  - Current law – none
  - Tax Extender Bill expected to bring back 50% bonus depreciation for 2015 and perhaps 2016





# Accomplish Effective Tax Planning with Multiple Entities

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# Tax Planning with Schedule F

- Tax planning for Schedule F Farmer
  - Start with year-to-date income
  - Add estimated remaining sales
  - Less estimated cash expenses
  - Less depreciation on prior year assets
- Once this number is determined
  - How much Section 179 can we take
  - How much prepaid expenses do we need to make
  - How much grain should I sell using deferred payment contracts
  - Other planning options
- Equals Optimum Taxable Income



# Multiple Entity Planning

- Same concept with following changes
  - Use a spreadsheet that shows
    - ◇ Column for each entity
    - ◇ Rows for inter-company income/expense
    - ◇ Allocation of bottom line income to each owner
  - Once bottom line income is allocated to each owner
    - ◇ Add in other non-farm income and expense, itemized deductions and exemptions
    - ◇ Determine individual taxable income
    - ◇ Determine individual tax liability including self-employment tax
    - ◇ Determine marginal tax bracket

# Multiple Entity Planning Example

|                                     | ABC<br>S Corp | XYZ<br>LLC | Joe & Jane<br>Corn | Bill & Ann<br>Bean |
|-------------------------------------|---------------|------------|--------------------|--------------------|
| Current farm income                 | 375,000       | 425,000    |                    |                    |
| Estimated sales                     | 125,000       | 75,000     |                    |                    |
| Estimated cash expenses             | (75,000)      | (60,000)   |                    |                    |
| Depreciation                        | (125,000)     | (50,000)   |                    |                    |
| Sub-total                           | 300,000       | 390,000    |                    |                    |
| Section 179                         | (100,000)     | (75,000)   |                    |                    |
| Depreciation on current year assets | (15,000)      | (5,000)    |                    |                    |
| Prepaid farm expenses               | (100,000)     | (75,000)   |                    |                    |
| Sales to be deferred                | (50,000)      | (25,000)   |                    |                    |
| Inter-company income / expense      | 95,000        | (95,000)   |                    |                    |
| Net entity income                   | 130,000       | 115,000    | 122,500            | 122,500            |
| Other personal income               |               |            | 65,000             | 45,000             |
| Deductions, exemptions, etc.        |               |            | (35,000)           | (25,000)           |
| Taxable income                      |               |            | 152,500            | 142,500            |
| Income tax                          |               |            | 30,000             | 27,500             |
| Self-employment tax                 |               |            | 5,000              | 5,000              |
| Total taxes                         |               |            | 35,000             | 32,500             |
| Marginal tax bracket                |               |            | 25%                | 25%                |





# The Use of Cash Balance Plans to Offset Deferred Tax Liabilities



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# Deferred Grain Tax Nightmare

- Farmers nearing retirement usually build up substantial deferred grain inventories with no expenses in final year of farming
- Leads to taxation at:
  - Maximum tax rates
    - ◇ 39.6% federal
    - ◇ Perhaps 10% or higher for states
    - ◇ SE tax on all of the earnings





# Cash Balance Retirement Plan Solution

- Age-based funding (\$100K - \$200K input per year)
  - 5 year funding commitment
  - Low overhead arrangement for defined benefit features
- Long term deferral of income (2 generations)
- Creditor protection
- Source of liquidity to off-farm heirs?



# Cash Balance Plan Illustrations

## Age-based Impact

- Assume 2014 earned income of \$255,000

| <u>Age</u> | <u>2014 Deduction</u> |
|------------|-----------------------|
| 60         | \$229,500             |
| 50         | \$140,250             |
| 40         | \$ 89,250             |



# Cash Balance Plan Illustrations

## Components of the Funding

- Age 62, \$250,000 earned income
- 401(k) with profit sharing plus cash balance plan

| <u>Plan Component</u>   | <u>Funding and Deduction</u> |
|-------------------------|------------------------------|
| Employee deferral       | \$ 23,000                    |
| Employer safe harbor    | 7,500                        |
| Employer profit sharing | 5,000                        |
| Employer cash balance   | <u>237,500</u>               |
| Total Funding/Deduction | <u>\$273,000</u>             |



# Age-Based Cash Balance Plans

- Old DB plans: Target benefit
  - Earnings plus contribution to hit target payout
- Age based cash balance DB: Fixed percentage of earned income as funding amount
  - If earned income decreases, contribution decreases
  - Plan funding should run 5 years



# Employee Coverage

- Can exclude family employees
- Unrelated employees: 1,000 hour test
- May use 3 year cliff vesting
  - Counted from first day of the plan
- May blend ages of employee group
  - A 60 yr. old can be blended with 20 yr. old and 30 yr. old employees
- Typical employee funding of 8%-12%
  - Legal minimum: 7.5%
  - One older employee: 16-20%



# Actuarial and Administration

- Set-up fees run about \$1,500 to \$3,500
- Annual services can be in the same range depending on number of employees and complexity of plan
- Includes plan documents, amendments, compliance testing, IRS Form 5500, actuarial analysis





# Take Advantage of Deferred Payment Contracts (even with Section 179 uncertainty)

# Deferred Payment Contract

- Grain is delivered and sold in current tax year
- Payment is received in next tax year
- Farmer has option to report the sale on contract by contract basis
  - In year of payment (default for cash basis farmers)
  - In the year of sale (elect into current tax year)
- Allows farmer to increase income if so desired after current tax-year end





# Deferred Payment Example

| Item                             | No Sec. 179 | Section 179 |
|----------------------------------|-------------|-------------|
| Grain Sold on Deferred Contracts | 400,000     | 400,000     |
| Equipment purchased              | 375,000     | 375,000     |
| Grain reported in current year   | -           | 375,000     |
| Section 179 deduciton            | -           | 375,000     |
| Net farm income                  | -           | -           |

Farmer should make sure to have multiple deferred grain payment contracts. In this example, perhaps 3 \$100,000 contracts and 4 \$25,000 contracts (rounded). Allows farmer to bring \$375,000 into income in current year instead of \$300,000 or \$400,000 if there were only \$100,000 contracts.





# Interest-Charged Domestic International Sales Corporation



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# IC-DISC (Interest Charged-Domestic International Sales Corporation)

- No, it is not a Frisbee
- If you have more than \$1 million of direct foreign exports
- Commission paid by farm is deductible
- Commission income to IC-DISC is tax-free
- Dividend to farmer is taxed at lower rate
- Permanent 20-25% savings per year
- Allows payments to next generation at 20% rate, while current generation gets full ordinary deduction



# IC-DISC (continued)

- Commission is greater of
  - 4% of total export sales
  - 50% of net foreign income
- Costs
  - \$5-10,000 to set up
  - \$3-5,000 annual
- Tax savings are permanent
- Owner of IC-DISC can be kids, grandkids



# IC-DISC Example

|   | Maximum Tax % | 15% & 25% Tax |
|---|---------------|---------------|
| Foreign sales (non GMO soybeans)            | \$4,000,000   | \$4,000,000   |
| Commission allowed                          | \$160,000     | \$160,000     |
| Tax on commission (23.8% & part zero & 15%) | \$38,080      | \$12,750      |
| Tax savings on deduction                    | \$63,360      | \$32,500      |
| Self-employment taxes saved                 | \$6,080       | \$19,335      |
| Total tax savings                           | 69,440        | \$51,835      |
| Net tax savings                             | \$31,360      | \$39,085      |





# WORK OPPORTUNITY TAX CREDIT

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# Work Opportunity Tax Credit (WOTC)

- The tax credit allows employers to reduce their federal tax liability by up to \$9,600 per new hire.
- The tax credit applies to temporary, seasonal, part-time and full-time workers. The tax credit is available for new hires with job start dates through December 31, 2014.
- \*The legislative authority for the WOTC program expired on December 31, 2014. In the past when the program's authority lapsed, Congress has reauthorized the program back to the date of expiration. ***In anticipation of possible retroactive reauthorization, employers should continue to submit their timely WOTC applications for all target groups to State Workforce Agencies.***
- The WOTC applies only to new employees who have never worked for the hiring employer at any other time.
- Any type of job is acceptable.



# How WOTC Impacts Tax Liability

- Taxable employers claim the WOTC as a general business credit on Form 3800 against their income tax. The WOTC is calculated using Form 5884.
- For flow-through organizations with members in AMT, WOTC will offset AMT.
- To the extent that WOTC is not fully utilized, carry forward period is up to 20 years and carry back is one year.





# Qualifying Groups

- For the employer to claim the WOTC for a new hire, the employee must be certified as a member of a targeted group by meeting the criteria described in any of the groups listed below. The employer is not expected to verify eligibility of the employee at time of hire.
- [Short-term Temporary Assistance for Needy Families \(TANF\) Recipient \(Group 1\)](#)
- [Qualified Veteran \(Group 2a\)](#)
- [Disabled Veteran \(Group 2b\)](#)
- [Unemployed Disabled Veteran \(Group 2c\)](#)
- [Unemployed Veteran - 4 Weeks \(Group 2d\)](#)
- [Unemployed Veteran - 6 Months \(Group 2e\)](#)
- [Qualified Ex-felon: \(Group 3\)](#)
- [Designated Community Resident \(Group 4\)](#)
- [Vocational Rehabilitation Referral \(Group 5\)](#)
- [Qualified Summer Youth \(Group 6\)](#)
- [Food Stamp Recipient \(Supplemental Nutrition Assistance Program - SNAP\) \(Group 7\)](#)
- [Supplemental Security Income Recipient \(Group 8\)](#)
- [Long-term Family Assistance Recipient \(Group 9\)](#)



# Eligibility

## WOTC TARGET GROUPS DEFINED

|  |   |
|--|---|
| <p>Veteran</p>   | <p>To be considered a veteran eligible for WOTC, an individual must meet these two standards:</p> <ol style="list-style-type: none"> <li>1. Have served on active duty (not including training) in the U.S. Armed Forces for more than 180 days or have been discharged or released from active duty for a service-connected disability; AND</li> <li>2. Cannot have a period of active duty (not including training) of more than 90 days that ended during the 60-day period ending on the hiring date.</li> </ol> <p>To be eligible for WOTC, a veteran must also be one of the following:</p> <ul style="list-style-type: none"> <li>• A member of a family that received Supplemental Nutrition Assistance Program benefits (food stamps) for at least 3-months during the 15-month period ending on the hiring date;</li> <li>OR</li> <li>• Entitled to compensation for a service-connected disability and was:             <ul style="list-style-type: none"> <li>o Hired within 1 year of discharge or release from active duty, or</li> <li>o Unemployed for at least 6 months in the year ending on the hiring date; OR</li> </ul> </li> <li>• Unemployed for:             <ul style="list-style-type: none"> <li>o At least 4 weeks (but less than 6 months) in the year ending on the hiring date, or</li> <li>o At least 6 months in the year ending on the hiring date.</li> </ul> </li> </ul> |
| <p>Long-Term or Short-Term Temporary Assistance for Needy Families Recipient</p> | <p>Short-term Temporary Assistance for Needy Families (TANF) Recipient – An individual who is a member of a family that:</p> <ul style="list-style-type: none"> <li>• Received TANF benefits for any 9 months during the 18-month period ending on the hiring date.</li> </ul> <p>Long-term TANF Recipient – An individual who is a member of a family that meets one of the following:</p> <ul style="list-style-type: none"> <li>• Received TANF benefits for at least 18 consecutive months ending on the hiring date; OR</li> <li>• Stopped being eligible for TANF payments during the past 2 years because a Federal or state law limited the maximum time those payments could be made, and the individual is hired not more than 2 years after such eligibility ended; OR</li> <li>• Received TANF benefits for any 18 months after August 5, 1997, and has a hiring date that is not more than 2 years after the end of the earliest 18-month period after August 5, 1997.</li> </ul>  |
| <p>Supplemental Nutrition Assistance Program Recipient (Food Stamps)</p>         | <p>A Supplemental Nutrition Assistance Program (SNAP) recipient age 18-39 years who is a member of a family that received SNAP benefits (food stamps) for:</p> <ul style="list-style-type: none"> <li>• The 6-month period ending on the hiring date; OR</li> <li>• At least 3 of the 5 months ending on the hiring date, in the case of a family member who ceased to be eligible for such assistance under Section 6(o) of the Food Stamp Act of 1977.</li> </ul>   |
| <p>Designated Community Resident</p>   | <p>An 18-39 year old who lives within one of the federally-designated Rural Renewal Counties or Empowerment Zones.</p>  |
| <p>Vocational Rehabilitation Referral</p>  | <p>An individual with a disability who completed or is completing rehabilitative services from a state certified agency, an Employment Network under the Ticket to Work program, or the U.S. Department of Veteran Affairs.</p>   |
| <p>Ex-Felon</p>  | <p>An individual who:</p> <ul style="list-style-type: none"> <li>• Has been convicted of a felony; AND</li> <li>• Who is hired within 1 year after the conviction or release date from prison.</li> </ul>   |
| <p>Supplemental Security Income Recipient</p>                                    | <p>An individual who received Supplemental Security Income (SSI) benefits for any month that ended during the 60-day period ending on the hire date.</p>  |
| <p>Summer Youth Employee</p>   | <p>A 16 or 17 year-old youth who:</p> <ul style="list-style-type: none"> <li>• Works for the employer between May 1st and September 15th; AND</li> <li>• Lives within one of the federally-designated Empowerment Zones.</li> </ul>   |

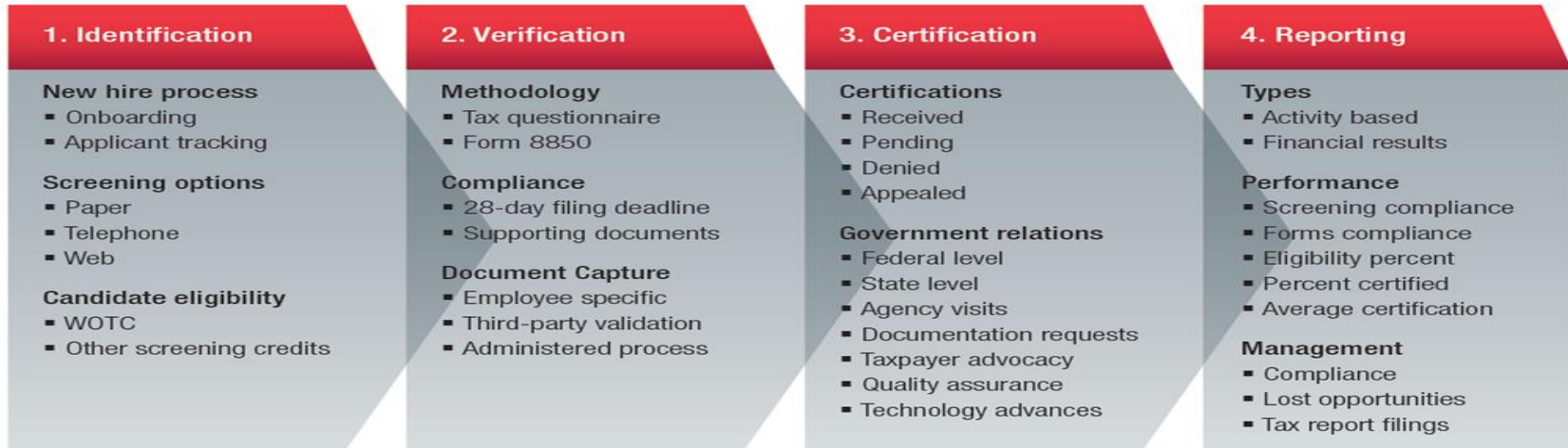


# CREDIT AMOUNT

| TARGET GROUP  | MAXIMUM TAX CREDIT       |
|---|--------------------------|
| <b>VETERANS</b>   |                          |
| Receives SNAP benefits  | \$2,400                  |
| <b>VETERANS ENTITLED TO COMPENSATION FOR SERVICE CONNECTED DISABILITY</b> |                          |
| Hired one year from leaving service                                       | \$4,800                  |
| Unemployed at least 6 months  | \$9,600                  |
| <b>UNEMPLOYED VETERANS</b>  |                          |
| At least 4 weeks  | \$2,400                  |
| At least 6 months   | \$5,600                  |
| <b>OTHER WOTC TARGET GROUPS</b>   |                          |
| Short Term TANF Recipient   | \$2,400                  |
| Long-Term TANF Recipient  | \$9,000 (over two years) |
| SNAP (Food Stamp) Recipient   | \$2,400                  |
| Designated Community Resident   | \$2,400                  |
| Vocational Rehabilitation Referral  | \$2,400                  |
| Ex-Felon  | \$2,400                  |
| SSI Recipient   | \$2,400                  |
| Summer Youth  | \$1,200                  |



# OUR SERVICES



We assist employers in the WOTC process from the identification, verification, certification and reporting aspects of the credit.



# Our Process

STEP 1: Identify eligible employees

- Either take the electronic survey; or
- Provide forms and instructions to include in the application package

STEP 2: Request any supporting data to submit along with applications (forms 8850 and 9061) and submit to the state for verification of eligibility

STEP 3: Manage reporting and compliance process with the state – including accepted applications, appeals and denials

STEP 4: Collect data on eligible employees at year end to compute tax credit;

STEP 5: Compute and report tax credit on form 5884.

STEP 6: Identify any eligible candidates for related state tax credits and process as needed to submit to the state(s).



# State Job Tax Credits

The job creation tax credits (JCTCs) enacted in 22 states allow companies to claim financial assistance when they hire a number of new workers and issue new benefit packages, such as health insurance above designated thresholds. Each state typically issues credits and incentives in different ways.

The amount of credit issued can be a percentage of the total annual wages paid to newly hired workers, a percentage of the state income tax withholdings associated with new jobs, or simply a fixed dollar amount.

Some states also offer multiple credit rates that compensate companies at incremental, successive levels of job creation.



# Other Common Credits that are Missed

- Federal Fuel Credits
  - Gas consumed on farm
  - Taxed diesel consumed on farm
- File Form 4136
- Income in next year's filing
- Many state credits





# DPAD and Cooperatives

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# DPAD

- Domestic Production Activities Deduction
  - Based on Net Farm Income
  - Deduction equal to
    - ◇ 9% of net farm income (with certain adjustments), or
    - ◇ 50% of cash wages, whichever is smallest
  - Cooperatives may report grain sales as Per Unit Retains on Form 1099-PATR
  - If so, farmer must reduce their DPAD by the percentage of grain sales reported on Form 1099-PATR
  - Matching issue with IRS if done incorrectly
  - Coop may pass through DPAD deduction which is allowed even if no farm wages



## Farm DPAD Deduction Example

| Item                         | No PUR-PIM | PUR-PIM   |
|------------------------------|------------|-----------|
| Farms sales                  | 1,500,000  | 750,000   |
| Grain sales to Coop          | -          | 750,000   |
| Total Sales                  | 1,500,000  | 1,500,000 |
| Expenses allowed             | 1,200,000  | 600,000   |
| Net                          | 300,000    | 150,000   |
| Times 9%                     | 27,000     | 13,500    |
| DPAD flow through            | -          | 3,500     |
| Total Maximum DPAD Deduction | 27,000     | 17,000    |

Note, calculated farm deduction may be limited to 50% of cash wages, the \$3,500 DPAD deduction flowing through from Coop is allowed in full, no matter the amount of actual farm cash wages.

