



Tax Habits for Built-to-Last Businesses

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Tax Habits for Built-to-Last Businesses

Topics

- **Reacting to a Possible Revised Tax System in 2017**
- **Do's and Don'ts of Dealing with the IRS**
- **Lessons on Tax Planning**
- **The Big Picture: Ag and our Tax System**
 - The cash method of accounting
 - Systemic IRS attacks



New Tax Legislation in 2017??

- **Remove IRS regs. attacking family minority discounts**
- **Lower business tax rate of 20-25% (all entities)**
- **Repeal estate tax (but substitute 20% cap. gain tax?)**
- **Repeal AMT**
- **Top individual rate 33% (from today's 39.6%)**
- **Repeal of 3.8% net inv. income tax (NIIT) from ACA**



New Tax Legislation in 2017??

- **Probable change in cap. gain rates**
 - Possible revised system (exclusion of ½ of gain)
 - Repeal of 3.8% NIIT benefits most capital gain sales
- **Special repatriation rate for U.S. corps. of 10%**
- **Big Picture: Systemic change to tax system**



Strategies for 2016 (pending '17 Legislation)

- Consider prepaid state income tax, until reach AMT
- Gifts OK if align with family objectives, but no point in taxable gifts
- Defer income: Possible lower brackets in '17
- Defer on initiating land sales/cap. gain transactions
 - Some past cap. gain rate changes have been mid-year
- Consider extending '16 return to apply hindsight



Update: Pending ACA Reform in 2016

- **ACA “mkt. reforms” outlawed small employer medical reimbursement plans (Sec. 105 & 106)**
- **Pending H.R. 34: Restore Sec. 105 reimb. plans**
 - Up to \$4,950 for employee; \$10,000 for family
 - Nondiscriminatory
 - Employer under 50 FTEs
 - Effective in 2017



Dealing with the IRS

Tax follies: “I can handle that IRS notice on my own.”

Lessons

- **Never assume IRS notices are correct (use a professional)**
- **Obsess about 1099s & charitable receipts each Jan.**
- **Identity theft risks: Contacts from IRS only by letter (until after exam in process)**



Dealing with the IRS

- **IRS audits (SBSE):**
 - **Always with an experienced tax professional (Never alone: The verbal slip-up)**
 - **Examiners often wrong (poor training; bias)**
 - **Appeals level: A wild card**



Lessons on Tax Planning

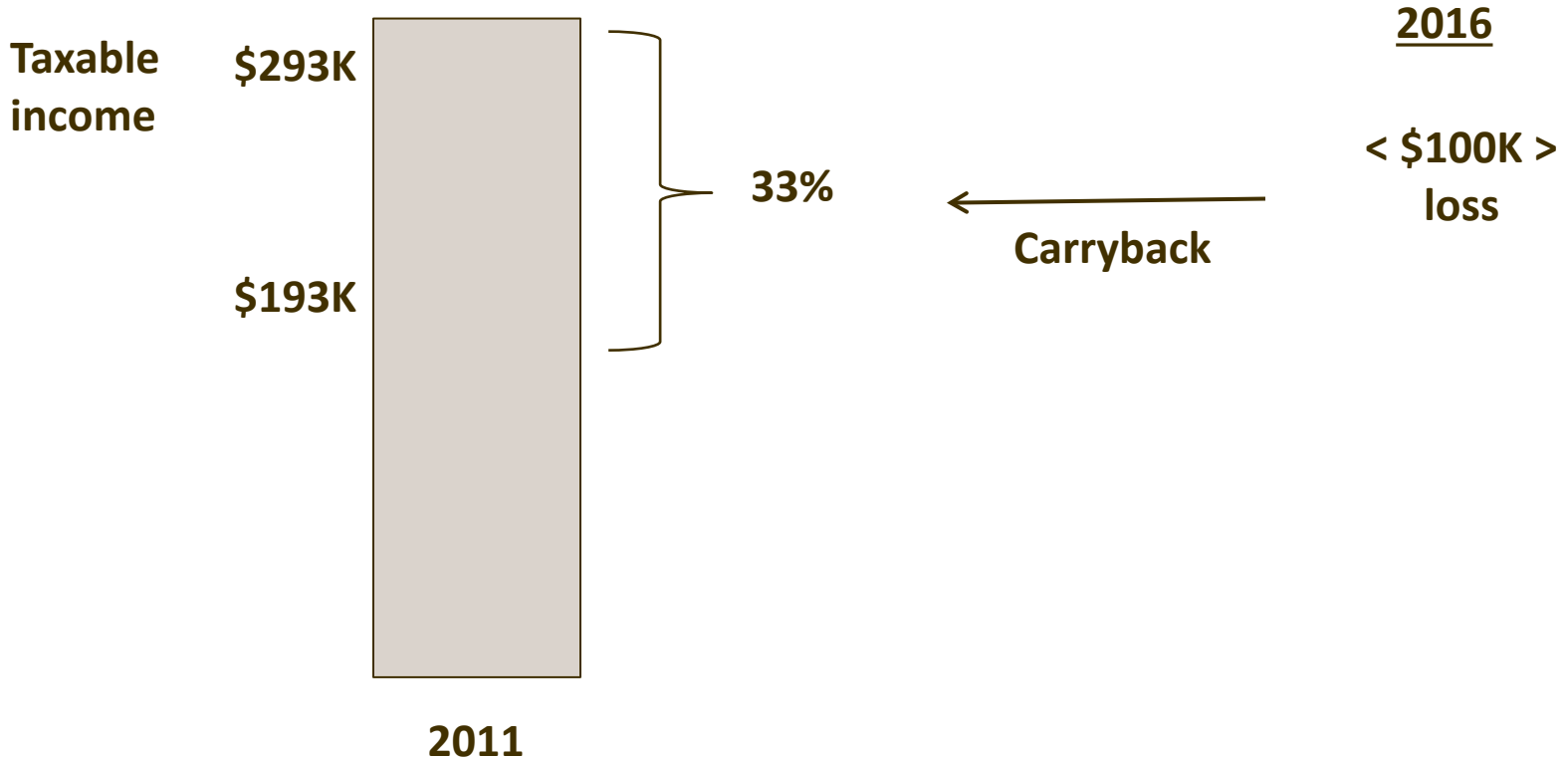
Tax follies: “I don’t need to plan...lost money in ’16.”

Lessons

- **Loss years are opportunities for carrybacks against prior high bracket tax years**
 - **Farm rule: Back 5 yrs. & then forward**
 - **1st election: Back 2 yrs. & then forward**
 - **2nd election: Forward only**



5 Yr. Farm Loss Carryback



- **Additional advantage: Lower income in 2011 may save income averaging tax in 2013 and 2014 (2012 is likely a closed year under statute of limitations)**

Lessons on Tax Planning

Tax follies: “Paying zero tax is my goal.”

Lessons

- **Use brackets effectively (10%-15%-25% lower tier rates)**
- **Building equity: Only through net income or asset appreciation**
- **Importance of Nov.-Dec. vs. Feb. tax advisor sessions**



Lessons on Tax Planning

Tax follies: “But the document says it is a lease ...”

Lessons

- **The label does not govern; facts & economic reality**
 - No bright line test or safe harbor (a messy tax issue)
- **Beware of trade-in if replace via operating lease**
- **See your tax advisor before executing the deal**



Ag Leadership Issues

- **Preserving the cash method of accounting for tax purposes**
 - **Unique to ag; no taxation of yr.-end inventory or receivables (vs. service business with receivables only)**
 - **Does Congress understand volatile prices/production?**
 - **Over 35% non-farm investor brings accrual method**



Ag Leadership Issues

- **IRS systemic attacks on ag tax**
 - **SE tax on CRP (*Morehouse* CA-8 victory)**
 - **SE tax on self-rental (*McNamara* CA-8 victory)**
 - **Sec. 119 corp. meals and lodging**



Wrap-Up

- Questions??

