UNIVERSITY OF VERMONT EXTENSION
CULTIVATING HEALTHY COMMUNITIES

Farm Management Team Q & A

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#1

(B) Author's Note: These fact sheets are a result of questions posed to me and answered in a national publication over the years.

Year End Tax Planning

2005/Revised June, 2009

When there are relatively good prices and production, do you have any particular timely advice to consider for year-end tax planning? (Aside from get moving!)

NOW is the time to do some year-end tax planning even when NOW is in June or August. I always suggest looking at the potential Income Tax bill before the end of the year and then you can pretty much plan for the amount needed to pay, or obtain in refunds, in February, the following year. Thus, no surprises. Prior to sitting down with the tax advisor this month, total your income, expenses, capital purchases, review all unusual aspects of the business, and project out the final month's (or several months) worth of income and ordinary expenses. Get out that depreciation list, have it updated and pull out the last two years of tax papers. Make a list of all bills that are more than 30 days old that you can't figure out how to pay. Now comes the fun part of making a list of anticipated "out of the ordinary" expenses - - the extra 60 acres to seed down next year, the manure pit expansion; and the capital costs - the tractor, the pickup, chopper, and others that you expect to purchase in the first six months of next year. Its always fun making a list of things needed when no money exists to pay for them! Next, quickly anticipate the income for next year. Will it be higher or lower than this year and by how much?

Finally, take stock of your goals - where do you want to be in 1 year and 5 years and share those with the tax advisor. Your tax advisor now has the tools needed to plan for what the tax bill "would have been" for this year and "what it could be" with some tax planning.

When it is a good income year for you, it may be that the tax planner will want you to take advantage of the income tax averaging, the higher limit afforded to 179 "instant" depreciation, paying off those overdue bills with borrowed money, and making advanced purchases in accordance to the rules outlined by the IRS. You might also want to put some money in a Roth or regular IRA, set aside some funds for that college education, or just decide to pay up and thus increase your potential Social Security coverage.

On the other hand, this year may have been a "tough" income year. It might be time to delay paying bills even with interest charges, it might be the year to sell a few culls in December, or buy that "used" tractor next year, or seed down 25 acres next year instead of 50 acres. You might forgo the IRA this year but set the money aside next year. Now might be time to plan for that sale or evaluate other opportunities that may exist "next year".

Careful tax planning each year can really "flatten out" the hills and valleys of the tax bills over time. It also provides the business owner with a tremendous analysis of the operation, where it's been and where it's headed and how the owner can guide that business into the future.

Do not take this time lightly. Federal, state and local tax rates totaling 35% and up to 50% (counting self-employment tax) provide you with a tremendous incentive to do some tax planning each year.