AGRICULTURAL
FINANCIAL AND TAX PLANNING
Yearend Tax Planning

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It is that time of year again for most operation to do their yearend tax planning. Now that Donald Trump successfully won the presidential election, tax planning is more important than ever based on his campaign proposed tax changes. Deferring taxable income could bring huge benefits if Trump is successful in implementing his campaign tax plan. However, the proposed IRS Section 2704 regulations limiting minority discounts could have a devastating impact on a large family owed business. Our last month's article highlighted the need for good succession planning which could still be the biggest long term tax planning opportunity available to a family ranch operation. Have you and your loved ones started the difficult conversation of succession planning? If not, it is time to start and if you have done succession planning in prior years, those plans should be reviewed. See last month's article for our discussion on that subject. This article will cover other tax planning opportunities that should be considered before yearend.

What is tax planning?

Tax planning is to minimize tax owed over a multi-year period. Tax planning is accomplished basically by shifting the timing of receipts and tax deductions from one tax period to another while maximizing tax credits and incentives. This can be down at the individual and/or business entity level. The corner stone of good tax planning is the ability to forecast taxable income and available tax incentives. A good accounting system as we discussed in our prior articles is a key asset in accomplishing accurate forecasting and tax planning. This yearend planning is more difficult then usual because of the uncertain economic and political climate with Trump's election. For the 2016 yearend planning one must consider the normal issues plus;

- most reports are forecasting soft cattle prices for the next few years,
- President elect Trump made campaign promises to decrease taxes and
- As of the date of writing this article, Congress has still not approved expiring tax incentives.

The following are some things that should be considered to minimize your overall tax liability

Potential Year-End Tax Planning Opportunities for Individuals

Higher-income earners must be wary of the 3.8% surtax on certain unearned income. The 3.8% surtax applies to the **<u>lesser</u>** of modified adjusted gross income in excess of $250,000 for joint filers or surviving spouses, half of that for a married individual filing a separate return, and $200,000 in any other case, **<u>or</u>** net investment income

In addition, for 2016 the 0.9% additional Medicare tax also may require year-end actions. Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of the employee's filing status or other income. This could be an estimated payment trap if a high-income individual earns wages from more than one source. An example is individual has W-2 wages for $200,000 and also has earned income from his ranch. The combined total is used to calculate the additional tax due. On the other hand, over withholding is possible if the individual is married and the other spouse has less than $50,000 of wages subject to the Medicare tax.

Manage the realization of losses and/or gains on your investment position as desired to minimize your tax. Make sure you allow time for the transaction to be completed in 2016. For example on losses, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable for you to meet with your tax advisor to discuss year-end trades you should consider making.

Postpone receipts until 2017 and accelerate deductions into 2016 to lower your 2016 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2016 that are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. However, in some cases, it may be beneficial to actually accelerate income into 2016 if a person's marginal tax rate is much lower this year than it will be next year or where lower income in 2017 will result in a higher tax credit for health insurance in 2017

Make an IRA contribution if allowed to lower your taxable income. If you converted assets in a traditional IRA to a Roth IRA earlier in the year and the assets in the Roth IRA account declined in value, you can back out of the transaction by re-characterizing the conversion by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a timely trustee-to-trustee transfer. You can later reconvert to a Roth IRA with a lower income impact.

Reminder, take required minimum distributions (RMDs) from your IRA or 401(k). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-1/2. That start date also applies to company plans, but non-5% company owners who continue working may defer RMDs until April 1 following the year they retire. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

If you think you may be subject to estimated tax penalty, request your employer to increase your withholding tax on your last paycheck for the year. The withheld tax will be applied pro rata over the full 2016 tax year to reduce previous underpayments of estimated tax. IRA rollovers distributions with tax withheld could also be used in this manner but caution must be used regarding the 12 month limitation for qualified rollovers.

Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2016 deductions even if you don't pay your credit card bill until after the end of the year. Consider disposing of a passive activity before the year end if doing so will allow you to deduct suspended passive activity losses in 2016. Likewise, if you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.

You may be able to save overall taxes for this year and next by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions.

Estimate the effect of any year-end planning moves on the AMT for 2016, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes.

Potential Year-End Tax Planning Opportunities for Businesses & Business Owners
The Code section 179 expensing limit for 2016 is $500,000 and the investment ceiling limit is $2,010,000. Most small and medium sized businesses that make purchases before the end of 2016 will be able to currently deduct most if not all their outlays for new machinery and equipment. Ranchers may also include expenditures for single use agriculture structures, virgin bulls and heifers, The expensing deduction is for assets placed in service during the year. If a qualified asset is purchased and place in service on December 30 the whole asset is deductible. This is a significant year-end planning opportunity.

Ranchers should also consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. The bonus depreciation deduction is also permitted without any proration based on the length of time that an asset is in service during the tax year. As a reminder you should make sure any tax planning which requires expenditures, does not end up having a negative long term impact on the financial health of your operation. Remember the cattle price forecast and that cost must be controlled.

If your business qualifies for the domestic production activities deduction for its 2016 tax year, calculate whether the 50%-of-W-2 wages limitation applies. If it does, consider increasing 2016 W-2 income to owner-shareholders whose compensation is used in the 50% limitation calculation. Note the limitation applies to amounts paid with respect to employment in calendar year 2016, even if the business has a fiscal year.

Where the UNICAP rules aren't an issue businesses may elect to take advantage of the "de-minimis safe harbor election" to expense the costs of assets, materials and supplies. To qualify for the election, the cost of a unit of property can not exceed $5,000 if the taxpayer has an applicable financial statement (AFS). If there's no AFS, the cost of a unit of property can't exceed $2,500.

A corporation should consider accelerating income from 2017 to 2016 if it will be in a higher bracket next year. Additionally, a corporation that anticipates a small net operating loss (NOL) for 2016 may find it worthwhile to accelerate just enough of its 2017 income to create some net tax for 2016. This will permit the corporation to base its 2017 estimated tax installments on income shown on its 2016 return, rather than having to pay estimated taxes based on 100% of its 2017 taxable income if it is expected to be significantly higher.

Conversely, a corporation should consider deferring income until 2017 if it will be in a higher bracket this year or if doing so will preserve the corporation's qualification for the small corporation AMT exemption for 2016.

Summary

Your tax advisor should have a checklist of additional actions based on current tax rules that may help you and/or your business save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from many of them. Your advisor can narrow down the actions that will benefit your situation. You should make sure any tax planning which requires an expenditure like buying additional equipment does not end up having a negative long term impact on the financial health of your operation   As stated in last month's article, good succession planning that will enable the smooth operation of the family ranch over many years should also being considered if not all ready in progress. It is never too early to start the succession planning. If you have a plan and it has not been reviewed recently, consideration should be given to contacting you financial advisor to help assure your plan is still maximizing the planning opportunities to meet your objectives.

For more information on this topic and other tax and financial planning for ranching, please contact me at (863) 640-2008 or Tom@beasleybryantcpa.com and/or Ryan Beasley at (863) 646-1373 or Ryan@beasleybryantcpa.com . Please visit our website at www.beasleybryantcpa.com for information on other relevant topics.

We at Beasley, Bryant & Company, CPA's, P. A. are experienced in agricultural business problems, tax issues or concerns, and are here to help you.

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