TelFarm Newsletter

Volume 19, Issue 2 Fall 2019

Important Dates for Year-End

Late October:

If you are on Pc Mars and would like your accounting records reviewed prior to receiving tentative reports, **please submit a backup to the TelFarm Center by Friday, October 25, 2019.** Files received after this date will not be reviewed, they will only be printed as is for tentative tax documents. If you submit them for review and have resulting updates to your books, please resend an updated copy of your books by Friday, November 8, 2019.

Early November:

Accounting and depreciation transactions are due in the TelFarm office on or before Friday, November 8, 2019 (must be in office by then, not postmarked by) in order for you to receive:

- Cash Flow Report
- Tentative Tax Planning Package
- Depreciation Schedule

We will only print accounting reports for clients that have submitted books/records to us completed through at least September. All clients will still receive tentative depreciation schedules and tax planning handouts.

Week of Thanksgiving:

Items mailed to clients:

- Tentative Tax Planning Packages and Depreciation Schedules
- 2019 Enrollment Contracts

December:

- Tax planning meetings by local or District Extension Educators. Submit your changes in accounting and depreciation made during tax planning meetings to TelFarm upon completion.
- Enrollments due by Friday, December 13, for 2020 year. (A signed enrollment contract is needed to get supplies)

January:

- Employers prepare W2s and give to employees and SSA by January 31, 2020 as well as Form 943 to the IRS.
- Furnish 1099s to recipients and 1099-MISC for employee compensation to the IRS by January 31, 2020.

February:

Tax Package Deadline - final 2019 records are due at the TelFarm office on or before Friday, February 7, 2020 in order for you to have some time to file and pay taxes by March 1, 2020 to the IRS.

Changes coming to PcMars

Iowa Farm Business Association will be launching a 3.0 version of PcMars starting in December. Our recommendation is to wait to upgrade to the 3.0 version until you have finished your 2019 books and filed your 2019 taxes. You will still be able to start your 2020 books in the current version of PcMars. That set of 2020 books can easily be converted to the 3.0 version once you get it installed. After we get past tax prep time, we will be sending out more information about what needs to happen to do the conversion. We anticipate the new version of PcMars to be very similar to what you've been used to. An upgrade to PcMars 3.0 will not be a requirement, however, prior versions of PcMars will not be tech supported after 2020.

The main driver for this upgrade is that Windows 7 will no longer be Microsoft supported software after January 14, 2020. You can read more about what that means on their website (https://www.microsoft.com/en-us/windows/windows-7-end-of-life-support-information). For anyone with a computer running an operating system older than Windows 8 may want to consider upgrading your computer. Windows 10 is the most current operating system and most optimal to run PcMars 3.0.

Considerations for the farm business after prevent plant and delayed planting

Article contributed by Roger Betz & Jon Laporte—MSU Extension

Involve the Lender sooner, not later when considering a plan for the year

Meeting with the lender is a crucial part of working through a challenging year and it is important to make that appointment as soon as possible. Lenders are more willing to work with you going in ahead of time versus waiting six months until the end of the year. This allows them to fully understand the financial condition your farm is in, prioritize their involvement in that process, and help find a positive solution.

It is also important that you lead the discussion of what solutions are needed for the farm. As the decision maker, you want to discuss the plan for your operation to continue moving forward; not just the problems of the season. The lender can offer recommendations to fine-tune your plan and even offer alternative solutions for you to consider, but you do not want them making any decisions for your operation. They do not have all of the information about the farm that you do and do not have to live with the consequences of a poorly thought out plan. Remember, manage your own business, and do not let the lender manage it for you.

Financial Statements

In order for a lender to help the farm find a solution, they are going to need specific information. The first piece of information they are going to need is a balance sheet displaying the farm's current financial situation or equity. A balance sheet is a financial snapshot in time. It shows what you think the market value of your assets are worth on that date. Keep in mind that values should reflect the true sale value of those assets, not necessarily the value you think it should be worth. Be sure to include any unpaid bills that are currently outstanding on the balance sheet and bills you anticipate needing to pay for the remainder of the year (i.e. seed bill, real estate taxes).

What about determining a value on a growing crop? There are a couple options to consider. The first option is to value them based solely on the cost of inputs. For corn being grown, there is fertilizer, seed, chemicals, fuel, and possibly repairs or custom application associated with the crop. Add the costs of these inputs together offers a value for the growing crop. The second option is to use crop insurance values as determined by yield or revenue protection policies. Be sure to discount these values by the costs yet to be incurred (i.e. harvest costs) to keep the values within a reasonable level.

Another document the lender will need is a cash flow projection. This is a realistic expectation of revenues minus cash expenses. The lender needs to see how and when loan payments will be made. Generally, if the season is "normal" the projection should show enough income to pay for expenses (profitability) and debt repayments (cash flow). A word of caution. Be careful about being too optimistic or overconfident in developing a cash flow projection. The yields or production outputs should be conservative. Typically, they would be based on proven historical performance, but those yields may or may not be achievable in a challenging year. Any overstated numbers or production values could reflect poorly on your understanding of the farm's financial condition. If the information used is unrealistic, the lender will question your ability as a decision maker and if your loan request is worth pursuing.

Additional resources can be found on the delayed planting resources page on the MSU Extension website—www.canr.msu.edu/agriculture/delayed-planting-resources/

Beware of ACA Health Insurance Subsidies

The Affordable Care Act (Obama Care) can provide substantial health insurance premium credits that are based on your "expected" income and the selected plan in the marketplace. Quite often, for ease of calculation, health insurance subsidy/credits are based on a historical adjusted gross income estimate. Then, when the income tax return is prepared for the current year, the health insurance credits (subsidy) are reconciled with the actual adjusted gross income. You may get more refundable tax credits or need to pay back some of the preliminary insurance premium tax credits.

If you ***underestimated*** your income AND you purchased your health insurance on the federal exchange marketplace, then you will pay back some of the built-in subsidy you received during the past year as you paid the health insurance net premium.

If you ***overestimated*** your income AND you purchased your health insurance on the federal marketplace, then you will receive all of the subsidy you qualify for as a refundable tax credit when you file taxes at the end of the year.

Some of these reconciliation adjustments can be in the thousands of dollars if your actual income differs significantly from the estimate, as with an unexpected sale of a large asset(s), i.e. herd sale. This adjustment is reconciled on your Tax Form 8962. When an event occurs that significantly changes your expected income, it should be promptly reported to the marketplace through the agency where you enrolled in the coverage to minimize the amount to be reconciled at the end of the year.

SUBSIDY BY INCOME FOR A FAMILY OF FOUR

Income	Max % of Income	Annual Premium Silver Plan	Subsidy	What You Pay	% of Poverty Level
<$23,000	0%	$8,290	$8,290	$0	100%
$25,000	2%	$8,290	$7,790	$500	106%
$30,000	2%	$8,290	$7,690	$600	127%
$35,000	3.92%	$8,290	$6,917	$1,373	149%
$40,000	4.91%	$8,290	$6,325	$1,965	170%
$45,000	5.89%	$8,290	$5,640	$2,650	191%
$50,000	6.73%	$8,290	$4,925	$3,365	212%
$55,000	7.47%	$8,290	$4,179	$4,111	234%
$65,000	8.80%	$8,290	$2,567	$5,723	276%
$75,000	9.50%	$8,290	$1,165	$7,125	318%
$85,000	9.50%	$8,290	$215	$8,075	361%
$94,200	9.50%	$8,290	$0	$8,290	400%

Phaseout levels: For **2019**, after earning an **income** of $100,400 or higher for a family of four, $83,120 for a family of three, $65,840 for a married couple with no kids, and $48,560 for single individuals, you will no longer receive government health care subsidies.

**Silver Plan, Insurance covers 70%*

Staff Updates

Aaron Fahrner is our current student employee. He started working in the TelFarm office after the fall newsletter last year and we forgot to include him in the spring newsletter. Aaron is from a farm in Sebewaing. He is a junior studying agribusiness management with a minor in crop and soil science. He intends to work in the TelFarm office until he graduates in the Spring of 2021. Our prior students Adam Jones and Brooke Schluckebier are both finishing their respective programs this year, which is keeping them too busy to work in the TelFarm office this year. We wish them well in their endeavors.

2019 Depreciation Update

Machinery Trade-Ins

Enacted in 2018, trade-ins are not allowed for machinery and equipment. This means you report the traded-in item as a sale with the trade-in allowance as the sale price. The new or acquired item's purchase price is the cash boot plus any new loan proceeds plus the trade-in allowance. All of this information should be listed on the purchase agreement in most cases.

General Depreciation

General Depreciation System (GDS) allows the (either 200% or 150%) declining balance method or the straight-line method depreciated over the prescribed GDS life. The alternative depreciation system (ADS) is always straight-line and depreciated over a longer ADS life and always is available to all, but may be required for certain producers who elect not to capitalized certain pre-productive expenses under the uniform capitalization rules.

Law Change to Uniform Capitalization Rules

The Tax Cuts and Jobs Act (TCJA) eliminated the need to capitalize pre-productive costs for orchard and vineyards if the taxpayer's annual gross receipts for the prior three years are less than $25 million. Therefore, most farmers are exempt from the uniform capitalization rules (UNICAP) and are able to choose between GDS and ADS. Call us or talk to your tax accountant if you have questions.

Direct Expensing (Section 179)

Up to $1,000,000 but reduced $1 for every $1 over the $2.5 million investment limit - (these are 2018 levels and will be adjusted for inflation). Any tangible property qualifying as section 1245 property and certain qualified real property are eligible. Can be applied to used property and at any level deemed desirable.

Bonus Depreciation

No limit on qualifying property for bonus depreciation. Qualifying property for bonus depreciation includes tangible property with a MACRS class life equal to or less than 20 years. Used property now qualifies for bonus depreciation after the TCJA tax act passed. Bonus depreciation is 100% of the qualifying cost with no other optional level and must be elected "out of" for each MACRS class, if not desired. This is now much more wide-open.

Depreciation Expense Management

Depreciation laws now allow much faster depreciation than previous years. Careful use of the more liberal depreciation laws is advisable. If a purchased asset is financed with debt and then expensed quickly under the current tax law, it will leave the debt to be paid with future profits and no future deduction. This can then result in a situation of needing pay income taxes and no usable cashflow without re-borrowing or dipping into savings for the taxes.

MSU is officially closed on these days:

Thanksgiving — November 28 & 29

Christmas — December 24 & 25

New Years— December 31 & January 1

Wishing you a safe harvest season this fall!

Current PcMars Software Version is 2.5.6.0

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MICHIGAN STATE UNIVERSITY Extension