

RIGHT RISK™

RIGHT RISK NEWS

DATES TO REMEMBER

**Fall crops:
final acreage reporting**
- November 15, 2015
final planting
- dates are county specific

**Forage Insurance:
acreage reporting**
- November 15, 2015

**Pasture, Rangeland,
Forage (PRF) sales
closing date**
- November 15, 2015

For more information see:
<http://www.rma.usda.gov>
<http://www.fsa.usda.gov>

Managing Income Tax Liabilities

Fall is a great time to review your financial information. Good records are the foundation to analyzing the financial performance of a business – is the business improving? Which items are selling? What changes need to be made?

Good records are needed to prepare accurate financial statements; identify sources of receipts; and to track deductible expenses and capital sales and purchases. Complete and accurate records are required to support the income, expenses, and credits reported on tax returns.

Farmers and ranchers, especially cash-basis tax payers, can also use their financial records to estimate their potential tax liabilities. A “tax estimate” is simply an estimate of income and deductible expenses, including depreciation and Internal Revenue Service (IRS) Section 179 allowances, followed by a calculation of tax liabilities.

By estimating potential income tax liabilities before the end of the current tax year, farmers and ranchers may be better able to manage their tax liabilities so as to better achieve their financial goals.

While it is always best to consult with a tax preparer when possible, farmers and ranchers can reasonably estimate their potential taxes:



How Much Risk is Right for You?

1. First, list all farm income already received and deductible expenses already incurred as listed on a IRS Schedule F.
2. Second, add all farm sales and purchases which are expected before the end of the tax year.
3. Third, include all capital sales and purchases that have already been made and are yet to occur. Depreciation (cost recovery of purchased capital assets) should be obtained from your tax preparer.
4. Finally, add all non-farm income, make allowable adjustments, and subtract taxes and credits. Remember, in 2015 the standard mileage rate for the cost of operating your vehicle is \$0.575 and the maximum amount that can be elected to deduct for most IRS Section 179 property placed in service in 2015 is \$25,000. Self-employment taxes can be estimated by multiplying farm profits by 15.3 percent. This rate is the total of 12.4 percent for self-employment tax and 2.9 percent for Medicare taxes. The maximum net self-employment earnings subject to the social security portion is increased to \$118,500. There is no limit to earnings subject to the Medicare portion. However, an additional Medicare tax of 0.9 percent may apply under certain conditions.

Federal income taxes can be estimated by multiplying taxable income by the applicable marginal tax rate. These rates apply to different amounts of taxable income according to the taxpayers filing status for 2015.

Qualified farmers–taxpayers having at least two thirds of their total in

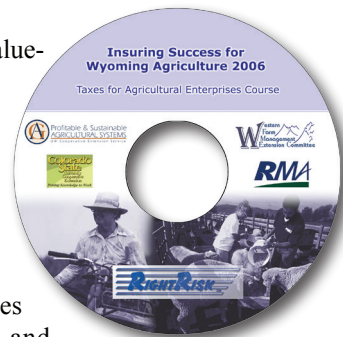
SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074 2014		
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. ▶ Information about Schedule F and its separate instructions is at www.irs.gov/schedulef .		Attachment Sequence No. 14		
Name of proprietor		Social security number (SSN)				
A Principal crop or activity	B Enter code from Part IV	C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	D Employer ID number (EIN), see instructions			
E Did you "materially participate" in the operation of this business during 2014? If "No," see instructions for limit on passive losses. <input type="checkbox"/> Yes <input type="checkbox"/> No F Did you make any payments in 2014 that would require you to file Form(s) 1099 (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No G If "Yes," did you or will you file required Form(s) 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No						
Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)						
1a Sales of livestock and other resale items (see instructions)	1b Cost or other basis of livestock or other items reported on line 1a	1c Subtract line 1b from line 1a	2 Sales of livestock, produce, grains, and other products you raised	2b Taxable amount	2c Cooperative distributions (Form(s) 1099-DIV)	
3a Agricultural program payments (see instructions)	3b Taxable amount	3c Commodity Credit Corporation (CCC) loans reported under election	3d CCC loans forgiven	3e Taxable amount	3f Crop insurance proceeds and federal crop disaster payments (see instructions)	
4a Amount received in 2014	4b Amount deferred from 2013	4c If election to defer to 2015 is attached, check here <input type="checkbox"/>	4d Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	4e Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 5f (see instructions).	4f Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	
5a Car and truck expenses (see instructions). Also attach Form 4962	5b Pension and profit-sharing plans	5c Rent or lease (see instructions): a Vehicles, machinery, equipment b Other (land, animals, etc.)	5d Repairs and maintenance	5e Utilities	5f Storage and warehousing	
6 Depreciation and section 179 expense (see instructions)	6a Supplies	6b Taxes	6c Veterinary, breeding, and medicine	6d Other expenses (specify):	6e Insurance (other than health)	
7 Employee benefit programs other than on line 23	7a Mortgage (paid to banks, etc.)	7b Other	7c Labor (less employment credits)	7d Total expenses. Add lines 10 through 32. If line 32f is negative, see instructions.	7e Net farm profit or (loss). Subtract line 7d from line 9.	
8 Feed	8a All investment is at risk.	8b Some investment is not at risk.	8c If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.	8d Did you receive an applicable subsidy in 2014? (see instructions)	8e Check the box that describes your investment in this activity and see instructions for where to report your loss.	
9 Freight and trucking	9a <input type="checkbox"/> All investment is at risk.	9b <input type="checkbox"/> Some investment is not at risk.	9c <input type="checkbox"/> Yes <input type="checkbox"/> No	9d <input type="checkbox"/> Yes <input type="checkbox"/> No	9e <input type="checkbox"/> Yes <input type="checkbox"/> No	
10 Gasoline, fuel, and oil						
11 Insurance (other than health)						
12 Interest:						
13 a Mortgage (paid to banks, etc.)						
14 b Other						
15 Labor (less employment credits)						
16 Total expenses. Add lines 10 through 32. If line 32f is negative, see instructions.						
17 Net farm profit or (loss). Subtract line 16 from line 9.						
For Paperwork Reduction Act Notice, see the separate instructions. Schedule F (Form 1040) 2014						

HIGHLIGHTED COURSE

Farmers and ranchers, regardless of farm or ranch size, generate business through the sale of commodities, value-added products, and capital assets. Money flows out of the business through the purchase of operating expenses (such as fertilizer, fuel, seed, and animal feed) and capital assets (such as machinery, equipment, and breeding livestock).

Income and self-employment taxes are a direct result of business profitability. Thus, farmers and ranchers need to understand the impact of income taxes on their businesses. The better they understand the applicability of the tax code to agriculture the better they can help their tax preparers complete accurate tax returns and provide information for making management decisions.

RightRisk offers a free, on-line course pertaining to *Taxes for Agricultural Enterprises*. The course gives viewers an introduction to the definition of farms and ranches as a business, farm income, farm expenses, and cost recovery of capital assets (depreciation). There is also a section of the course which allows users to better understand farm taxes via various hands on exercises. To access see: RightRisk.org > Courses.



MANAGING INCOME TAX LIABILITIES CONTINUED FROM PG. 1

come from farming or fishing—generally, are not required to make quarterly payments of their income and self-employment taxes. If they do not make quarterly payments, qualified farmers are required to pay all taxes owed by March 1st of the year immediately following the tax year.

The real tax management decisions begin after estimating one's existing tax liabilities. Taxes would increase if additional income was earned or decrease if additional deductible expenses were incurred. Also, taxes would change with the sale or purchase of capital assets.

A spreadsheet can be developed to assist with calculating tax liabilities. One column could list expected income and expense items as shown on the IRS Schedule F, a calculation for self-employment taxes, all non-farm income, adjustments, taxes and credits, and income taxes. A second column could be used to insert financial income and expenses yet to be received before the end of the year. A third column could be used to analyze and compare the impact on potential tax liabilities of deciding to take additional income or make additional purchases.

IRS Publication 225 (*Farmer's Tax Guide*) may be useful to farmers, ranchers, and others involved in agriculture. The publication explains how the federal tax laws apply to farming and serves as a guide to figuring taxes and completing a tax return for farmers and ranchers. Publication 225 and related information is available at www.irs.gov.

All business owners should review their financial records periodically throughout the year. They should also estimate their potential tax liabilities. Farmers and ranchers, because of the nature of their business, are usually able to make additional sales or make additional purchases to help better achieve their financial goals for the year. After the end of the tax year is too late to make decisions which impact income tax liabilities. Remember to consult with a tax preparer before making significant decisions.

USDA Extends Deadline to Increase Protections for Forage Crop Losses

The USDA Farm Service Agency (FSA) deadline for producers to obtain or modify higher levels of coverage through the Noninsured Crop Disaster Assistance Program (NAP) to protect against poor forage crop quality because of drought or other natural disasters where the forage is intended for mechanical harvest has been extended to Nov. 13, 2015.

<http://www.fsa.usda.gov>

RIGHTRISK™

- Education
- Coaching
- Research

E-mail: information@RightRisk.org

Web: www.RightRisk.org

RightRisk helps decision-makers discover innovative and effective risk management solutions.

RightRisk News is brought to you by the RightRisk Team

Contributing authors:

John Hewlett, Ranch/Farm Management Specialist - University of Wyoming, hewlett@uwyo.edu

Jay Parsons, Risk Management Specialist - University of Nebraska-Lincoln, jparsons4@unl.edu

Rod Sharp, RightRisk Founder, Rod.Sharp@ColoState.edu

Jeff Tranel, Ag and Business Management Specialist - Colorado State University, Jeffrey.Tranel@ColoState.edu

Editing and Layout: John Hewlett, hewlett@uwyo.edu

Past issues of RightRisk News are available at: <http://RightRisk.org> > Resources > RightRisk News
To subscribe/unsubscribe, email information@RightRisk.org subject line "Subscribe/Unsubscribe RR News"

How much risk is right for you and your operation?

Colorado State University Extension

UNIVERSITY OF WYOMING EXTENSION
N EXTENSION