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RightRisk™

RightRisk News

Dates to Remember

Spring-planted crops sales deadline:
- March 15, 2021

Noninsured Crop Disaster Assistance Program (NAP) Deadline for springseeded forage and all other crops
- April 1, 2021

For more information see:
https://www.rma.usda.gov
https://www.fsa.usda.gov

Year-end Financial Analysis and Tax Management Strategies

The end of each year is a critical time for wrapping up financial records and planning next year. A business owner should be questioning if the business made money? Where might revenues have been increased and expenses cut? What enterprises or departments generated profits or losses? Are there strategies for reducing tax liabilities?

The first step in financial management is to maintain records that are complete, accurate, detailed, and legible. Sound financial records serve as the foundation for compiling financial statements and answering basic management questions. Good records and timely year-end analysis allow for assessing business performance by more than one measure of success.

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Statement of Cash Flows

The projected statement of *cash flows* developed at the beginning of the year should now be adjusted to reflect actual cash in-flows and outflows. A manager will be able to quickly and easily see how much money was brought in and how much money was spent in each period and if there were any unexpected or missing sales or purchases. Furthermore, the previous year's statement of cash flows is a valuable resource for developing a road map to profitability over the next year.

Balance Sheet

Another important financial statement that should be completed at the beginning and end of each year is a *balance sheet.* Many business owners and managers will develop a "book value" balance sheet, a "market value" balance sheet, or both. Because the book value method estimates asset values based on the cost of acquiring the asset minus depreciation, it provides the only accurate basis for estimating business performance by separating business growth from changes in asset values. The market value method estimates asset value based on a price that the asset could be sold at within a short period

How Much Risk is Right for You?

of time. It is most often used by lenders because it better represents the market worth of the business to the owner or owners.

A series of balance sheets can provide a measure of business performance over time. It is important to note that the information on the balance sheets does not indicate why values changed – only that they did change. A balance sheet can provide an accuracy cross check of accrual financial records.

Income Statement

At the end of each year, an *income statement*, also called a Profit and Loss Statement or P&L, should be compiled to estimate the profitability of the business over the past year. It can be prepared based on either cash or accrual accounting methods. Cash accounting measures income and expense items when the cash changes hands. Inventory changes and other non-cash transactions are ignored. It may reflect the income of a business, but does not provide a true picture of profitability. Accrual accounting matches the revenues from a period's production to the actual expenses associated with generating that revenue. This method more accurately reflects the actual production and expense commitments made over an accounting period.

Tax Management Strategies

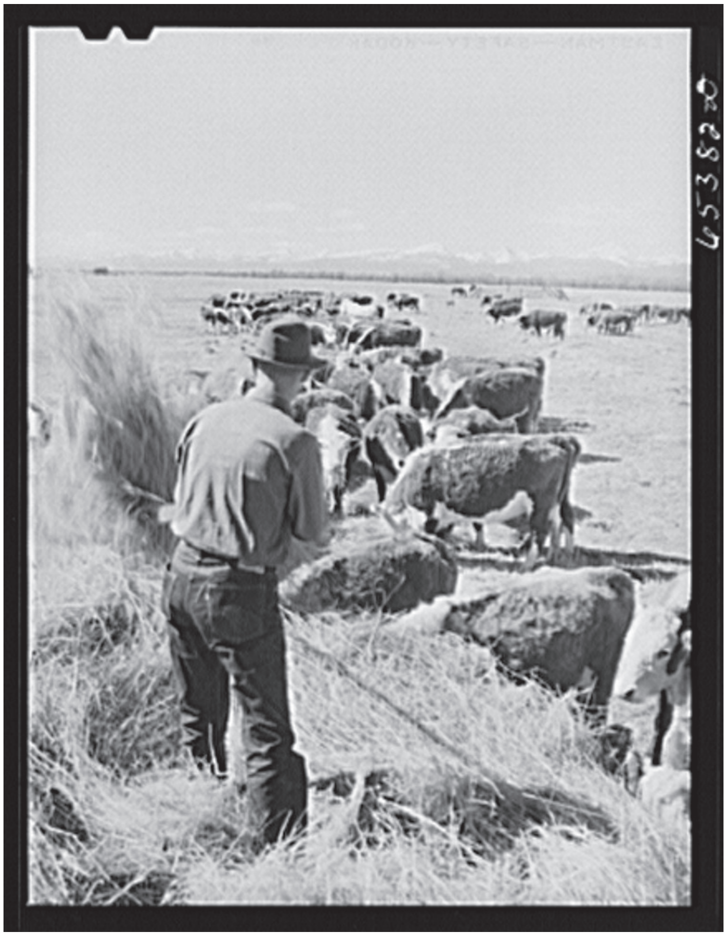
A business owner, especially one who files taxes using the cash method of accounting, may implement a variety of strategies to change revenues received, expenses incurred, and corresponding tax liability. Most, but not all, of these strategies must be implemented prior to year's end.

1. **Reduce taxable income**. Farmers and ranchers, as cash basis tax filers, have a number of available strategies for reducing taxable income in 2020. A producer might store grain until the following year to provide sale proceeds taxed next year; purchase hay or fertilizer that will increase expenses; or be able to claim the applicable depreciation or elect to expense (under Section 179 expense election) the cost of purchasing a piece of equipment. All costs and benefits should be considered before implementing a strategy to reduce taxable income in any specific year.

2. **Increase taxable income**. A business owner may want to increase taxable income to take advantage of current year tax rates (income, self-employment, and capital gains) or because profits projected for next year will be significantly higher. Strategies to increase taxable income could include: increase sales this year, delay purchases of inputs, and elect to expense less (Section 179 expense election) of the cost of purchasing capital assets.

3. **Contribute to a retirement plan**. Traditional and Roth Individual Retirement Accounts (IRAs), offer an opportunity for each individual to contribute up to $6,000, with an additional $1,000 if the person is over 50 in 2020.

4. **Appropriately account for any Paycheck Protection Program (PPP)** monies received in 2020. PPP funds may be forgiven if used by the recipient. Also, the forgiven amount is tax-free but not tax



deductible. IRS guidance related to PPP funds is evolving, so managers should consult a competent tax advisor.

5. **Convert traditional IRA accounts to Roth IRA accounts**. If taxable income is lower than normal, the taxes owed on monies converted to a Roth IRA may not be as great as in future years. Also, money in a Roth grows tax-free and is not subject to required minimum distributions for those people reaching age 70-1/2. This can be a powerful estate planning tool.

6. **Use the money in your Flexible Spending Account (FSA)**. Do not assume monies in a FSA will rollover into next year. Either use the money for appropriate expenses or check the employer's policy regarding the rollover of FSA funds.

7. **Take required minimum distributions (RMD)** – if age 70-½ or older – from IRAs and other qualified accounts. Such distributions must be taken before December 31st of each year to avoid costly penalties, or taxes and penalties can be avoided if the RMD is donated to a qualified charity.

8. **Make gifts to family members and worthy causes**. Internal Revenue Service (IRS) rules allow every taxpayer to gift up to $15,000 to an individual recipient in one year. There is no limit to the number of recipients an individual can give gifts to, but there is a lifetime exemption of $11.4 million.

Every business owner should conduct a year-end analysis. Good financial records and completed financial statements are essential to: 1. Determining if the business was profitable, 2. Implementing strategies for changing tax liabilities, 3. Knowing which enterprises are profitable and more. Consult professional counsel—lender, attorney, tax preparer, wealth advisor, insurance agent—before implementing new or revised management strategies to avoid costly mistakes.

~ Other RightRisk News ~

News Release - Nov. 13 | RightRisk

Farm Financial Outlook Improves Federal Reserve - Bank of Kansas City Ag Credit Survey

The Beige Book is a Federal Reserve System publication covering current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book complements other forms of regional information gathering . . .

For more see: RightRisk.org\News

Highlighted Publications: *Ag Help Wanted Updates*

What is the Fair Labor Standards Act in Agriculture and How Does it Apply to Me?

The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in federal, state, and local governments. Nonexempt workers covered under the Act are entitled to a minimum wage. Overtime pay must be paid at a rate not less than one and one-half times the regular rate of pay after 40 hours of work in a single workweek. Wages required by the FLSA are due on the regular payday for the pay period covered. Deductions made from wages for such items as cash or merchandise shortages, employer-required uniforms, and tools of the trade, are not legal to the extent that they reduce the wages of employees below the minimum rate required by the FLSA or reduce the amount of overtime pay due under the FLSA. The FLSA contains some exemptions from these basic standards.

Ag Help Wanted Updates can help you better understand these details.

To access the publication see: **AgHelpWanted.org\Updates.**

November 3 | Social Media Post
What Are Risk Controls?

November 5 | Social Media Post
RURAL TAX.org

November 10 | Social Media Post
Risk Scenario Planning with RightRisk Analytics

November 12 | Social Media Post
¿Cuáles son los reglamentos Estado Unidenses para el trabajo de menores en agricultura?

November 17 | Social Media Post
Forage Risk Analyzer via RightRisk Analytics

November 19 | Social Media Post
Ag in Uncertain Times

November 24 | Social Media Post
Enterprise Risk Analyzer via RightRisk Analytics

November 26 | Social Media Post
Evaluating Risk Management Strategies

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