Business point

Is your tax bill a moving

Uncertainties abound, so spend some time reviewing tax plans for 2012 and 2013.

Editor's note: Kent Vickre and Dwight Raab write a tax and finance column for each issue of Pioneer GrowingPoint® *magazine. Vickre is the state coordinator of the Iowa Farm Business Association. Raab is the state coordinator of Illinois Farm Business Farm Management. They address issues that influence agribusiness success.*

As 2012 comes to an end, many producers will remember it as the year of the drought and uncertainty. As producers sharpen their pencils to work on their current tax plan and consider next year's tax changes, it becomes apparent that the uncertainty continues.

2012 Tax Plan:

When working on a year-end tax plan, a key consideration should be tax management, not simply tax avoidance. By reviewing your taxable income, tax brackets, deduction phase-outs and credits, you can decide on an optimum taxable income level. Several common examples that cash-basis producers can use as planning strategies are:

- **Prepay operating inputs.** Be sure to specify a quantity and price. Remember, prepaid expenses are limited to 50 percent of deductible expenses and can't distort income.
- **Defer crop insurance proceeds.** You may elect to defer income to the following year if you meet specific conditions. This depends on the type of insurance, if you normally sell the crops in the following year, method of accounting, etc. For details, see the article "Crop Insurance Proceeds: Can I defer?" in the November 2012 issue of Pioneer *GrowingPoint®* magazine.
- **Pay your children a reasonable wage for farm work.** You may not have to pay Social Security tax on your children under age 18. You must file the appropriate payroll tax forms, and your children may have to file income tax returns.
- **Pay any accrued interest.**
- **Consider income averaging.** Depending on the prior year's taxable income, income averaging may decrease your tax liability.
- **Double up on church or charity contributions.** If you itemize, consider donating more in December instead of waiting until the following year.
- **Review Commodity Credit Corporation loan tax treatment.** If you have "sealed grain" carrying over at year-end, electing to change the tax treatment may increase or decrease your taxable income. You may need to file additional forms with your return.
- **Purchase capital assets.** Consider purchasing needed capital assets such as equipment, buildings or breeding livestock. Federal depreciation rules are described below; however, each state decides if it will couple or decouple from these. Check on the depreciation rules for your state.
  - **Bonus depreciation for purchased capital assets.** An additional first-year depreciation deduction equal to 50 percent of adjusted basis for qualified property may be available for both regular income and alternative minimum tax (AMT). A general description for qualified property is:
    - — MACRs (Modified Accelerate Cost Recovery) property with a 20-year or less recovery period
    - — Original use required by taxpayer (new)
    - — Property placed in service before Jan. 1, 2013.
  - **"Quick write off" depreciation for purchased capital assets.** In general, the Section 179 deduction is

$139,000 for 2012. The 179 election is limited to qualified capital purchases for items such as equipment, grain bins or breeding livestock with a dollar-for-dollar phase-out starting at $560,000. Additionally, qualified items that exceed the $139,000 are eligible for regular depreciation.

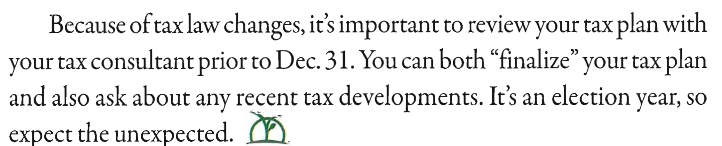
- **Fund your retirement account — IRA, SEP, Keogh.** Because some plans need to be funded by Dec. 31, be sure to check into this now. The limits for 2012 for the traditional deductible retirement accounts are:
  - **Traditional IRA.** These are available to most individuals under the age of 70½ with earned income. For 2012, the maximum contribution is $5,000 or your earned income (whichever is less). Individuals age 50 or older also can make an additional $1,000 "catch- up" contribution. This increases the limit to $6,000. However, be aware of income phase-out limits. These phase-out limits differ depending on filing status (married filing joint, head of household, single, etc.) and the type of IRA (traditional or spousal). For example, if you're married, filing a joint return and were eligible to participate in an employer-sponsored plan such as a 401(k), the IRA contribution drops when your income exceeds $92,000.
  - **SEP/Keogh.** These retirement plans may permit greater contributions and deductions. However, you'll generally run into provisions requiring contributions for other employees who meet certain minimum qualifications. The deduction is limited to percent of net self-employed income minus the self-employment tax deduction for the self-employed individual or a percent of wages for an employee. The maximum level is 20 percent for a self-employed individual and 25 percent of wages for an eligible employee with a maximum limit of $50,000. However, certain already-established plans may have different contribution percentages and limits. See the IRS publication 560 for complete details.

2013 Tax Plan:

Here are several changes in 2013 that could impact a producer's 2012 tax planning decisions:

- **Bonus depreciation for purchased capital assets.** This is not available in 2013.
- **"Quick write off" depreciation for purchased capital assets.** The Section 179 deduction limit is reduced to $25,000.
  - **Medicare surtax:** Beginning Jan. 1, 2013, "high income" tax payers will be subject to a new Medicare surtax. The rate and limit depend on the type of income.
  - **For earned income:** This will be an additional 0.9 percent charge on wage income in excess of $250,000 for a married person ($200,000 for single). This 0.9 percent surcharge will be added to the current employee Medicare withholding rate of 2.9 percent for a total rate of 3.8 percent.
  - **For unearned income:** This surtax will be 3.8 percent for a married couple on unearned income in excess of $250,000 based on a Modified Adjusted Gross Income surtax calculation ($200,000 for single). Unearned income examples are interest, dividend, capital gains and passive rental. However, tax-free interest and retirement plan annuities are exempt from the surtax.
- **Payroll tax reduction expires.** The 2 percent payroll tax reduction is scheduled to expire on Dec. 31, which will result in employers withholding the 6.2 percent Social Security tax from employees (vs. the previous rate of 4.2 percent). In the past, this reduction has caused some confusion for employers, mostly because it's been scheduled to expire several times before being extended at the last minute. If you have employees, watch and see what happens this time.

Because of tax law changes, it's important to review your tax plan with your tax consultant prior to Dec. 31. You can both "finalize" your tax plan and also ask about any recent tax developments. It's an election year, so expect the unexpected.



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