

WHAT'S NEW FOR 2007

Depreciation

- The maximum depreciation write-off amount is \$125,000, on a maximum of \$500,000 in equipment purchases made during the year.
- The maximum depreciation write-off for an SUV is \$25,000.
- A pick-up with a cargo area of less than 6 feet is classified as an SUV for depreciation purposes.
- In lieu of depreciation, the standard mileage rate deduction is 48.5 cents per mile.

ESTATE TAX PLANNING

Estate Taxes: Although the estate tax exclusion amount increased to \$2 million in 2007, many families will still be required to pay estate taxes. Planning today can save hundreds of thousands of dollars later. Techniques such as annual gifting and the establishment of trusts should be considered by most of our clients. With careful planning, you can help the next generation keep the family farm.

Family Limited Partnerships: Substantial tax savings might be achieved by establishing a Family Limited Partnership.

SELECTION OF ENTITY

- Most farmers report their income on schedule F. However, farmers have the same options as any business to incorporate or form a partnership.
- In addition, farmers may also be able to use the Form 4835 Farm Rental Schedule. We may be able to help you save thousands of dollars every year with the proper entity selection.

AREA COUNTIES DESIGNATED AS DISASTER AREAS FOR 2007

The following counties in Kansas have been designated as disaster areas:

| | | |
|------------|----------|------------|
| Allen | Anderson | Barber |
| Bourbon | Butler | Chautauqua |
| Cherokee | Cheyenne | Clark |
| Comanche | Cowley | Crawford |
| Decatur | Elk | Greeley |
| Greenwood | Hamilton | Harper |
| Kingman | Kiowa | Labette |
| Linn | Logan | Miami |
| Montgomery | Neosho | Rawlins |
| Sedgwick | Sherman | Sumner |
| Thomas | Wallace | Wichita |
| Wilson | Woodson | |

TAX CREDIT FOR WAGES PAID

Farmers that hire a new employee from a "rural renewal county" may qualify for a credit of up to \$2,400.

N/E Area Rural Renewal Counties:

| | | |
|----------|----------|------------|
| Atchison | Cloud | Republic |
| Brown | Jewell | Washington |
| Clay | Marshall | |



FARM TAX STRATEGIES

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TAX SAVING STRATEGIES

Domestic Production Activities Deduction (DPAD)

- This is a deduction equal to 6% of net income from farming, limited to 50% of farm wages paid.
- Farm wages **must** be paid to get this deduction.
- The deduction will increase to 9% in 2010.

Employ your Spouse

- If your spouse works on the farm, pay he/she a wage and adopt a Section 105 medical reimbursement plan .
- A medical reimbursement plan for your spouse will save self-employment and income taxes on the amount of the health insurance premium and out-of-pocket medical expenses.
- Wages paid to your spouse will qualify for the **DPAD**.

Employ your Children

- If your children work on the farm, pay them a wage and save income and self-employment tax on your farm schedule on the amount of cash wages.
- Wages paid to children under the age of 18 are **not** subject to FICA taxes and they do not have to pay income tax on the first \$5,350 in income.
- Wages paid to children under the age of 18 will **not** qualify for the **DPAD**.

Income Averaging

- Available to taxpayers engaged in a farming business.
- Average some or all of farm income by allocating it to the three prior years.

Gift of Grain to a Charity

- Cash basis farmers can donate crops they raise to a charity and save income **and** self-employment taxes on the transfer value of the grain.

Wages Paid in Grain

- Pay your employees in grain and save FICA taxes on the transfer value of the grain.
- Wages paid in grain (or any other commodity) will **not** qualify for the **DPAD**.

Land Rentals to Spouse

- If a spouse owns one-half of the farmland and is **not** materially participating in the farm operation, fair market rent may be paid to the spouse.
- The rent paid will reduce self-employment taxes from farming and rent income is **not** subject to self-employment tax.

INCOME DEFERRAL STRATEGIES

Disaster Payments on Livestock

- Cash method farmers forced to sell more livestock than normal due to weather-related conditions may **elect** to report this excess income in the following year.
- The Federal government **must** declare your county as an area qualifying for disaster relief (see list on back).

Crop Insurance Proceeds or Disaster Payments

- Cash method farmers who receive insurance proceeds as a result of crop damage may **elect** to report these payments in the following year.
- A farmer **must** establish that they would have normally sold these crops that were damaged in the following year.

Like-Kind Exchanges

- Exchanges of properties that are “like-kind” may qualify for income deferral.

Grain Contracts

- Grain sales may be deferred with the use of contracts.

Installment Sales

- Income from the sale of property may be spread over several years as payments are received.

DEDUCTION ACCELERATION STRATEGIES

Prepay Expenses

- Pay for feed, seed, fertilizer and other farm supplies to be used or consumed in the next year, by the end of the current year.
- Total prepaid expenses may be limited to 50% of total farm deductions for the year.

Depreciation

- Equipment purchases are ready and eligible for depreciation when they are available for use, **not** when you actually pay for them.
- When purchasing land, any improvements (fences, buildings, etc.) may be broken out of the purchase price and depreciated; the purchase price for growing crops may be expensed.

Credit Card Expenses

- Credit card purchases are considered paid on the date of purchase, not when payment is made on the credit card.