Kent,

Here are some submissions from Nebraska for the Professional Papers.
Newsletter – Association: October 2016 Newsletter

Tina Barrett

Exectutive Director
Nebraska Farm Business, Inc.
3815 Touzalin Ave, Suite 105
Lincoln, NE 68507

Office Phone: 402-464-6324
Cell Phone: 402-450-1848
Fax Number: 402-464-6355
Website: www.nfbi.net

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OCTOBER/ NOVEMBER 2016

Nebraska Farm Business, Inc.

Yielding Success Through Financial Management

In This Issue:

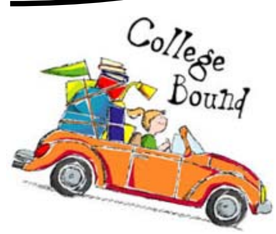
Tax Planning in Low Income Years

Producers often feel there is no need to do tax planning in years when there is no profit, but in many ways, it's more important to do tax planning in low income years than it is in high income years. There are many planning strategies that can be used to help save tax dollars over the long term if there is enough time to plan.

For many cash grain operations and even some livestock operations, there is a significant carryover tax liability that has been built during the past 10 years and it is going to take some time to work through. This means that in a low year a producer could prepay less, sell a little more grain, or purchase less equipment. This way cash income will be within the tax planning figures. The growth of the deferred tax liability seems to have happened slowly, but looking at some averages over time, one can see how much has changed.

Continue reading the "Tax Planning in Low Income Years" article on the inserted page.

Will you be filing the FAFSA for 2017-2018?



There are a few changes underway with the filing of the FAFSA…

1. The filing season for the 2017-2018 FAFSA will be up and ready as early as October 1, 2016, rather than waiting until the new year. The earlier filing date will be a permanent change
2. When filing the 2017-2018 FAFSA, they will be asking for your 2015 tax information again, rather than needing your 2016 tax information. You will be entering the same information you entered last year.

If you have significant income changes from the 2015 to 2016 tax year, it is suggested that you go ahead and file early using the 2015 tax information. Once you have the 2016 tax return completed, you should contact the institution your child(ren) are attending and the financial assistance should be adjusted accordingly by the institution.

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Tax Planning in Low Income Years, continued from Page 1...

For example, the following chart shows the average dollars recorded on the December 31st balance sheets for producers included in our average farm data for four current asset categories. In 2002, there was an average of almost $200,000 of crop and livestock assets carried into the year following production. In 2012, that peaked to over $800,000. Coming into 2016, that number has declined, but it is still a long way from the level that was carried prior to the profitability boom of cash grain operations.

There is a similar trend with prepaid expenses. This chart shows that while there is a continued decline in accrual basis income, the cash basis income will not drop off as quickly for most operations. Instead, somethings will need to be done differently than they have been in the past (i.e. prepays, etc.). As a reminder, these are just averages and not all operations fall near the average. A close look the growth of carryover grain and prepaid expenses is important. If no inventories have been built, alternative planning strategies need to be looked at.

	2002	2006	2010	2012	2015
Crop & Feeder Livestock	$195,969	$343,848	$611,872	$822,786	$602,351
Prepaid Expenses	$13,683	$29,383	$61,611	$80,132	$74,881
Accounts Receivable	$5,760	$9,378	$9,201	$56,159	$20,769
Other Current Assets (Non Cash)	$1,617	$3,608	$4,028	$6,356	$5,211
Total	$217,029	$386,217	$578,205	$965,433	$703,212

Avoid Schedule F Losses

It is important that Schedule F losses are avoided if possible. A loss on Schedule F typically means that income could have been recognized free from self-employment taxes. Since the self-employment tax amounts to 15.3%, it is something that should be managed whenever possible. The easiest things to do is sell more grain/livestock or reduce expenses. Sometimes there are management reasons why those shouldn't be done December 31st. Companies may be offering discounts for early prepay or the market is going to have enough volatility that the grain is held until after the first of the year. There are a couple of things to think about before those decisions are made.

Savings Per Bushel Sold

One of the things to look at when the tax plan looks like a time to sell, but the marketing plan says to hold, is the tax savings per bushel. Below are two plans recognizing $50,000 of taxable income:

Option 1:	Year 1	Year 2
Farm Income	-$100,000	$150,000
NOL	$0	$-100,000
Adjustments/ Deductions	$20,300	$28,009
Taxable Income	-$120,300	$20,044
Income Tax Due	$0	$2,085
Self-Employment Tax Due	$0	$18,712
Total Tax Due	$0	$20,797
Two Year Total	$20,797	

Option 2:	Year 1	Year 2
Farm Income	$20,000	$30,000
NOL	$0	$0
Adjustments/ Deductions	$21,713	$22,719
Taxable Income	-$1,713	$7,281
Income Tax Due	$0	$728
Self-Employment Tax Due	$2,826	$4,239
Total Tax Due	$2.,826	$4,967
Two Year Total	$7,793	

As can be seen from the charts above, most of the savings from evening out the income comes from a self-employment tax savings, but there are some savings from income taxes. This is due to the use of all the Adjustments/Deductions that are “lost” with a net operating loss (NOL). By evening out the total income of $50,000, over $13,000 in taxes can be saved.

In order to accomplish this, $120,000 of taxable farm income in year 1 needs to be generated. With a cash corn price of $3, that is 40,000 bushels that need to be sold. So the $13,004 tax savings becomes $0.33 per bushel. ($13,004/ 40,000). The market needs to improve by more than 33 cents to make it worth hanging onto the crop. Selling the grain and re-owning it with a marketing plan to take advantage of the tax savings and market potential could be considered.

CCC Loans

Another way to generate taxable income without losing control of the crop is to use commodity loans. More information about these loans can be found at http://www.fsa.usda.gov/programs-and-services/price-support/commodity-loans/.

A commodity loan allows an operator to take a low interest loan for the amount of the loan rate on harvested bushels. These loans can be elected to be treated as income on your tax return. So for the price of some paperwork and patience, income can be brought into a loss year and the operator would still be able to sell the crop when the marketing opportunities arise.

Contract Elections

One other way to generate taxable income is to elect out of an installment sale agreement or what is commonly known as a deferred price contract. A true deferred price contract will be written with the language that the contract is an installment agreement where the producer agrees to receive payment at a later date (often right after the first of the year). The election out of the agreement from a tax standpoint is done by simply recognizing the income in the year the agreement was made instead of when payment is received. This creates some record keeping issues so it’s important to keep good track of what is done so that the income isn’t taxed.

Avoid NOL

If a negative Schedule F can’t be avoided, it is important to try to avoid having a Net Operating Loss (NOL). These are overall losses on the tax return. Sometimes if farm income can’t be generated, other non-farm income can be generated and recognized free from income taxes.

Roll Traditional IRA’s Into Roth IRA’s

Over the past few years of profitability, many producers have used tax deductible IRA’s to defer income taxes. If there is going to be an NOL on the tax return, an individual could consider rolling traditional IRA’s into a Roth IRA. The transaction would generate taxable income on the tax return, but the earnings would be tax free. If there are farm losses, they can be offset by the income generated from the rollover and no income taxes would be owed on the money rolled into the IRA’s.

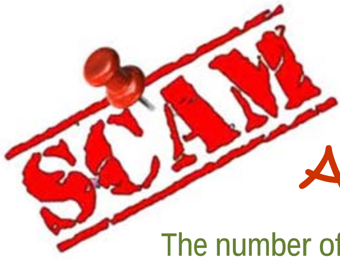
Liquidate Nonfarm Investments with Profit

In a similar way, if there are nonfarm investments such as mutual funds or stocks owned outside of an IRA that have increased in value, those could be sold and either reinvested in other stocks or right back into the same investments to establish a new basis. The gain would be recognized in the same year as the farm losses, again resulting in no tax on the gain.

Sell Equipment Instead of Trading

One other thought that could save some tax dollars in the long run is to sell equipment outright instead of trading it in on a new piece. A trade results in a like-kind exchange that is a tax deferral strategy. If the old piece of equipment is sold outright, the gain is recognized in the current year as ordinary income subject to income taxes. This would offset farm losses. The purchase of the new asset can be depreciated and will hopefully provide a larger deduction for both income and self-employment taxes in the future when profit returns.

As pointed out in this article, tax planning is just as important in low income years as it is in high income years. All of these strategies are dependent on specific issues related to your operation and tax return. These topics should be discussed with your tax professional before incorporating them into your operation.



Attention Tax Payers: Beware of Tax Scams!

The number of IRS tax scams continue to increase! We want you to know what to do and be aware of the scammers activities so you don't get caught in a fraudulent activity!

- ◊ IRS will NEVER call
- ◊ IRS will NEVER email
- ◊ IRS ALWAYS makes first contact with taxpayer through the USPS, no other way!

Taxpayers.....

- ◊ Always contact your tax consultant BEFORE just paying an IRS notice...the IRS isn't always correct & now fraudulent notices are being mailed out!
- ◊ DO NOT ever provide anyone with any personal information via phone and/or email.

Financial Analysis: *Have you been thinking about starting our program?*

Are you still interested in being part of our analysis program? There is still plenty of time to get started! Contact your consultant and set up a time to meet and put together the information necessary to get a 2016 Analysis completed!

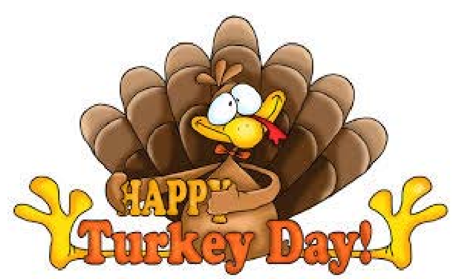
Don't think you have the necessary information? We will work with whatever information you have! Plus, if you are just starting out, have your heard about our Beginning Farmer Analysis Program? Be sure to contact your consultant today for more details!

Analysis Clients: Be Prepared for Your Tax Planning Appointment!

It is never too early to start thinking about the information you will need to get to your consultant for your operation's Financial Analysis.

- Planted crop acres by tenure type and crop type
- Harvested crop acres and bushels
- Livestock Inventory numbers (# bred, births, weaning & death numbers)

- ◊ We'd like to have this information at tax planning time or as soon as you have it available!
- ◊ If you would like to have the inventory and production pdf fill-in's, they can be found on our website, under the "Client Info" tab.



The Nebraska Farm Business Office will be closed on Thursday, November 24th and Friday, November 25th for the Thanksgiving Holiday. The office will reopen on Monday, November 28th!

Come find us at the Nebraska Power Farming Show in Lincoln, NE on December 6-8, 2016 at the Lancaster Event Center. We are located in Pavilion #3 in Booth #3717.

NEBRASKA POWER FARMING SHOW

Show times are:
Tuesday, December 6th: 9:00-5:00
Wednesday, December 7th: 9:00-5:00
Thursday, December 8th: 9:00-3:00

**Be sure to keep an eye out for your show postcard! Return that postcard to our booth and receive a prize and a chance to win a drawing!!

It's time for 1099's & W-2's... Are You Ready?

1099's:

- Must be filed to any individual, veterinarian, LLC, attorney/Law Firm (paid in any amount), independent contractor, etc. that you paid $600 or more total for the year in the course of your business (not personally)
- If you paid any individual $600 or more in interest and/or dividends, a 1099 must also be filed

This year NFBI will provide you with a pre-filled 1099 entry form filled out with the information of the recipients that you filed a 1099 for last year when we meet with you during tax planning. If you don't meet with your consultant for tax planning, please contact the office to request your pre-filled forms to be mailed to you. There are also fill-in pdf files on our website under "client info" tab.

Please have all of you 1099 and/or W-2 information into our office by **January 15th, 2017** to avoid **late fees! The office will NOT be sending out any forms by mail, *unless* YOU request it!**

Did you do something "Big" this year that you forgot to mention to your consultant?

Did you start a new entity? Be sure to let your consultant know before the end of the year that you formed a LLC, Partnership, S-Corporation, or C-Corporation!

Did you have a "life changing" event happen? If you got married, divorced, had a child, adopted a child, or a spouse or dependent died, let your consultant know! Your consultant will need to know this information in order to properly prepare your return and do accurate tax planning.

Did you have an address change? An address change may seem like a small change, but informing your consultant of the change will help you get your correct information in a more timely fashion!

It is always important to keep your consultant informed of changes taking place. They may need to be handled differently for tax purposes this year, compared to the previous years. It's never too early to let you consultant know! The more information you provide, the more accurate tax planning can be done!

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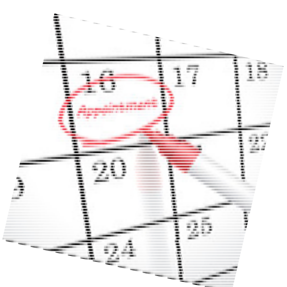
Mark your Calendars...Tax Planning Appointments are Scheduled!



Auburn: Kayla– December 2nd
Beatrice: Amber– November 22nd
Michelle & Kayla– December 9th
Burwell: Kayla– November 30th
Central City: Michelle– December 2nd
Fremont: Jim & Anthony– December 2nd
Hastings: Michelle, Amber & Kayla– November 18th
Hebron: Amber– November 22nd
Holdrege: Kayla– November 17th
Imperial: Jim, Michelle & Kayla– November 21st & 22nd
Kearney: Michelle– November 16th
Norfolk: Michelle & Amber– December 13th & 14th
North Platte: Gary & Michelle– November 8th & 9th
Jim, Michelle & Kayla– November 23rd
Tina– November 29th
St. Edward: Michelle & Kayla– December 5th
Valentine: Kayla– December 1st

** Be sure to keep an eye out for you "official" appointment card with the time, date and location**