
KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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Inside:

The Importance of Proper Tax Planning 1
New Tax Law Changes for 2006..... 2
Preparing for Check-in..... 2

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The Importance of Proper Tax Planning

By Jennifer Rogers

The holiday season is upon us and so is the time for tax planning. Tax planning is a vital part of the management of many farm businesses. Unlike most off-farm jobs the level of income from farming can vary widely from one year to the next. Proper tax planning can assist you with leveling taxable income from year to year.

While avoiding paying taxes can cause problems down the road, proper tax planning to smooth taxable income can help to lower the amount of tax that you pay in over a lifetime. Proper tax planning works to consistently fill the lower tax brackets and keep as much income as possible out of the higher tax brackets over the long run. Lowering taxable income dramatically in one year can lead to big taxable incomes the next if proper planning is not practiced.

Your KFBM specialist has some tools available to assist you with tax planning. If you are interested in a tax planning appointment, or if you have questions concerning whether you should be participating in some form of tax planning, contact your specialist soon. December 31st is the deadline (for calendar year taxpayers) for making changes to your 2006 taxable income.

New Tax Law Changes for 2006

By Rush Midkiff

There were some changes for taxpayers in 2006. The biggest change that will affect many KFBM members was that congress passed into law the Tax Increase Prevention and Reconciliation Act (TIPRA).

TIPRA extended the current Section 179 limit an additional two years, now set to return to the \$25,000 limit after the 2009 tax year. For 2006, the maximum Section 179 deduction is \$108,000. The amount of Section 179 a taxpayer is eligible to take is reduced by one dollar for all purchases over \$430,000. It is reduced to zero if a taxpayer purchased Section 179 property over \$538,000. These limits and the expiration date of the increased deduction are important for taxpayers to consider when thinking about future tax liabilities and the amount of depreciation that will be available. Many producers have been using the increased Section 179 deduction to manage taxable income while forfeiting to opportunity to have depreciation expense from current purchases available in the future.

TIPRA also extends through 2010 the 5% and 15% rate on long term capital gains and on most corporate dividends. This decreased rate has been particularly beneficial to producers who received a tobacco buyout quota payment. If the lower long term capital gains rate does expire in 2010 many producers may need to revisit management decisions concerning their buyout payments.

In addition, TIPRA made some changes to the Domestic Production Activities deduction. The deduction was subject to 50% of the wages, which are deducted in arriving at qualified production activities income. This is reduced under TIPRA by specifying that the limitation is now subject to only those wages directly allocated to the domestic production activity.

Preparing for Check-in

By Jody Welsh

Your specialist has been thinking about check-in since you received your book from last year and now it is time for you to be thinking about it also. Whether you are a seasoned veteran or this is your first check-in there is always something that is forgotten. We hope that this reminder will help lessen the amount of trips back to the office with more information.

Every specialist is different but hopefully yours has been visiting and collecting information all year long and some of these items may have already been taken care of. This is a list of information that your specialist needs to get your book done in a timely fashion.

- Your record book- up to date through the end of the year
- Acres, Production and Inventory (as of 12/31/06) for each crop
- Livestock – current inventory (as of 12/31/06), purchases, sales, births, and deaths
- Any new or updated loan information and yearly summary for each loan
- All machinery purchases, sales, trades, and contracts if your specialist has not seen them
- Any land or building purchases
- All prepaid expenses, accounts payable and receivable
- Any “special” deals that may have happened and weren’t in your records (for example trading straw for labor, machine hire for hay or labor for rent)
- If we do your 1099’s and/or W-2’s – current addresses and social security numbers or each person

This list isn’t exclusive, but gives you an idea of what your specialist will be looking for at check-in. We look forward to serving you for another great year.