

Nebraska Farm Business Inc.

YIELDING SUCCESS THROUGH FINANCIAL MANAGEMENT

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Phone: 402-464-6324

Fax: 402-464-6355

Email: info@nfbi.net

Website: www.nfbi.net

Farm Prepaids: Are You Doing it Correct?

Sometimes prepaying farm expenses for a tax deduction isn't quite as simple and straight forward as it may seem. Farmers and ranchers are allowed to prepay and deduct items such as: feed, supplies, fertilizer, chemicals, seed, etc. The ability to go out and prepay farm expenses is only granted to a farmer/rancher that is using the cash method of accounting.

Prepaid Tests

Prepaid items (i.e. chemicals, fertilizer, seed, etc.) are items that are used in the farming/ranching business, paid for in the current year, but not used or consumed until the following tax year.

When looking at the expense of a "true" prepay, there are three tests that need to be met before it is an allowable prepaid expense for a Schedule F deduction:

1. Must be for a specified purchase. Not a DEPOSIT! When making a prepaid decision, you need to be writing a check for a specified quantity, at a specified price. You must also have an invoice for that purchase showing a binding commitment with no entitlement to a refund or repurchase.
2. Must have a business purpose. You are not allowed to make a prepay purchase unless it will benefit the business. Examples of business benefits would be the following: prepaying for the next year's seed in order to receive the discounted price or prepaying to insure you receive a specific quantity.
3. The deduction must not materially distort income. Things to keep in mind when choosing what you are going to prepay and at what level are: a. Is the amount of expense relative to the business's income and expenses? b. Is the time of year the prepaid is made relevant? c. Are the prepaid expenses "necessary" to the business?

50% Prepay Expense Limit

Writing numerous checks the end of December might seem like a good plan, but don't get caught by a prepaid expense limit that is often forgotten. To be an allowable Schedule F deduction, the amount you can spend in prepaid expenses cannot be more than 50% of the total deductible Schedule F expense from a "normal" year plus depreciation and/or amortization. For example, if you had "normal" year Schedule F expenses totaling \$600,000 and another \$60,000 in depreciation, you would have the ability to prepay \$330,000 of Schedule F expenses and have them deducted as long as all other rules are followed. If you were to exceed the 50% limit, the amount that is over the limit would have to be carried over into the next tax year and be deducted. For example, if you

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were allowed to make \$330,000 of prepaid purchases in 2014 but actually made \$375,000, the \$45,000 (\$375,000-\$330,000=\$45,000) that you went over would be deductible in 2015.

Conclusion

Qualified farmers and ranchers have the ability to deduct next year's expenses that they pay for in the current year, as long as they use the cash method of accounting. They should be certain that they don't exceed the 50% Schedule F expense limit and that any prepay expense they are looking at making is an allowable Schedule F expense in the current year.

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ATTENTION ANALYSIS CLIENTS...

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 per tenure type & crop type

-Harvested crop acres & bushels

-Livestock inventory numbers (bred, births, weaning and death numbers)



We'd like to have this information at tax planning or as soon as you gather the information!

**If you would like to have the inventory and production reports as fill-in pdf's, they can be found on our website, www.nfbi.net, under the "Client Info" tab.

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New Faces & Changes at NFBI

Erin Loper— is from Lincoln, NE, where she was born and raised. She joined NFBI in September. Erin is currently enrolled at Southeast Community College in the Business Administration program. Outside of work, she spends most of her free time with her two sisters, her niece, who will be one in December, and her puppy, Harvey. So when you call the office, chances are she will be answering the phone



Katie Hupka— is from Cook, NE and grew up on her family's farm. She started working with NFBI as a Farm Financial Assistant in June of 2013 after graduating from Southeast Community College's Ag program. She is currently working on her Bachelor's degree through the University of Nebraska-Lincoln where she will receive a Bachelor's Degree in Agribusiness with an emphasis in banking and finance. Katie will graduate from UNL in May of 2016 and will return to NFBI full-time working as an Assistant Payroll Specialist and Accounting Specialist.



Kelsie Musil— is from Wilber, NE and grew up on her family's cow/calf operation. She began working with NFBI in April of 2012 as a part-time employee until she graduated from the University of Nebraska-Lincoln with a Bachelor's Degree in Agronomy and Animal Science, both with an emphasis in Business. Today she operates her own cow/calf operation. She is working now as a Farm Financial Assistant and Accounting Specialist.



Rhonda Lehn— Has taken on a new role within NFBI. She will be working as NFBI's Office Manager, while still continuing to work with clients on accounting. You will still get to see her when you stop in the office, she will just be in a different spot!

Robyn Stubbendick— is part of our seasonal help. She will be back this year working as a Clerical and Data Entry staff member starting sometime in November, after harvest.

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 any amount), independent contractor, etc. that you paid \$600 or more 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 with the information of the recipients that you filed a 1099 for last year when we meet with you for tax planning. If you don't do tax planning, please contact the office to request your pre-filled forms to be mailed. There are also fill-in pdf files on our website.

**Please have all of your 1099 and/or W-2 information into our office by January 15th, 2016 to avoid late fees!
The office will not be sending out any forms by mail, unless YOU request it!**

Giving? What You Need to Document for Charitable Contributions

Charitable contributions can be made in cash, property, or out of pocket expenses that you paid to do volunteer work. As the type of the donations varies, so does the record-keeping of the donations. The information below lays out what records are needed for different types of gifts/donations.

Gifts of \$250 or More

For any gift that was made of \$250 or more, you must have a statement from the charitable organization showing:

- The amount of money contributed or a description (but not value) of any property donated.
- Whether or not the organization gave you any goods or services in exchange for your contributions. If you did receive any goods or services, the

description and estimate of the value must be included.

Each payment is treated as a separate donation. So if you donated \$50 each month to your church and gave a total of \$600 for the year, each \$50 donated is a separate gift. See gifts by cash or check section later for what documentation is needed.

You must have the statement by the date that you file your return or the due date of your return (whichever is earlier). You don't need to attach the statement to the return, but it should be provided to your tax preparer and kept with your records.

Gifts by Cash or Check

For any contribution made in cash, you must

maintain a record of the contribution such as a bank statement, cancelled check, credit card statement, or a written record from the charity. The written record from the charity must include the name of the charity, the date, and the amount of the donation. You do not need to attach the record to your tax return, but should provide it to your tax preparer, and keep a copy for your records.

Gifts Other Than by Cash or Check

For any property that was donated, such as clothing or household goods, you need to keep a receipt or written statement from the organization that you donated the property to. The receipt needs to

show the organizations name and address, the date and location of the donation, and a description of the property. You also need to keep written records of how you figure the property's value at the time of the donation, the cost or other basis of the property, how you figured the deduction, and if there were any conditions attached to the gift. The records for property that is donated are needed by your tax preparer, and should also be kept with your records.

