Nebraska Farm Business, Inc.

OCTOBER—NOVEMBER 2022

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Tax Planning Season is Here

Mark your Calendars!

Beatrice	November 10th	Michelle & Brandon
Imperial	November 14th- 16th	Michelle & Brandon
North Platte	November 15th & 16th	Tina & Andrew
Central City	November 18th	Michelle & Spencer
Burwell	November 21st	Andrew & Brandon
Bassett	November 21st	Andrew & Brandon
Kearney	November 21st	Michelle
Valentine	November 22nd	Andrew & Brandon
Hastings	November 22nd	Michelle
Central City	November 28th & 29th	Michelle & Spencer
North Platte	December 1st & 2nd	Michelle
Fremont	December 2nd	Jim, Anthony, & Andrew
Norfolk	December 5th—7th	Michelle & Spencer
St. Edward	December 7th	Michelle & Spencer
Auburn	December 9th	Michelle
Hastings	December 14th	Tina & Andrew
Holdrege	December 15th & 16th	Spencer

Remember

In addition to these locations, you always have the option to meet with your consultant in Lincoln or virtually. Please visit our website to schedule an appointment with your consultant. Appointments in Lincoln with Tina are limited, so schedule early. There will be certain week nights and a few weekends available with her by calling the office only.

Tax Consequences to Drought

By: Tina Barrett

Livestock Deferrals:

One Year Deferral:

A one-year deferral is available for all types of livestock (draft, dairy breeding & feeding) if you qualify for the following:

- You are a cash basis farmer or rancher
- Your normal business practice would be to sell the livestock in the following year
- The livestock was sold due to drought conditions. (see "What Constitutes a Drought" later)

What's your "normal business practice"? If you "normally" sell your calf crop in January, but are forced to sell at weaning, you can elect to recognize the gain on your tax return the following year. This is an election that must be filed with your tax return in the year of the sale and a calculation to determine your "normal" sale amount based on a three year average must be made.

Four Year Deferral:

Draft, dairy & breeding livestock have a second option. If you have to sell a draft, dairy or breeding animal, you have four years to replace the animal and defer the gain. The gain from the sale of the animal will reduce the basis of the replacement animal, much like trading a piece of equipment. If the drought continues beyond four years, you can extend the replacement period to one year after the drought ends. You also have the option, after four years, to replace the animals with other assets that can be used in your farming business, if it is still not feasible to replace the animals. Real property (specifically land) is excluded from this option, but you can use the proceeds of the livestock sale to purchase a tractor and defer the gain on the sale of the livestock. You must wait until the end of the four year period to use this option. Until that time, you can only replace livestock with livestock of the same purpose. For example, you can only replace beef with beef and dairy with dairy.

Much like the one year deferral, you must determine the normal number of animals you would have sold in the year. For example, if you normally cull 10 cows per year, but due to the drought, you have sold 25, you can defer the proceeds from the extra 15.

What Constitutes A Drought?

You must be able to prove that the drought did in fact cause the livestock to be sold. If your county, or one that borders you, has been declared a Federal Disaster Area, you have sufficient cause to use the elections. Other things to use as proof are the release of CRP for grazing or haying.

Other Considerations:

Before you decide to go ahead with the deferral, there are several things you should consider. It may not be in your best interest to use either of these elections.

- If you don't intend on replacing the breeding animals, or fail to get them replaced, the gain must be recognized in the year of sale. This means if you don't replace them, you will have to amend your tax return from the year of sale to report the income. If your tax plan for the year does not include that income, you may end up paying a higher rate than if you had planned to include the income in the first place.

- Raised breeding livestock animals are subject to preferred capital gains rates of 0% or 15% at this time, depending on your regular income tax bracket. If you defer the income and replace them within the four year period, then your basis in the new animals becomes significantly lower. This basis is the amount that you would be able to depreciate, which offsets self-employment as well as income taxes.

  For example: You have 25 head of raised cows to sell at $1,200 per head. Since they are raised, they have no basis and a gain of $30,000 would be realized. If you recognize that gain this year, your tax would be $1,500 (assuming 0% Federal and 5% State).

  If you purchase animals back in 2 years for the same $30,000, you would have depreciation spread over 5 years (or be eligible for Section 179 Expense Election) that would offset $9,690 of income and self-employment taxes (assuming 12% Federal Income tax, 5% State Income Tax and 15.3% Self-Employment Taxes).

  By recognizing the gain today and having the basis in the future, you would save $8,190 in taxes over the time period.

  If instead of recognizing the gain, you take the election to defer the $30,000 gain, you pay no tax this year. You also will have $0 basis (and therefore $0 depreciation) when you replace the animals since you will take the $30,000 purchase price minus the $30,000 gain deferred.

- The drought may have a negative effect on all your income, but the gain from the sale of the livestock may be needed this year to avoid showing a loss on the tax return.

What About Crops?

Crop Insurance, due to any conditions, works in a similar manner to the one-year deferral for livestock. If you are a cash basis farmer, normally sell your crop in the following year, and receive payment for a crop loss, you may elect to defer that income to the following year.
There are a few caution areas:

- You must be careful with crop insurance payments from revenue loss as the tax law is very specific that only losses from crop damage can be deferred to the year following production.

- If crop insurance proceeds are received in the year following production, they cannot be deferred another year. For example, if you received the crop insurance payment in January for the prior year's crop damage, you cannot elect to defer it another year.

- The crop insurance election is an "all or none" deal. You must elect to defer all eligible proceeds or none, from all crops grown in that year. Even if your "normal business practice" is to sell your beans in the fall and your corn the following year, if you received crop insurance for both crops, it has to be treated the same way.

Conclusion:

As in any tax situation, each case is unique and the circumstances surrounding each year is unique. The important thing to remember is that options exist and that the election doesn't have to be made until the return is filed. Please contact your tax preparer to discuss how the elections will affect your tax return.

Tax Scams

During the upcoming tax season, please keep the following things in mind.

- The IRS will never call you.
- The IRS will never email you.
- The IRS always makes the first contact with you through the USPS. No other way.

"Contact your tax consultant before paying an IRS notice!"

Taxpayers

- Always contact your tax consultant before just paying an IRS notice.
- The IRS is not always correct and fraudulent notices are being sent out.
- Do not provide anyone with any personal information via phone and/or email.

Mark Your Calendars

Please note: Consultants work flex hours during the Holiday season. Check with your consultant for their working hours.

Our office will be closed

- November 24th & 25th for Thanksgiving
- December 26th for Christmas
- January 2nd & 3rd for New Year's.

It's Time for 1099s & W-2s

1099s must be filed if your business:

- Paid a total of $600 for the year to any individuals for services or rents, veterinarian, LLC, independent contractor, attorney/law firm, etc.
- Paid any individual $600 or more in interest and/or dividends.

NFBI will provide you with a pre-filled 1099 form with the information of all recipients that you have previously filed a 1099 for. Now that we have started using Intuit Practice Management (IPM), we are distributing them via email. If you do not have an email address, we will either mail them or give them to you at your tax planning meeting.

There are also fill-in pdf files on our website under the "client info" tab.

Please have all of your 1099 and W-2 information into our office by **January 15th, 2022** to avoid late fees!

Welcome Flint Corliss

Associate Farm Financial Consultant

Growing up in the small town of Stratton, CO; where I also attended high school and was a part of numerous activities and organizations, I learned many valuable lessons about life. At Colorado State University, I earned degrees in Agricultural Business and Economics in 2020 and furthered my education with many opportunities including joining FarmHouse Fraternity, Student Government, Ag Ambassadors, Collegiate Farm Bureau, Agribusiness Association, and participating in many boards, panels, and discussions about agricultural leadership. The next stage of my life took me to Eastern Nebraska where I married my beautiful wife, Shannah, in May of 2022. I look forward to supporting agriculturalists for years to come and I am excited for this opportunity with Nebraska Farm Business, Inc.

Analysis Preparation

Be Prepared for Your Tax Planning Appointment!
It is never too early to start thinking about the information you will need to send 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 or as soon as you have it available! We will be requesting these forms through IPM. 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.

Come Join Us

- **December**

6th, 7th, 8th Nebraska Power Farming Show (Lincoln)

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"Yielding success through financial management"

NFB Crop Insurance, Inc.

Fall 2022 Field Notes

By: Brad Heinrichs
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Harvest Price Being Set:

For Revenue Protection policies, the Harvest Price is currently being set in the month of October. The daily average futures Dec. Corn and Nov. Soybean contract price is used to set the 2022 Harvest Price.

If the average is **higher than the spring prices**, then your policy will have a higher guarantee. Losses would be paid from a loss in yield only. You will be paid the higher Harvest Price for any guaranteed bushel.

If the average is **lower than the spring price**, then you could have a revenue loss or both-revenue & yield loss.

Spring 2022 Price (Corn): $5.90
Spring 2022 Price (Soybeans): $14.33
Spring 2022 Price (Sorghum): $5.88

Harvest 2022 Notes:

- Label tickets as they come in with field name for easy reference come Production reporting time.
- Keep all IRR and Non-IRR bushels separate to keep production units accurate.

Loss Trigger Yield Reports:

Allows you to see at what yield a loss would occur on your farm with your selected insurance. Ask Brad to gather this report for you to see what yield will trigger a loss situation with your policy! If Harvest price is lower than spring price, you could collect from a revenue loss or a yield loss. This report helps to clarify at what point, will that trigger.

Potential Losses:

With widespread drought, losses may be more typical this year. If you think there may be any loss situation at harvest time, contact your agent—within 72 hours of discovery of loss– the earlier the better!

FREE Crop Insurance Policy Analysis:

Contact Brad if you would like a FREE policy analysis to ensure you are getting the most out of your crop insurance protection. Let us offer you a more personalized approach to protect your crop and mitigate risks within your operation for the 2023 crop year.

NEW Crop/OLD Crop in Bins:

New crop grain SHOULD NOT be combined with OLD crop grain until an appraisal is completed by an adjuster. Contact Brad if 2021 grain is still in the bin, to allow for an adjuster to take measurements before adding the 2022 grain.

Wheat Production/Acreage:

2022 Wheat Production deadline is November 14th. 2023 Wheat Acreage Reporting deadline is November 15th.

Pasture Rangeland Forage Deadline:

2023 Pasture, Rangeland and Forage (PRF) sales/sign-up deadline is December 1st, 2022.

PRF (Pasture Rangeland and Forage coverage) is designed to allow you to buy protection for losses of forage produced for grazing or harvested for hay. If you are a livestock producer or utilize ground for haying, grazing, etc. this may be a great option for you. Contact Brad for more details.