

How to prepare a tax return that will satisfy you, the IRS, and a potential lender

1) Filing Responsibility

- a) any self employment gross income
- b) any self employment net income greater than \$400 is subject to SE tax
- c) any loss (will offset current taxable income and certain deductions can be carried forward to offset future income)

2) Other uses of the tax return

- a) earned income credit
- b) loans
- c) participation in federal programs (loans)
- d) participation in other government programs
- e) forces you to pay attention to the money

3) List of Common Tax Terms

- a) gross income, Adjusted Gross Income, AGI, income before and after AGI
- b) deductions for AGI, itemized deductions, business deductions, Schedule A
- c) credits
- d) income characterization: earned, passive, capital gains, self-employment)
- e) loss, tax loss, loss limitation, loss carryforward, net operating loss, hobby loss
- f) gross profit
- g) net income
- h) direct and indirect costs
- i) assets, intangible assets, fixed assets, depreciable assets, capital assets, capital expenses, self constructed assets, depreciation and amortization

4) Depreciable Assets

- a) 5 year: computers, cars
- b) 7 year: most other movable equipment, movable fixtures
- c) 10 year: trees, vines, single purpose agricultural structures
- d) 15 year: land improvements
- e) 27.5 year: residential rental buildings
- f) 39 year: all other buildings, including non-movable leasehold improvements
- g) Section 179, "Bonus Depreciation"

5) UNICAP – Uniform Capitalization Rules, also called IRS Code Section 263A applies to:

- a) Value-Added Products (wine, apple-sauce, almond butter, tinctures)
- b) Self Constructed Assets (Establishing Permanent Crops)

6) Joint Use Property: farm on home, office in home, farm and rental property

- a) multiple business on one site
- b) allocation method (s)
- c) documentation
- d) apply to shared costs

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7) Decision Scenarios

- a) Maximize Profit
- b) Minimize Profit

8) Vehicle Expense

- a) Mileage
- b) Actual

9) Travel Per Diems

- a) When traveling for business away from usual place of business longer than 8 hours – long enough a normal person would need a dinner break of some sort

10) Entertainment and Promotion(gifts)

- a) For documented business purpose

11) Record Requirements

- a) Calendar
- b) Map
- c) Bank Statements
- d) General Ledger
- e) Receipts
- f) Additional records if Hobby Loss rules may apply

12) Chart of Accounts – see “Small Farm Quickbooks Primer”

- a) Assets
- b) Liabilities
- c) Equity
- d) Income
- e) Expense: Farming, Marketing, Administration, To Be Allocated
- f) Jobs: Customers
- g) Classes: Crops, Plantings, Fields

13) Entity selection

- a) Sole proprietorship
- b) Partnership
- c) Corporation: S Corp, C Corp
- d) LLC
- e) Non-profit