

Sit in the catbird seat by preplanning taxes

By TRENNA GRABOWSKI



IF you measure the dollar benefit per hour spent, tax planning is one lucrative way to spend your time. Most individuals and businesses can benefit from year-end tax planning. If you're on a cash-basis accounting system due to the nature and timing of cash flows, you have opportunities for tax deferral or acceleration not available to most taxpayers. It's time to spend a few hours to benefit from those opportunities.

The best starting point is accurate year-to-date records and a projected depreciation schedule for your farm's assets. If you use a tax professional, schedule an appointment for an in-depth planning session. Most tax pros will have more time available in the fall to devote to your questions and "what ifs" to clear up any confusion you might have and to work on the tax ramifications of various scenarios.

If you don't use a tax pro, the Internal Revenue Service Web site can provide a wealth of information. Visit www.irs.gov. To find articles, questions and publications specific to farmers, click on Businesses, then on Small Business/Self-Employed. Look at the left-hand side and click on Farmers. Here you will find hot links to tax tips, tax laws and regulations, audit technique guides, and much more — all ag-specific.

For general reference for tax reporting for agriculture, download publication 225, "The Farmers Tax Guide." It is updated every year. The 2005 version is still available. The

Key Points

- The best starting point for tax planning is accurate records.
- You can download most IRS forms from www.irs.gov.
- Something new to consider is the Pension Protection Act.

2006 version should appear sometime in November.

The IRS Web site has won numerous awards for ease of use. You may download most IRS publications and forms. Although the 2006 forms may not be available yet, you can download and print last year's versions as a guide and get the new forms later.

Issues to consider

So, what's new this year and what do we need to watch for?

■ *The Tax Increase Prevention and Reconciliation Act of 2005*, enacted May 17, includes an extension of alternative minimum tax relief, an extension of the enhanced expensing (code section 179) rules, an extension of the 15% maximum capital gains tax rate and a change in the "kiddie tax" rules, raising the age threshold to 17.

■ *The Pension Protection Act of 2006* makes changes to funding standards and deduction limits for pension plans, extends some of the 2001 tax-law changes due to expire, and calls for more strict requirements for deductible charitable contributions.

■ *Farm-income averaging* is still available. This allows a qualifying farmer to make use of lower income-tax brackets that were not utilized in the preceding three years. Pull Schedule J and instructions from the IRS Web site.

■ *The domestic production activities deduction*, new in 2005, is available for most farming operations. It calls for a deduction of 3% (goes to 6% for 2007) of qualified production activity income, limited to 50% of qualified wages paid. The calculation is on Form 8903, which you may download and use for your tax planning.

■ *The first-year expensing election*, sometimes called the "179 election" for its IRS Code section, allows for an immediate write-off of up to \$108,000 for newly acquired machinery and equipment used in the active conduct of a trade or business. Rather than recovering the cost of qualifying assets purchased in 2006 over a period of years, you may take up to \$108,000 on your 2006 return. The write-off amount is limited to taxable income from a trade or business. The wages of both spouses also count as taxable income for this purpose. You do lose the deduction, dollar for dollar, if your purchase of qualifying items exceeds \$430,000 during the year. Originally set to revert to \$25,000 in 2008, the TIPRA authorized the enhanced amount (\$100,000 adjusted annually for inflation) through 2010. You don't have to make a decision on how much of it you will use until you actually file your return.

Grabowski is an Illinois certified public accountant and editor of "Farm Tax Saver," a monthly farm-focused tax information newsletter.



Useful numbers for 2006 tax planning

1040 individual returns

	Married joint	Single	Head of household
Standard deduction	\$10,300	\$5,150	\$7,550
Additional elderly/blind	\$1,000	\$1,250	\$1,250
Taxpayer claimed as dependent		\$850	
Personal exemption	\$3,300	\$3,300	\$3,300
Rate brackets			
End of 10%	\$15,100	\$7,550	\$10,750
End of 15%	\$61,300	\$30,650	\$41,050
End of 25%	\$123,700	\$74,200	\$106,000
End of 28%	\$188,450	\$154,800	\$171,650
End of 33%	\$336,550	\$336,550	\$336,550
35%	\$336,550+	\$336,550+	\$336,550+

Alternative min. exemption

	\$62,550	\$42,500	\$42,500
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Capital gains by category

Gain on collectibles	28%
Internal Revenue Code §1202 gain	28%
Unrecaptured § 1250 gain	25%
Net long-term capital gain	15%
Long-term capital gain if ordinary rate is 10% or 15%	5%

FICA/Social Security

Social Security max (OASDI)	\$94,200
FICA (OASDI & HI) tax rate (employee/employer match)	7.65%
Self-employed tax rate	15.30%

Depreciation

Section 179 expensing deduction	\$108,000
Phaseout on new investment for 179 expensing deduction	\$430,000
Certain SUVs/others after Oct. 22, 2004 — 179 maximum	\$25,000
Depreciation limits for basic cars — 2005 1st year	\$2,960
Depreciation limits for pickups and vans — 2005 1st year	\$3,260

Note: The 30% and 50% bonus depreciation expired for most assets placed in service after Dec. 31, 2004.

Standard mileage rates

Business	44.5 cents/mile
Charity work	14.0 cents/mile
Medical/moving	18.0 cents/mile

Retirement plan contribution limits

IRAs	\$4,000
IRA age 50 catch-up	\$1,000
SIMPLE	\$10,000
SIMPLE age 50 catch-up	\$2,500
Other plans age 50 catch-up	\$5,000
457 plans	\$15,000
401(k), 403(b) and SEP	\$15,000
Defined-contribution plan	\$44,000
Defined-benefit plan	\$175,000
Compensation limit	\$220,000
Stock bonus and profit sharing	25%

U.S. estate and generation-skipping transfer tax

Estate tax exclusion — 2006	\$2,000,000
Special use valuation reduction limit — 2006	\$900,000

U.S. gift tax

Gift tax exclusion — 2006	\$1,000,000
Annual exclusion for gifts — 2006	\$12,000

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