

Gather bigger dividends by planning taxes early

By TRENNA GRABOWSKI

As the calendar shows the holidays are near, it's also a good time to remember that tax-planning time has also arrived. As you pull out your 2006 return as a guide for planning this year's taxes, there are several issues to keep in mind. This roundup of topics is designed to help you in thinking about your 2007 return, but keep in mind that your tax adviser is a great place to start for planning.

The time and effort you put into tax planning will more than pay for itself. If 2007 was a good year for you, tax planning is very important to help you preserve the optimum amount of that income. If 2007 was a bad year, tax planning is even more important.

Capital gains

The maximum 15% tax rate on net long-term capital gains and qualified dividends which had been scheduled to increase after 2008, will remain in place through 2010. The 5% rate, which applies to capital gains and dividends that would otherwise be taxed at 10% or 15% if ordinary income, is still applicable for 2007 and drops down

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Trenna Grabowski writes *Farm Tax Saver*, a monthly farm tax planning newsletter filled with information you can keep on hand. A subscription is \$50. You can order *Farm Tax Saver* online by visiting www.farmprogress.com/taxsaver, or you can call 800-441-1410 and speak to the customer service department during normal business hours.

to 0% for '08, '09 and '10. The odds are very good that after 2010, the rate on capital gains will be much higher than the current 15%.

Selling/trading/buying iron

Keep in mind that when you sell machinery or equipment on which you have taken a depreciation (or expensing) deduction, your profit will be taxed as ordinary income (not long-term capital gains) to the extent of that depreciation. This is not a problem when you trade. The undepreciated basis of your trade is added to the boot paid to come up with the new basis for depreciation. Note, however, that only the boot or additional monies paid are eligible for the Section 179 expensing deduction.

The Section 179 expensing election for 2007 has increased to \$125,000. For every dollar you invest in qualifying property over \$500,000, you lose \$1 of 179 expensing. At \$625,000 in qualifying property investment, you will have no expensing election available. The expensing election gives you a great deal of flexibility since you don't have to make the decision to use the expensing election, and how much of it, until you actually file your return. You also now have the right to revoke or change the election without prior IRS approval.

Domestic production

The domestic production activities deduction goes from 3% of net income (qualified production activities income) to 6% for 2007. Originally created in 2005 in response to "trade distortion" concerns with other tax incentives, this deduction is for producers, manufacturers, building contractors and

farmers. The deduction is limited to 50% of W-2 wages paid by the taxpayer during the year. Wages paid in commodities and other non-cash wages are not included in W-2 wages for this measurement. Deduction is calculated on form 8903, Domestic Production Activities Deduction, and can be downloaded, along with instructions from the IRS Web site at www.irs.gov.

Conservation contributions

If you've been thinking about a conservation contribution, it may be to your benefit to get it done before year end. Qualified farmers may take a charitable deduction for a qualified conservation contribution of up to 100% of adjusted gross income, but the window of opportunity is small. Check on this one with your tax professional for rules that came out this summer.

Marketing options

This has been an unusual year for marketing. Surprises in yields have been both on the high side and on the low side. Be sure that price-later and deferred-payment contracts are written in such a way that you do not have "constructive receipt" of grain income before you plan to.

Also remember that while selling grain directly out of the field and "storing on paper" by buying back commodity futures or options may be a valid marketing strategy, it does not defer income. When you sell the grain, you have income. Replacing your physical position (owning the grain) with a paper position does not offset the income.

Kiddie tax

Last year, the "kiddie tax" was

Useful numbers for 2007 tax planning

1040-individual returns	Married-joint	Single	Head of household
Standard deduction	\$10,700	\$5,350	\$7,850
Additional elderly/blind	\$1,050	\$1,300	\$1,300
Taxpayer claimed as dependent		\$850	
Personal exemption	\$3,400	\$3,400	\$3,400
Rate brackets			
End of 10%	\$15,650	\$7,825	\$11,200
End of 15%	\$63,700	\$31,850	\$42,650
End of 25%	\$128,500	\$77,100	\$110,100
End of 28%	\$195,850	\$160,850	\$178,350
End of 33%	\$349,700	\$349,700	\$349,700
35%	\$349,700+	\$349,700+	\$349,700+
Alternative minimum tax exemption			
(Congress may increase)	\$45,000	\$33,750	\$33,750
Capital gains by category			
Gain on collectibles			28%
IRC § 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)			\$97,500
FICA (OASDI & HI) tax rate (employee/ employer match)			7.65%
Self-employed tax rate			15.30%
Earnings required for one quarter of Social Security coverage			\$1,000
Depreciation			
Section 179 expensing deduction			\$125,000
Phaseout on new investment for 179 expensing deduction			\$500,000

extended to age 17. Beginning with 2008, the kiddie tax rules will become more complicated and, in some cases, will apply to children as old as 23. This change has caught many folks by surprise. It limits the opportunities for parents to shift investment income to children

in a lower tax bracket, and plays havoc with some long-term plans to have investments come through in time to finance college expenses. There is still a window of opportunity for the remainder of 2007 to possibly take advantage of the child's 5% capital gains rate.

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