

Tax Management Important To Farm Success

The ability to manage is more important in determining a farmer's success than the size of his farm, the quality of his land or his particular enterprise. That's the opinion of W. T. McAllister, extension farm management specialist at the University of Delaware.

He feels the real difference between the successful and marginal businessman — farmer or storekeeper — is his ability to manage all available resources.

One of the farmer's big problems, as McAllister sees it, is that he is constantly under so much pressure to get the job done that he doesn't take time to organize his work and follow through on details. An area that is often overlooked until it is too late is tax management.

Typically a farmer rushes through the plow-plant-cultivate and harvest period with little thought of taxes. Receipts are stuffed in a drawer for a cold January day when the filing date is just around the corner and there is little chance to make any farm management decisions.

But there are decisions that can be made now that can affect a farmer's '69 tax return.

McAllister lists the following items that decrease taxable income and require management decisions before December 31:

Pay up operating accounts and unpaid bills;

Buy and pay for some of next year's supplies; (be sure tax saving is greater than cost of advance purchases);

Buy things that last longer than one year but are not capital items — paint, small tools, building and machine repairs;

Delay selling cash items until after January 1st, but compare the tax saving with possible price declines. These include crops, livestock, timber and capital items with large capital gains.

Farmers can save tax dollars, according to the specialist, by paying their children reasonable wages for the farm work they do. This has to be an "arms length" transfer of payment in cash or in kind between parents and children.

The investment credit farmers are allowed when they buy machinery can also be a tax saver. McAllister says each dollar of tax credit is a dollar of tax farmers don't have to pay.

Investment credit is applicable to equipment having a useful life of at least four years. It amounts to seven percent of the investment if the life of the investment is eight years or more; 3% of this amount if life is six years; 1% if four years and is deducted from the total income tax due on the return.

Investment credit can be a source of trouble. This happens, according to McAllister, when equipment on which the farmer claimed investment credit in a prior year is not kept for the length of time used in computing the credit.

An example would be a tractor purchased in 1965 for \$5,000. The farmer expected to keep the tractor for six years and claimed two-thirds of the investment credit allowed. This would be 2/3 of (\$5,000 x .07) or \$235. However, the tractor was not large enough, so in 1969, the farmer traded it for a larger one investing an additional \$4,500.

The problem is doubly complicated, because having owned the tractor for four years, the farmer qualifies for only one-third of the investment credit, not the two-thirds claimed. Therefore, one-half of the investment credit,

or \$117.50, must be paid back as tax on the 1969 report.

The second problem is to determine the basis for figuring investment credit on the new

tractor. This is done by adding the undepreciated value of the machine traded to the amount of additional money invested. Assume the remaining value of the original tractor was \$1,667. The basis for determining investment credit on the new tractor would be \$4,500 plus \$1,667, or \$6,167.

If the farmer determined that the life of this new tractor would be six years, he could take two-thirds of the full seven percent investment credit allowance. He reports this investment credit of \$287 on form 3468 and transfers the tax credit to line 13 of form 1040.

1969 was a pretty good year for most farmers. But some may have had small incomes and it may be to their advantage to boost '69 incomes. Here are ways:

Sell livestock and crops;

Postpone bill payment past January 1st;

Boost miscellaneous income by selling wood, working off the farm or doing custom work.

McAllister gives these cautions to farmers who do attempt end-of-the-year tax management:

It is never good business to report anything but the truth on an income tax return.

An adjustment to minimize taxes can result in an unprofitable decision for the business.

Attempts to minimize taxes in the current year may mean larger taxes in future years.

Personal deductions and exemptions not claimed each year are automatically lost.

Inspected Plants

Cleanliness, wholesomeness, proper fat content and inclusion of poultry under proper circumstances will be easier to enforce as the number of federally inspected plants increase.

Between September 1, 1968 to August 31, 1969, cattle slaughter under federal inspection increased from 85.8 to 87.6 percent; calves from 70.4 to 72.5 percent; hogs from 88.4 to 90.8 percent; and sheep and lambs from 91.9 to 93.7 percent. With the implementation of the Wholesome Meat Act in December 1967, all remaining slaughter will soon be inspected by state inspection programs which must be certified as "at least equal to" federal standards. The deadline for compliance with the Wholesome Meat Act is less than three months away.

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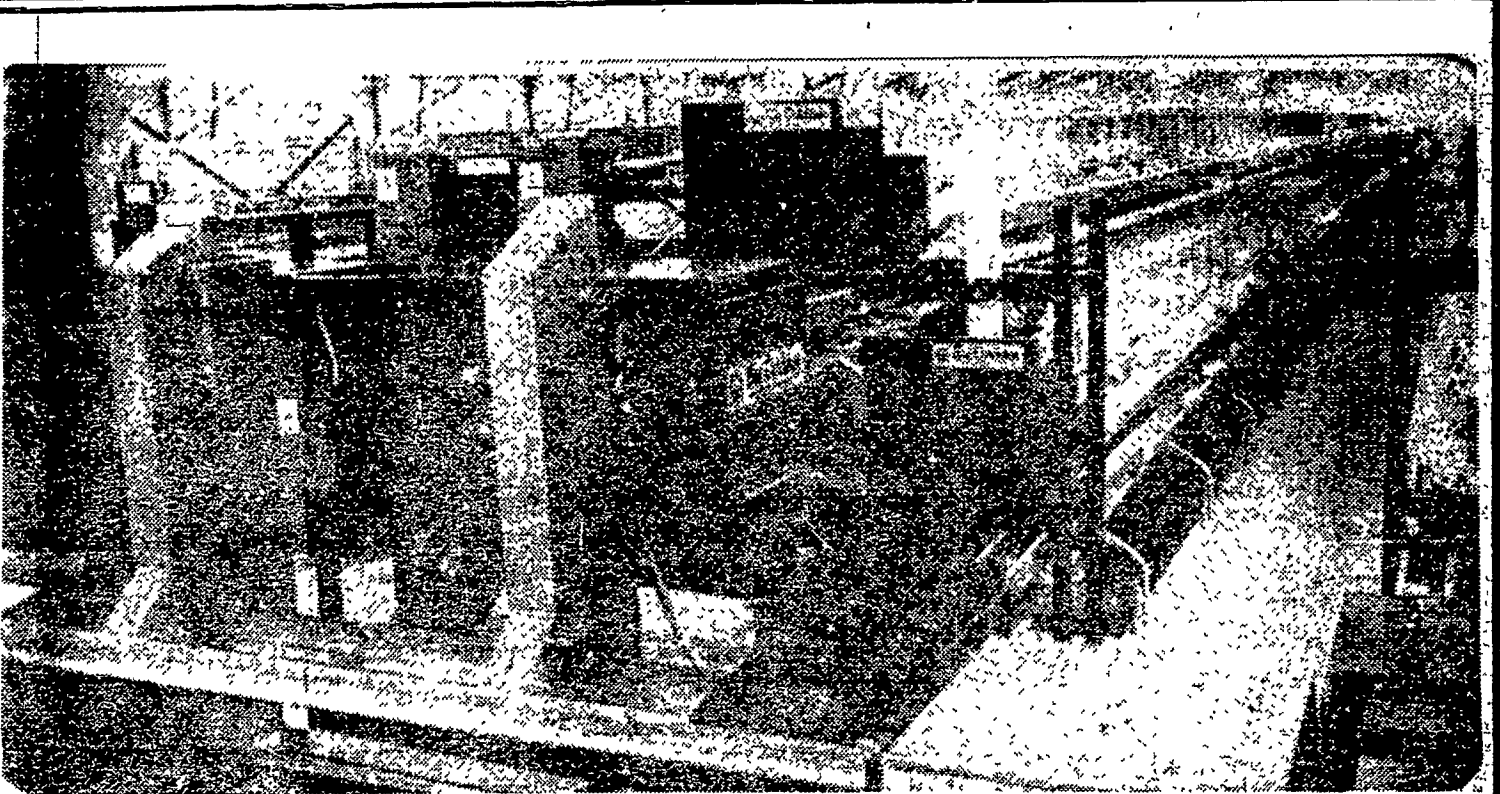
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Don't Leave Loaded Guns Unattended

If you lean the gun against a tree, car, or fence while you eat lunch or rest, it is possible that the wind may dislodge it, your dog or companion might bump it and cause it to fire. Remember, hunting safety is the responsibility of each individual hunter, reminds Robert G. Wingard, Extension wildlife specialist at The Pennsylvania State University.

We know what happened to the birds who used to steal garden peas on Hal Green. They grew up to become airplane hijackers.