

Brockett's Ag Advice

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How tax laws affect farms

A while back an attorney wrote a real good article in the "Hoard's Dairymen" on tax laws that work against the bonafide farmer. While reading the article, the first reaction is that he was wrong. After all, what is wrong with someone buying cows to get investment credit and possible capital gains upon their resale? As a matter of fact, the letters that were written to the magazine

opposed his ideas. Let's explore the thing in a little more depth.

One letter said that it was good for him to have people buy his embryo transplant heifers because it helped his income, thus it was good for all agriculture. The letter writer's shortsightedness did not recognize that the milk from those heifers was going to compete with his own milk in a limited market.

Thus in the long run he may

actually lose more from reduced milk prices than he gained from the sale of a few heifers. What about the large number of farmers who do not have transplant heifers for sale?

No, I am not saying farmers should sell animals to non-farmers. I am saying that, perhaps we, as farmers, should see if there are not ways that we could prevent farming from being a tax shelter.

Parts of the proposed tax law address this question, but these are the parts that will be least likely to survive. Reason: both farming groups and effected investors oppose the change. I guess that most farmers are reconciled to allow non-farmer investors to run agriculture in the future.

Here are the laws that encourage outside investors:

- Investment Credit for farm assets.
- Safe Harbor leasing.
- Capital Gains for dairy and

breeding stock.

• Rapid depreciation of depreciable assets.

Do these also help farmers? Yes they do, but is the tax help worth the loss of income because of competition in the market place with people who can and even desire to sell at a loss (it too is deductible)?

The answer is not an easy one because in the past some of the innovations and technical changes in farming have been brought by interested non-farmers who had a desire to do some farming. Perhaps we should start with one point at a time.

I would suggest starting with the loss area first. Why not limit the amount of loss that a non-farmer could take against other income to either a percentage of that income or a set figure?

Which tax laws work against farm families directly? One is the law that forces a person to charge an interest rate that is higher than some other sources or than the bank will pay on borrowed money over \$100,000. Why is that necessary? Another one is the law that requires that a family sell the farm to a child at market price. Why not allow the farm to be sold at agricultural value the same way it can be inherited?

Keoughs (HR10)

Did you know that if you have a Keough Account you will have to file a return this year? Well you will. My suggestion is to ask the company who sold you the plan to help you fill it out. They will probably have to provide you with part of the information anyway. The deadline date is the end of July. I'll have more on this later when it comes closer to the deadline.

It may be possible to roll over your Keough into an IRA. That would not eliminate the Keough tax return for this year, but would for the future. Check with your company—if they say no, then check with someone else.

Wheat

referendum

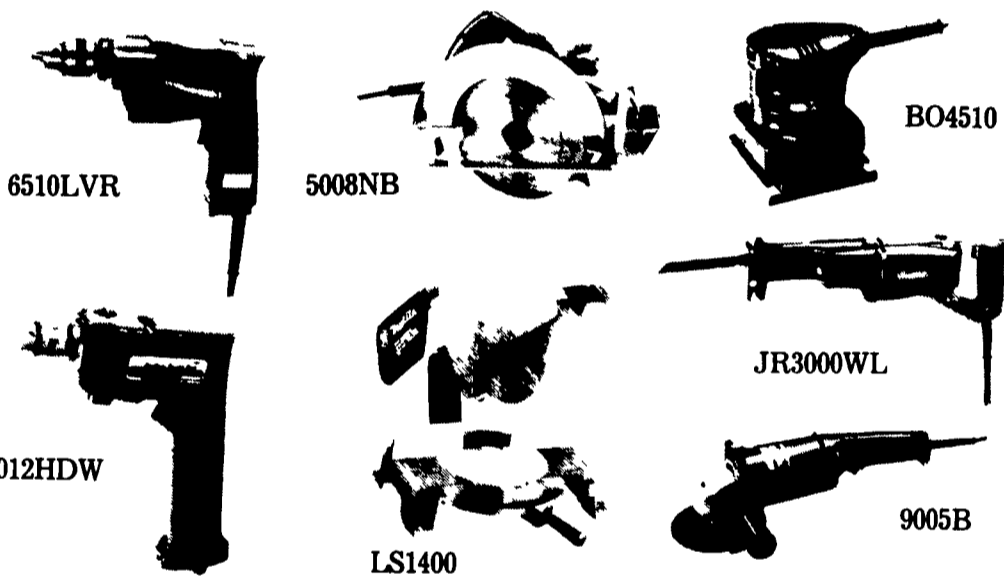
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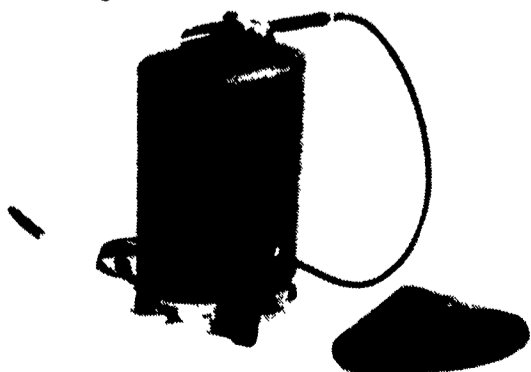
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