Bashore Reineck Stoller & Waterman Inc
Certified Public Accountants

VALUABLE TAX PLANNING OPTIONS FOR FARMERS

Deferred payment contracts allow farmers to receive payment for grain in the next calendar year following the fall harvest. However, since deferred payment contracts qualify as installment contracts, farmers have the flexibility to choose which filing year to recognize income. If a farmer has a deferred payment contract but later discovers that more income is needed in the harvest year, an election can be made to recognize the income in the harvest year. A taxpayer can only make this election on a contract by contract basis. Therefore, it is advisable to break down sales into smaller individual contracts allowing for greater flexibility as to which contracts are reported and which contracts are deferred to the following year. CAUTION: When using this tool, you must track the contracts diligently to avoid double reporting the income in the following year when you receive the cash.

Another great tax planning tool for farmers is **Prepaid Crop Inputs,** which is paying in advance for crop supplies. There are risks with prepayment such as trusting the retailer to deliver needed supplies in the future as well as price fluctuation when the cost might be lower in the future compared to the current price. However, the tax advantages of prepaying have tended to outshine those risks. Please remember a couple of key rules so that prepays qualify for current year deduction. For a prepayment to qualify, it should:

- Have a stated farm input (seed, gas, diesel, fertilizer, chemicals, etc.),
- Have a stated quantity,
- Have a stated price per unit,
- Not allow for a substitution, and
- Should not exceed 50% of farm expenses (in most cases).

Failure to meet these qualifications makes the payment a non-deductible deposit.