

Expansion of Swine Production in Ohio

Finance & Income Tax Issues

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Financing Alternatives

- MachBuildFin: a Windows based program
- Compares cost of Cash Purchase, Debt Purchase or Lease
- Cash Flow and Net Present Value analysis
- Accounts for interest, depreciation, and tax implications

P/I Int. 179

Tax Cash NPV

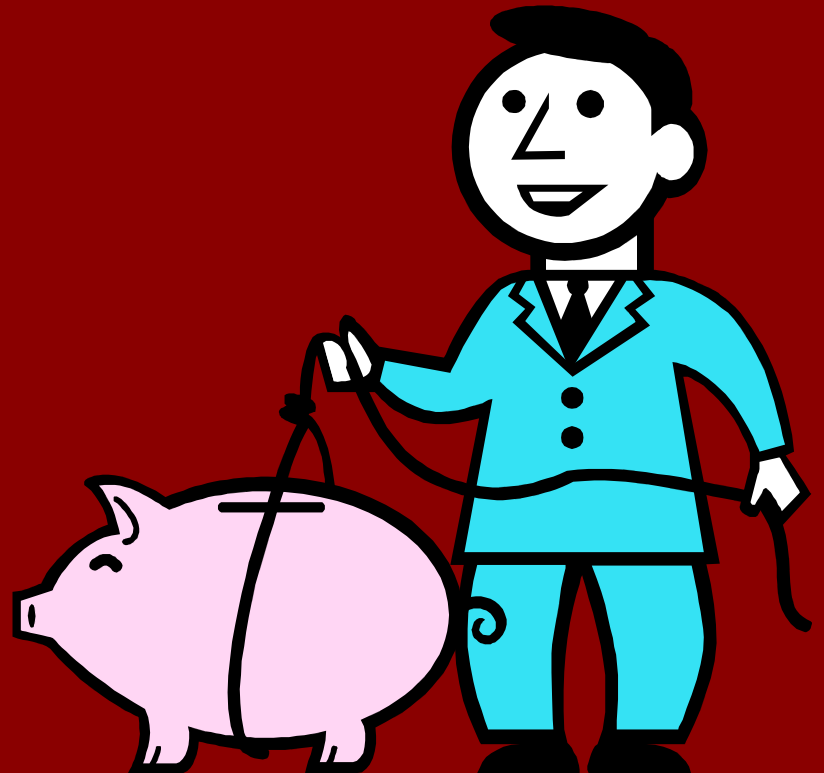
	Down Pymnt/ Principal	Interest	Sec1 179 Depreciation	Value of Sale	Gain	Income Tax Savings	Cash Outflow	Net Present Value
0								
1	11045	12800	16782			-40154	16309	-15101
2	11928	11916	3602			-5158	-18677	16313
3	12883	10962	3602			-4850	-18995	15079
4	13913	9907	3602			-4507	-19338	14214
5	15026	8819	3602			-4136	-19709	13413
6	16228	7616	3602			-3736	-20109	12672
7	17527	6318	3602			-3303	-20541	11988
8	18926	4916	3596			-2835	-21010	11351
9	20443	3407	3602			-2332	-21513	10762
10	22078	1786	3596			-1766	-22059	10218
11			3602			-1199	1199	-514
12			3596			-1198	1198	-478
13			3602			-1199	1199	-441
14			3596			-1198	1198	-408
15			3602			-1199	1199	-376
16			1796			-699	699	-175
17								
18								
19								
20								
TOTAL	160000	78447	159984			78398	78398	98214

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Fed. Tax	15%
St Tax	15.3%
State Tax	3%
Disc Rate	8%
Purch Price	160000
Salvage/Sale	20000
Years Held	20
Sec1 179	100000
Adjusted Basis	54000
Loan Amount	160000
Years	10
Int Rate	8

You Need a Business Plan for

- Increasing Volume –
Expansions
- Alternative
Enterprises



BUSINESS PLANNING

We have learned that business planning:

- Can be very time consuming
- Alternatively it can be expensive
- Or it can be both.



BUSINESS PLANNING

The value of a Business Plan should outweigh the time and cost required to develop.

- Should facilitate change in a farm business
- Should improve management of the business.

BUSINESS PLANNING

We have also learned that business planning:

- Should be done by farm managers
- It should not be done for them.

BUSINESS PLANNING

Business Plans

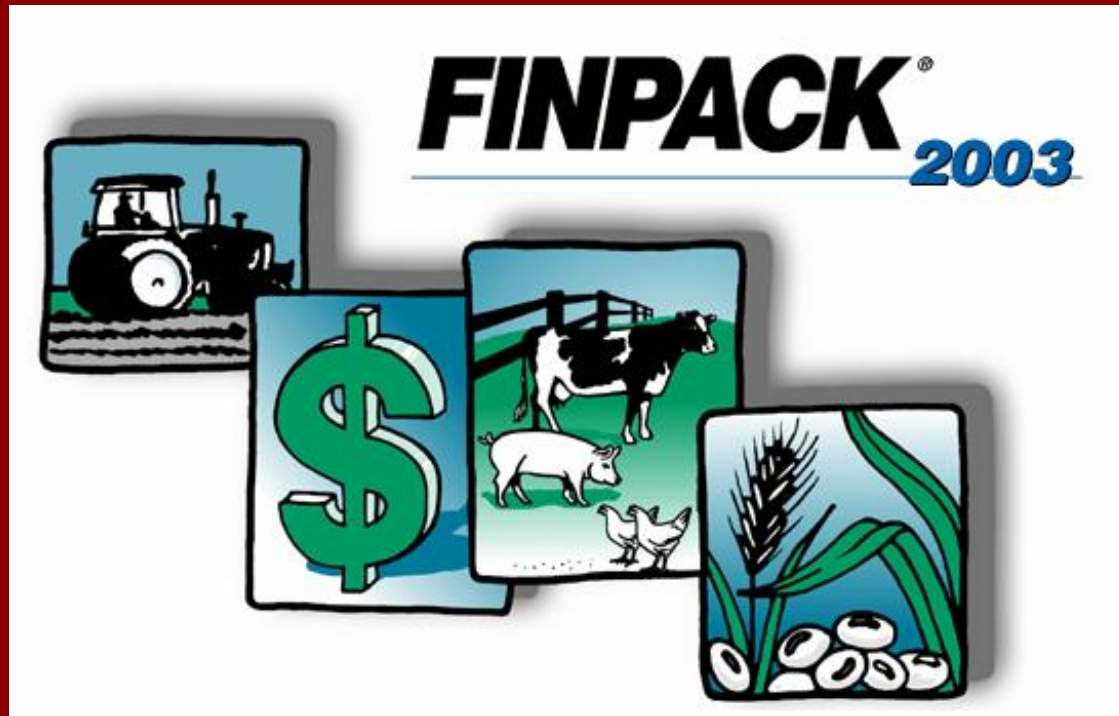
- Frequently used to communicate the business externally – to lenders, investors, partners
- Demonstrate the business has a plan and is well managed



FINPACK

Business Plan

- Includes:
 - A standard format to help develop and store your business plan.
 - Tips or questions to help you think through your plan.
 - Sample business plans



A comprehensive whole farm
financial planning and analysis
system

Personal (Farm) Version \$395

Professional \$1195

Where to Find FINPACK ?

- At your County Extension Office- See your local Agriculture & Natural Resources Educator for an analysis of your farm business or for a demonstration of the power of FINPACK

- The Center for Farm Financial Management at the University of Minnesota developed and markets these programs. Check their Web Site:

www.cffm.umn.edu

Farm Tax Update



IRC §179

- 2004 \$102,000
- 2005 \$105,000
- 2006 \$108,000
- 2007 inflation adjusted
 - 2008 \$25,000

IRC 179 Limits

- The \$105,000 (2005) limit is applied at the entity and individual levels
- Multiple partnerships & or S-Corporations need to be considered
- No Carryover of unused IRC 179 deduction
- Basis does not get re-adjusted for unused amounts
- Limit reduced dollar for dollar after \$420k (therefore, after \$525k in 2005, no ICR 179 allowed)

Income Tax Issues

- With contract farming, the producer has less risk, fewer management decisions, and no marketing choices.
- Will the taxpayer lose the characteristics of a farming business with the IRS?
- What about self-employment or social security taxes?

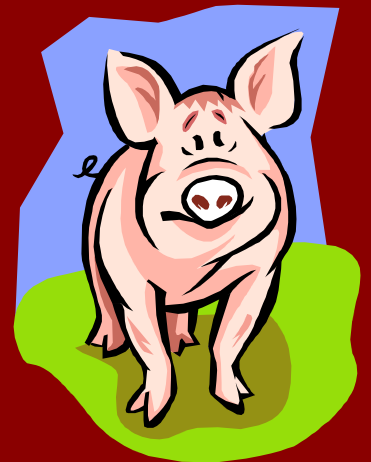


The taxpayer must be a farmer to have:

1. Exception to the estimated tax penalty
2. Deduction of soil & water conservation expenses
3. Deduction of pre-paid fertilizer expenses
4. Discharge of indebtedness rules
5. Exemption from FICA taxes on non-cash wages
6. Exemption from the prohibition of cash accounting for corporations
7. IRC Section 179 expensing (Taxpayers must be in a trade or business)
8. Income averaging (Schedule J)

1099-MISC Rent?

- Tempting for farmers to report on Schedule E (no self-employment tax)
- In most cases grower is materially participating in production for self-employment tax purposes



Grower Employment Status?

- A grower enters into a contract with an integrator, should the producer have wage income and investment income?
- Unlikely, unless the risk of loss to the farmer is eliminated or greatly reduced by the terms of the contract.



Bottom Line

- Payments made by most contract integrators to growers should meet the IRS requirements for farm income and subject to self-employment taxes.



Are building and construction materials subject to Ohio Sales Tax? Yes, items that become a part of real property are taxable unless the contractee is:

..... contracting for a horticulture or livestock structure for a person engaged in the business of horticulture or producing livestock.

Resources

Ohio Ag Manager Newsletter:

<http://ohioagmanager.osu.edu>

(The Feb 2006 issue has links for investment analysis programs)

Your local Ag & NR Extension Educator

**OHIO STATE
POTTY TRAINING**

