



YOUR FARM ... YOUR FAMILY ... YOUR FUTURE!

Since 1974

1307 6th St. SW #1, Mason City, IA 50401 | P: 641-424-4170 | F: 641-424-5613

January 2017

ITEM 1 PG. 1 Some ACA Provisions May Continue
ITEM 2 PG. 1 1099s Due January 31, 2017
ITEM 3 PG. 2 Smooth Start to Tax Season per IRS

ITEM 4 PG. 2 Implications of "Trading" Equipment
ITEM 7 PG. 4 \$250 Referral Rebate
ITEM 8 PG. 4 Like Us on Facebook

SOME ACA PROVISIONS COULD CONTINUE TEMPORARILY POST-REPEAL

Repeal of the Patient Protection and Affordable Care Act (ACA) (P.L. 111-148) and its associated taxes could come quickly but changes, possibly including changes to the ACA's tax provisions, may not be in place until 2018 or later, a Republican member of Congress said on January 5. At the same time, Democrats in Congress continue to urge reforms and improvements to the ACA.

The ACA created a host of new taxes, including the medical device excise tax, the excise tax on high-dollar health plans (known as "Cadillac plans"), the net investment income tax and the additional Medicare tax. The ACA also imposes a shared responsibility requirement on certain individuals and employers. Since passage of the law in 2010, the Treasury and the IRS have issued regulations implementing these taxes.

"We will repeal it quickly," Rep. Chris Collins, R-N.Y., said on January 5. "The replacement is something you'll see...sometime in the June, July time frame. There's not going to be any changes in 2017. There's not going to be changes in 2018. So we're talking about new plans in 2019 or later," he noted. Collins, who has served on the House Energy and Commerce Health Subcommittee, did not specify which components of the ACA could remain in place post-repeal and pending replacement.

House Speaker Paul Ryan, R-Wis., addressed the ACA at press conference on January 5. "We're going to get this law repealed. We're going to get this law replaced. And we're going to have a transition period," Ryan said.

Also on January 5, Sen. Joe Manchin, D-W.Va., discussed ACA-related taxes. According to Manchin, repeal of all of the ACA's taxes would cost \$2.35 trillion in lost revenue, "most at the high top-end income earners."

Sen. Tim Kaine, D-Va., said he and his Democratic colleagues are open to dialogue about improving the ACA. "Can this law be improved? Can the healthcare system be improved? Sure, it can. The time to work to make improvements is right now before a repeal vote," Kaine said.

- Advice is like snow – the softer it falls, the longer it dwells upon, and the deeper it sinks into the mind. – Samuel Taylor Coleridge

1099S DUE JANUARY 31, 2017

One of the changes to the tax rules is that Form 1099s this year are due both to the recipient and to the IRS by January 31, 2017. The recipient due date has always been January 31, but taxpayers usually had until February 28 or in the case of e-filed returns March 31. However, that is no longer true. They are due by January 31 with no extensions.

If you miss this deadline or do not issue Form 1099s that are required, the penalty for EACH form 1099 not timely filed is \$250 for not sending to the recipient and \$250 for not filing with the IRS. As you can see, this can add up very quickly. For example, assume a farmer misses filing 10 Form 1099s for the 2016 calendar year. This will result in a possible \$5,000 fine (which can be more than the taxes they might owe for the year).

Here are the general rules on when a Form 1099 is required:

- If total payments to the vendor exceed \$600 during the calendar year and the payments are made to unincorporated businesses (LLCs are included unless they have elected to be taxed as a corporation) for the following items:
 - Services such as custom harvesting, spraying or other field work,
 - Services such as professional fees (paying your accountant to prepare your business returns)

- All veterinary services even if the total fees are more than \$600 for the year
- All rents paid for cash rents, machinery rentals, etc.
- Interest paid out to non-financial institutions
- Payments paid for products do not require a Form 1099. Therefore, if you purchase fertilizer from an unincorporated business, you are not required to issue a Form 1099
- You need to obtain a Form W-9 from each business that you purchase products and services from. This form provides the necessary information that allows you to process the Form 1099. You do not need to get a new Form W-9 each year, but it is a good idea to get them updated annually if you can.

- Even in winter an isolated patch of snow has a special quality. – Andy Goldworthy

IRS COMMISSIONER PREDICTS SMOOTH START TO FILING SEASON

IRS Commissioner John Koskinen told reporters in Washington, D.C. on January 5, that the Service is ready for the 2017 filing season. Koskinen was joined at the press conference by state and industry partners to discuss the opening of the filing season. Together, the representatives comprise what is known as the "Security Summit," which was organized to combat and protect the nation's taxpayers from identity theft refund fraud.

Refunds

Koskinen placed a heavy focus on changes that affect tax refunds, particularly for Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC) filers. Those taxpayers who claim either the EITC or the ACTC may see a slight delay in the timing of their refunds, because the Protecting Americans from Tax Hikes Act of 2015 (P.L. 114-113) requires the IRS to hold refunds claiming those credits until February 15. However, Koskinen stated, taxpayers should not wait to file returns.

"Judging by what we have done in the past, we have 27-million participants in the EITC program alone, so we are going to have 30-to-35-million returns that potentially may be affected," Koskinen said. "Those that will be affected are those who file before the 15th. However, the goal is to have people file as they normally would."

Koskinen assured taxpayers that refunds claiming the EITC or ACTC would start to be released the week of February 15, which, accounting for the weekend and President's Day holiday, would mean that taxpayers would not have access to their refunds before the week of February 27, he explained. In any event, he stated that the Service's online Where's My Refund tool is the

fastest way to obtain up-to-date information on the status of tax refunds. Koskinen also recommended that taxpayers choose to direct deposit their tax refunds, since mailing a paper check will add several weeks to the overall process.

ITINs

Changes to Individual Taxpayer Identification Numbers (ITINs) were also highlighted. Koskinen explained that any ITIN not used at least once on a tax return in the past three years will no longer be valid for use on a return. In addition, ITINs with middle digits 78 or 79 expired as of January 1. Koskinen urged affected taxpayers to renew their ITINs as soon as possible, as failure to do so will result in significant delays in refunds.

Taxpayer Protections

Joining Koskinen was Dawn Cash, vice chair of the Oklahoma Tax Commission. Cash said that state tax agencies are working with the IRS to ensure accurate and efficient tax return processing, as well as to prevent tax fraud. She assured that states are working to fight fraud and ensure that honest taxpayers receive their refunds in a timely manner.

Cash stated that taxpayers will see stronger protections against identity theft this tax season. She noted that there are new security measures that may result in a few extra steps for taxpayers, but these safeguards will ultimately help limit a criminal's ability to claim refunds that do not belong to them. Cash also pointed out there are a number of other measures that, although invisible to taxpayers, may cause a slight delay in the issuance of refunds.

In addition, John Ams, executive vice president and chief operating officer of the National Society of Accountants, offered insight into how the tax professional community was working together to help tax professionals understand what they need to do to protect the sensitive client data they handle.

- A lot of people like snow. I find it to be an unnecessary freezing of water. – Carl Reiner

MAKE SURE YOU UNDERSTAND TAX IMPLICATIONS OF THE EQUIPMENT "TRADE"

In light of the tough farm economy, dealers are offering producers even more options when it comes to purchasing upgraded equipment. Because different tax implications flow from different contractual arrangements, it is crucial that a producer understand the true nature of a lease or purchase contract *before* he signs it. This will avoid big surprises come tax time.

It is important to understand that the IRS does not always consider a “lease” a “lease.” What matters is not the name given to a transaction by the dealer, but the economic realities of that transaction. If a “lease” doesn’t act like a “lease,” the IRS won’t treat it as one for tax purposes.

True equipment leases are often called “operating leases.” An operating lease is one where the farmer pays for the use of the equipment for a term, nothing more, and nothing less. An operating lease is not a rent-to-own agreement. If the producer does wish to purchase the equipment at the end of the term of the operating lease, the purchase price will be roughly equivalent to the fair market value of the equipment at the time of the purchase. If equipment is leased pursuant to a true operating lease, the farmer can deduct the rental payments from income as ordinary and necessary business expenses.

On the other hand, a “capital lease,” is really a conditional sales contract or a financed purchase. Although it may be called a lease, a capital lease is really a purchase over time. Under IRS rules, if **any** of the following factors are true about an agreement to acquire equipment, the agreement is a conditional sales contract, not a true lease:

- The agreement designates part of each payment towards an equity interest that the farmer will receive in the property.
- The farmer gets title to the property after paying a stated amount of “rental” payments required under the agreement.
- The amount the farmer must pay to use the property for a short time is an inordinately large part of the amount he or she would pay to get title to the property.
- The farmer pays much more than the current fair rental value for the property.
- The farmer has an option to buy the property at a nominal price compared to the value of the property when that option is exercised.
- The farmer has an option to buy the property for a small amount compared to the total amount paid under the agreement.
- The agreement designates some part of the payments as interest, or parts of the payments are easy to recognize as interest.

The IRS treats a capital lease as a *purchase* for tax purposes. Payments (except for interest payments) are not deductible. Instead, the cost of the equipment is capitalized and depreciated over time. In many cases, the purchase may qualify for the enhanced IRC § 179 deduction and/or bonus depreciation.

Trade-Ins Can Get Complicated

Where these transactions can get especially complicated is where a farmer trades in equipment as a down payment on a capital lease or to cover a portion or all of the required lease payments under an operating lease. Here, properly distinguishing between an operating lease and a capital lease is crucial to avoid an unexpected tax bill.

Capital Lease Example:

Often, if a farmer trades in a piece of used equipment, that equipment will have been fully depreciated. In other words, it will have a tax basis of 0. If the lease is a capital lease (or a purchase agreement), the farmer may take advantage of IRC § 1031 like-kind exchange rules to avoid recognizing recapture income from that trade.

Paul Purchase trades in a tractor with a \$100,000 fair market value for a new tractor. The net present value of the purchase price for the new tractor is \$350,000. Because he fully expensed the cost of his used tractor under IRC § 179 when he purchased it, Paul’s trade-in has a tax basis of 0. If the transaction is properly structured as a **capital lease** (or a conditional sales contract), Paul can use like-kind exchange rules to avoid recognizing recapture income from the trade-in. Paul can begin depreciating the new tractor with a starting basis of \$250,000. If appropriate, Paul can use IRC § 179 or bonus depreciation to immediately expense that amount. Paul can also deduct the interest paid yearly under the agreement.

Operating Lease Example:

Contrast the above result with that flowing from an operating lease or a true lease of the new tractor. Any used equipment offered by the farmer to the dealer as a payment toward the lease price will be considered **sold** (not exchanged) to the dealer. Like-kind exchange rules to not apply to an equipment lease. Consequently, if the tax basis in the used equipment is “0,” the farmer must pay ordinary income tax on the value of the tractor traded to recapture depreciation already taken. He will be able to deduct the lease payment, but only over the term of the lease, not all up front.

Larry Lease trades in a tractor with a \$100,000 fair market value to lease a new tractor (with a value of \$350,000) for a four-year lease term. Larry’s used tractor has a tax basis of 0. Under an operating lease, Larry will have sold his tractor to the dealer in this transaction. Consequently, he will recognize \$100,000 in ordinary income (no self-employment tax) in the year of the sale because of rules requiring depreciation recapture. Larry will be able to deduct from his income the amount of the lease payment, spread out over the four-year term of the



lease, or \$25,000 each year (assuming a full calendar year lease-term).

As with all complex business transactions, producers are advised to consult with a trusted tax professional before entering into any agreement to use or acquire farm equipment over time. An arrangement that might benefit one producer might be detrimental to another. The details matter.

- The first Disney movie I saw was "Snow White." I loved all the Disney princess movies. – Lily James

REFERRAL CREDIT

Refer a friend or neighbor to Corporate Farmer and receive \$250 off your next renewal if they end up signing up for our services. This is a great opportunity to lower your expenses and help someone you know. It's as easy as contacting the office with the names of farmers that might be interested in meeting with us and we will send you a voucher if they give us a try.

- Let it snow! Let it snow! Let it snow! – Sam Cahn

LIKE US ON FACEBOOK

Several clients already follow us on Facebook. To encourage other Facebook users to join the fun we are going to offer an incentive to all clients that like us on Facebook already or do so by the end of tax season, April 18, 2017.

In April 2017 we will randomly choose six clients that like us on Facebook to win a Yeti prize. If you don't know what Yeti is they make high quality coolers and drinkware for the outdoors.

One client will receive a Yeti cooler and five others will receive a Yeti tumbler. Find us on Facebook at [facebook.com/corporatefarmerinc](https://www.facebook.com/corporatefarmerinc) and simply hit the Like button to be entered to win.

Our Facebook page is a great way to stay on top of what is going on at Corporate Farmer. We try to link or post current items relating to tax law changes, IRS news and many other topics related to agriculture.

Like us today for your chance to win!

1307 6th St. SW #1
Mason City, IA 50401

FARMER
CORPORATE

