

Cornhusker Economics

Tax Planning 2020

Market Report	Year Ago	4 Wks Ago	11-9-20
Livestock and Products.			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	115.00	*	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . .	158.53	161.11	157.24
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . .	150.79	149.66	147.28
Choice Boxed Beef, 600-750 lb. Carcass.	237.08	216.04	211.03
Western Corn Belt Base Hog Price Carcass, Negotiated	*	*	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	81.04	93.27	83.12
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	138.19	151.53	177.37N A
National Carcass Lamb Cutout FOB.	402.45	437.30	464.57
Crops.			
Daily Spot Prices			
Wheat, No. 1, H.W.			
Southwest NE , bu.	3.70	4.84	5.01
Corn, No. 2, Yellow			
Central NE , bu.	3.60	3.67	3.86
Soybeans, No. 1, Yellow			
Central NE , bu.	5.93	10.00	10.52
Grain Sorghum, No.2, Yellow			
Southeast NE , cwt.	8.32	4.55	5.07
White Oats, No.1/2, Bulk			
Minneapolis, Mn , bu.	3.27	2.96	3.16
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185			
Northeast Nebraska, ton.	NA	NA	175.00
Alfalfa, Large Rounds, Good			
Platte Valley, ton.	NA	NA	95.00
Grass Hay, Large Rounds, Good Nebraska, ton.	NA	NA	91.73
Dried Distillers Grains, 10% Moisture			
Nebraska Average.	149.50	165.00	179.80
Wet Distillers Grains, 65-70% Moisture			
Nebraska Average.	51.50	49.58	58.80
* No Market			

With harvest wrapping up or complete, it is time to finish the last bits of 2020 operation tasks. Many of these tasks are part of tax planning. Here is a brief summary of some of the topics to discuss with your tax preparer before year-end.



1099s

As with every year, 1099s are a requirement by law. Farmers and ranchers are required to issue 1099s for any cumulative payments of \$600 or more made in the course of business to a specific entity. Corporations do not receive 1099s though. This includes LLCs that are taxed as a corporation. Sole Proprietors, Partnerships, and LLC Partnerships all need 1099s when they hit the monetary threshold. Taking time to gather the necessary identification numbers, EIN or SSN, and calculating amounts should move towards the top of the to-do list. Three of the most missed are for cash rent paid, attorneys, and non-employee compensation.

If you wish to read, more on 1099s there is a Crop-Watch article at <https://cropwatch.unl.edu/2017/who-needs-1099>. You can also read more on the IRS website at <https://www.irs.gov/forms-pubs/about-form-1099-misc>.

Prepaid Expenses

With projected farm income being high for the year 2020 due to a late surge in crop prices and direct government payments, many will be looking at prepaid expenses to help with their tax planning. IRS [publication 225](#) goes into detail on prepaid expenses. The expenditure must be for an actual purchase. It cannot be a deposit to buy items in the future. To be a true prepaid expense it should outline a quantity and amount purchased, and should not be refundable or available for substitution. To read more on prepaid expenses and the other rules to follow, visit the Crop-Watch article at <https://cropwatch.unl.edu/2018/prepaid-expenses>.

Constructive Receipts

For cash-basis taxpayers, one common tool in tax planning is the rule of constructive receipts. This is a timing recognition tool. A full outline of constructive receipts can be found in [§1.451-2](#). To sum it up constructive receipts look at when you had access to a payment. For example, if you receive a check in the mail on January 3, 2021 for \$2,000 for harvest work and the check is dated December 29, 2020, is it 2020 income or 2021 income? With constructive receipts, we would claim the income in 2021 as that is when we had the ability to cash and use the check. For a more in-depth article on constructive receipts, visit the CropWatch article <https://cropwatch.unl.edu/2018/accounting-agriculture-using-constructive-receipts>.

Government Payments

I saved the most complicated for last. With multiple direct payments, loans, and grants issued during 2020 there is going to need to be some time dedicated to sorting this out. To give a brief example you have Coronavirus Food Assistance Program 1, Coronavirus Food Assistance Program 2, Paycheck Protection Program, Economic Injury Disaster Loans, Employee Retention Credit, and Livestock Producer Stabilization Grants for an abbreviated list of potential talking points. Some of these are state, and some are federal. Some of these are grants or have forgiven portions, some are loans that must be paid back, and some are

direct payments. The IRS has made some comments on most of these, but a few of them are still being debated as to if they are treated as taxable income. This is all in addition to the more recognizable payments of ARC/PLC and crop insurance. The best advice I can give is to create a summary sheet of all the different types of payments received in 2020 with supporting documents in an easily accessible folder. Once you have your list made and have estimated production income and expenses for 2020, schedule a meeting with your tax preparer. Giving time to digest all of the gears and cogs that are turning this year will give you a better understanding of what tax planning tools need to be utilized.

Other Common Topics

In addition to all of the above points of conversation, there are still parts of the Tax Cuts and Jobs Act (TCJA) of 2017 that are commonly forgotten about. Like-Kind Exchange tends to be the one that catches people the most. Many farms do not trade equipment yearly, so it may be the first time equipment has changed hands since the TCJA passed. I have received many phone calls in panic when producers discover that Like-Kind Exchange no longer applies for trades on equipment. To read more on the subject go to <https://cropwatch.unl.edu/2018/trading-equipment-without-kind-exchange>. The TCJA changed Section 179 and Bonus Depreciation to help with planning with Like-Kind Exchange no longer available for those assets.

Summary

I can honestly say that when the TCJA came out I thought it was going to be one of the most complicated tax planning seasons in memory (I missed out on the implementation of the 1981 Economic Recovery Tax Act). The year 2020 though is bucking for a top spot. If you wish to get the most *bang-for-your-buck* out of taxes, try to get your information together early and schedule a meeting with your tax preparer.

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