
AGRI-BASICS, INC.

# THE Agri-Vator

54 Brown Street • Elizabethtown PA 17022 • Vol. 23 No. 4 • November 2022


## Farm Tax and Financial Planning Strategies for 2022

**By Kurt Groff, CPA and Partner with Simon Lever**

Agricultural markets have seen continued market volatility over the past few years. The impact of COVID, shutdowns, supply shortages, the Russian invasion of Ukraine, the spike in commodity prices, wage pressures, shortage of truck drivers, limited supply of new equipment, spike in fuel costs, and the recent spike in interest rates have all contributed to extreme unpredictability.

Fortunately, most Ag sectors have seen increased revenues to help absorb these higher input costs. Governmental grants have also provided much needed funding over recent years. With volatility comes both pressure to make a profit and also profit-making potential. Making wise financial decisions is key to capitalizing on strong profits today and preparing for a possible period of lower profitability in the future. At Simon Lever, our focus is on maximizing your success while managing tax liabilities and business cash flow to help prepare you for sustainable growth. As we approach the end of another year, here are a few tax planning and overall financial planning strategies to consider.

### Farm Tax Strategies

The strategies mentioned below are designed to lower taxable farm income in a year of strong profits. You can apply these strategies annually to continue to defer income and taxes to future years. Our goal is to offer proactive advice that lowers your tax bracket by utilizing tax benefits accessible to a farming business.

**2022 FEDERAL INCOME TAX BRACKETS**

| TAX RATE | MARRIED FILING JOINTLY |
|---|---|
| 10% | Up to $20,550 |
| 12% | $20,551 to $83,550 |
| 22% | $83,551 to $178,150 |
| 24% | $178,151 to $340,100 |
| 32% | $340,101 to $431,900 |
| 35% | $431,901 to $647,850 |
| 37% | Over $647,850 |

- **Prepay farm expenses.** Prepaying expenses is a widely used planning tool for farmers. Paying for your 2023 seed and fertilizer not only creates a tax write-off but also secures product availability and locks in certain early pay discounts.

  Livestock farmers have an even greater ability to prepay their feed for the next year. Specific requirements exist for these payments including non-refundability of your payment, a specific quantity of feed, not prepaying more than one year of feed, and not allowing your total prepaid expenses to exceed 50% of your Schedule F expenses for the year.

- **Delay collection of crop income until January 2023** by using a local grain bank or by utilizing a storage arrangement with the mill where you deliver your fall crop.

  Consider the benefits of constructing grain storage to capitalize on the tax deduction while capturing higher crop revenue for storing the grain.

- **Delay receipt of milk, livestock or other farming revenue** by entering into an agreement with your Co-Op or packer to defer income until 2023. These arrangements need to be signed in advance.

- **Purchase necessary equipment before year-end**, ***but beware***, new equipment is nearly impossible to find on the lot! The IRS is clear: to depreciate equipment purchased in 2022, you must receive the equipment by the end of the year, making it available for use. A deposit on a piece of equipment that hasn't been manufactured would not meet this requirement.

**SAVE THE DATE**
**Thursday Dec. 8**

## DAIRY MEETING

8:30AM–1:30PM
YODER'S RESTAURANT

### FEATURED SPEAKERS

Tim Beck
Penn State Extension
*Impact of Cropping on Profitability and 2022 Dairy Economics*

Jonathan Rotz
Pioneer
*Plenish Soybeans and Corn Silage Agronomics*

**TO REGISTER**
Contact your Agri-Basics, Inc. Nutritionist by December 1

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Consider purchasing a new or used no-till planter or drill. Not only does this help you with a tax write-off, but Pennsylvania offers a tax credit equal to 50% of your cost to purchase the no-till equipment. The credit is through the Resource Enhancement and Protection Act (REAP). The credit cannot be used in conjunction with any public grant funds such as EQUIP.

Eligible costs that qualify for REAP tax credits include constructed manure pits, constructed waterways, fencing around streams, manure injection equipment, and costs to create or modify nutrient management plans. Simon Lever advisors can assist with the application process and determine if your farm has incurred eligible costs. These credits can be sold for approximately 85 cents on the dollar. Contact a Simon Lever advisor for more information to apply for REAP credits.

- **Contribute to a retirement account** such as an Individual Retirement Account (IRA). Taxpayers under the age of 50 years old can contribute up to $6,000 for 2022. If you are over the age of 50 you can contribute $7,000 to an IRA. Consult your tax advisor on the differences between a traditional IRA and a Roth IRA to determine what is best for you.
- **Pay your children working on your farm operation.** Children can report up to $12,950 of federal income and not owe any tax. This choice could effectively shift income out of the 22% federal bracket of the parents and save $2,849 in federal taxes.
- **Utilize the farm income averaging, which helps lower taxes when there is a spike in farm profits.** This tax calculation is done on Schedule J of your personal income tax return and is available only for farmers. A powerful tool, this federal tax calculation offers varying savings for each taxpayer.
- **Consider bunching charitable donations from two years into one.** Charitable giving requires careful tax planning in light of the standard deduction of $25,900 for 2022. A donor advised fund can help to capture added donations in one year and allocate the funds to charities the following year.
- **Donate appreciated assets such as stocks, mutual funds or real estate.** A great giving and tax savings strategy, it **avoids** reporting capital gains **AND provides** for a charitable deduction equal to the fair market value of the item donated.

### Farm Financial Planning Strategies

- Review your wills and ensure you have medical and financial powers of attorney in place.
- Review beneficiary designations on life insurance and retirement accounts to ensure your intentions have not changed. Please note that beneficiary designations impact the flow of these funds ahead of your will.
- With rising interest rates, consider using current funds to purchase new equipment without borrowing and pay only the minimum payments on older loans with lower rates of interest. In the end the amount of borrowings is the same, but you can keep lower rate loans and avoid new loans at much higher interest rates.
- Pay down lines of credit with excess savings to prepare for the next downturn in farm profits.
- Consider low interest rate loans available through the Economic Development Company of Lancaster, which offers low fixed rates for longer periods of time.
- Consider farmland preservation opportunities, which can help with farm transition planning. Preservation funds are non-taxable to the extent the farm has sufficient cost basis to offset the proceeds. Preservation funds can also be applied through a 1031 exchange to purchase other real estate tax free.
- Finally, we encourage you to use these tax strategies to manage taxable income rather than eliminate paying income tax. Paying tax allows you the ability to use after tax dollars to reduce debt or make other investments.

Please contact Simon Lever for more information or contact your personal tax advisor to incorporate these concepts into your year-end planning.

## Nutritionists

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