

# Farm Management Update



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## 2002 Income Tax Update



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The year 2002 has been one of extremes—from too much rain during the spring to very little or no rain during the growing season; from normal prices for livestock and livestock products early in the year to very low prices later in the year. Everything that has happened weather-wise and price-wise during 2002 has created a lot of stress on farm families. While working on farm records may not be the favorite job around the farm, using those farm records now to do some preliminary income tax planning can help ease some of the year-end stress.

The goal of income tax management is to avoid large year-to-year fluctuations in taxable income while making sure that there is at least sufficient income to offset personal exemptions and deductions. The 2002 standard deduction for a married couple filing jointly is \$7,850; single is \$4,700 and the personal exemption is \$3,000. A married couple with no children can have \$13,850 of income before they will pay any income tax. Self-employment taxes start at \$400 net

from self-employment so generally self-employment taxes will be paid before any income taxes are due.

### Tax Planning in a Drought Year

With drought conditions comes the potential of additional income and expenses, e.g., crop insurance and crop disaster payments, additional livestock sales due to reduced feed and water supplies, and additional government payments for drought assistance. If your county has been declared a disaster area because of the drought, any crop insurance proceeds and crop disaster payments received in 2002 can be deferred until the following year. This deferral can be made if you can show that your normal marketing pattern is to sell your crops in the year following their production and harvest. If payments are made for more than one crop, the payments must be reported in the same manner for all crops.

Income from excess sales of any type of livestock can also be deferred to 2003 if the sales were caused by the 2002 drought. If the excess livestock sold is held for draft, breeding, or dairy purposes, the gain on those animals can be treated as an involuntary conver-

sion and postponed if similar animals are purchased within a two-year period. The “excess” amount of income or gain that can be deferred or postponed is the amount over and above the amount that would have normally been reported.

Other government drought assistance payments are generally taxable in the year received. Be sure to examine your tax situation carefully before you decide whether to defer or not defer additional payments or income you received because of the weather. The Farmers Tax Guide has an excellent discussion on making the elections necessary to defer income related to drought conditions.

### Depreciation Planning and Changes

The Job Creation and Worker Assistance Act of 2002, signed during March 2002, includes a provision for an optional 30% first year additional depreciation deduction for the taxable year in which qualified property is placed in service. Qualifying property must meet all the following requirements: 1) must be MACRS property with

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# Financial Security



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Financial security is the ability to meet your future needs while keeping pace with the day-to-day current obligations. Among the reasons financial security is important to most people are family needs, peace of mind, choice and control, reduced burden for others, reduced potential for conflicts, and improved quality of life. Financial security includes retirement planning, estate planning, financial management, and wealth accumulation.

## Farmers and Retirement

A 2002 research report by the Economic Research Service (“Income, Wealth, and Economic Well-Being of Farm Households” ERS Report 812, July 2002) contained these facts:

- Slightly more than 6% of farmers are under 35 years of age.
- Half of all farmers are between 45 and 65.
- 24% planned to retire in the next five years.
- The average age of farm operators is 55.

One of the summary main findings of this report follows:

“Farm households are no different than other households in pursuing two careers and diversifying earnings. More than half of all U.S. farm operators work off-farm, with 80% of these working full-time jobs. Nearly half of all spouses are also employed off the farm. Off-farm work is no longer viewed as a transitional position between the

agricultural and the industrial economy, but as a lifestyle choice, with farming as a second job or investment. As with most households, income flows not only from farm and off-farm employment but also from investments. Off-farm employment is often for the sake of securing retirement and health benefits.”

Warren Lee’s article in the Fall 2002 issue of the *Farm Management Update* discussed the planning horizon, income and cost estimates, and some aspects of an investment program. At the recent Farm Science Review, visitors to the Farm Business Office display took a basic true/false test. The results showed an average correct score of 71.5% with a range of 40%-100%.

Let’s touch on ten points that are key to Financial Security in Later Life for Farm Families.

- 1) *Estate Planning*—Written, up-to-date plans can help you meet important objectives.
- 2) *Retirement*—This phase of a life cycle can be much longer than our parents.
- 3) *Investments*—A balanced portfolio which includes some real estate can be an efficient, stable source of income.
- 4) *Financial Goals*—It is well documented that persons with written goals are much more likely to achieve them.
- 5) *Funding Education*—Even with new programs to help save for education expenses of dependents, more income may be needed.
- 6) *Financial Management*—Completing an annual net worth statement, calculating financial ratios, and knowing

your credit rating are critical.

- 7) *Risk Management*—Understanding your own tolerance for risk and ability to absorb losses help decide on which risk management strategies and tools to use.
- 8) *Tax Management*—Understanding the basics of tax reporting and knowing when to consult a professional can help increase “after-tax income.”
- 9) *Cash Management*—Monitoring and controlling cash flows including living expenses is necessary so current obligations can be met.
- 10) *Emergency Cash Reserve*—Many professionals suggest an easily accessible cash reserve equal to at least 3-6 months of normal living expenses be maintained for emergencies.

## Four Top Web Sites

Here are four top, new web sites that you will want to visit:

### Financial Security in Later Life

<http://www.ree.usda.gov/financialsecurity>

### Estate Planning Considerations for Ohio Families

<http://ohioline.osu.edu/estate>

### Retirement Estimator for Farm Families

<http://www2.agriculture.purdue.edu/retirement>

### 10 Modules for Planning for Secure Retirement

<http://www.ces.purdue.edu/retirement>

## Summary

Financial security is more likely to be achieved through an informed, timely set of management decisions. My favorite quote is, “This information won’t affect you unless ... You do use it ... or ... You don’t use it!” ■

# Farm Management Web Sites

The Internet has many useful web sites related to farm management. Producers can retrieve everything from commodity prices to the local weather forecast. Listed on this page are some sites that may be helpful to Ohio producers.

## Helpful Hints

The following are some helpful hints that may make your Internet surfing more productive:

- **Consider the source of the information.**  
Just because information is on the Internet does not mean that it is correct or accurate. Anyone can put a web page on the Internet. If you use web sites to make farm management decisions, make sure you can depend on the reliability of the information. Government, university, and recognizable commercial sites are a good place to start.
- **Viruses from the Internet.**  
You cannot get a virus from the Internet by merely browsing web sites. You can only get a virus by downloading files. Therefore, when downloading files from the Internet, be certain you can trust the source of the download.
- **Search Engines.**  
Sites such as google.com and yahoo.com allow the user to search for web sites by entering key words into the search engine. If a search is unsuccessful, try using different but related words or rearranging the word order. If the search provides too many sites, use more precise wording and do a search within the previous search results.

### AEDE Farm Management Page

<http://aede.ag.ohio-state.edu/programs/FarmManagement/>

### Ohio Enterprise Budgets

<http://aede.ag.ohio-state.edu/people/moore.301/index.htm>

### Ohio Farm Custom Rates

<http://aede.ag.ohio-state.edu/people/moore.301/custompage.htm>

### Farm Rental Fact Sheet Series

<http://ohioline.osu.edu/fr-fact/index.html>

### Farm Management Update Newsletter

<http://ohioline.osu.edu/fm-news/index.html>

### AEDE Outlook and Policy Site

<http://aede.osu.edu/programs/outlook/>

### USDA—Financial Security in Later Life: Preparing for retirement and potential long-term care costs

<http://www.reeusda.gov/financialsecurity/>

### Center for Farm Financial Management—From the makers of FINPAC: Includes FINBIN, a farm financial database

<http://www.cffm.umn.edu/>

### Midwest Plan Service—A large collection of farm management publications for download or purchase

<http://www.mwpsdq.org/>

### Northwest District Farm Management Web Site

[http://northwest.osu.edu/farm\\_mgt/index.html](http://northwest.osu.edu/farm_mgt/index.html)

### East District Farm Management Web Site

<http://east.osu.edu/farmmgt/fm.html>

### Southwest District Farm Management Web Site

<http://www.ag.ohio-state.edu/~swest/farm/farm.htm>

### USDA-ERS: economic analysis, bulletins, and data for all agricultural sectors

<http://www.ers.usda.gov/>

### USDA Prices: annual summary of prices paid and received by farmers, state, region, and national scope

<http://usda.mannlib.cornell.edu/reports/nassr/price/zap-bb/>

### Ohio Agricultural Statistics—ODA summary of state agricultural data

<http://www.state.oh.us/agr/stats.htm>

### Weather Channel

[www.weather.com](http://www.weather.com)

a recovery life of 20 years or less; 2) property must be brand new (not used) and use must start after Sept. 10, 2001; 3) property must have been purchased after Sept. 10, 2001, and before Sept. 11, 2004, and 4) property must be placed in service before Jan. 1, 2005. You have to elect out of the additional 30% depreciation on Form 4562, Depreciation and Amortization, if you do not want to claim it.

Ohio personal income taxes have been calculated starting with the Federal adjusted gross income from Form 1040. However the Ohio General Assembly passed legislation during 2002 that "decouples" depreciation for Ohio income taxes from the 30% additional depreciation allowed for Federal tax pur-

poses. This will affect all Ohio taxpayers that use Federal income as a basis for Ohio tax calculations.

To make the adjustment for Ohio income taxes, the amount of the 30% additional depreciation claimed is divided by 6 and that 1/6th amount is added to the regular Federal depreciation claimed for years 1-6. The result of this change is that you will get the full benefit of the 30% additional depreciation on your Ohio income taxes, but the amount will be claimed over six years rather than just in the first year. Additional details on this adjustment for Ohio income taxes can be found at:

[http://www.state.oh.us/tax/Information\\_Releases/picft200201.html](http://www.state.oh.us/tax/Information_Releases/picft200201.html).

While this change does not require a separate depreciation schedule for Ohio, it will require some extra record keeping to track the depreciation amounts claimed over time.

## Summary

The decision to postpone reporting income related to drought conditions should not be automatic. Likewise, claiming the additional 30% depreciation is not an automatic decision. Both tax provisions should be considered as part of an overall income tax management strategy for 2002 and 2003. Be sure to check with your tax advisor about your individual situation. ■

## Exurban Change Project

The Exurban Change Project provides analysis of economic, social, agricultural, and land use changes of Ohio's regions and localities with a focus on the rural-urban fringe (also called "exurban") areas of the state. The project maintains a web site that provides data, information, and analysis related to demographic and land use change in Ohio intended to aid local communities in their planning and decision making. Specific components of the web site include:

- "Township Tool," which provides data, maps, and graphs on population and land use trends for each township in Ohio by county.

- Downloadable reports on statewide population and land use trends within Ohio. The most recent report details land use and urbanization trends in Ohio. Among the findings include the fact that Ohio ranked second in the nation in total prime agricultural land developed between 1992-97.
- Downloadable datasets, including township population from 1960-2000, land use by township as of the early 1990s, and land use by county for 1982, 1987, 1992, and 1997.
- Downloadable presentations prepared by faculty and staff

associated with the Exurban Change Project.

The project is co-directed by Jeff Sharp and Elena Irwin, assistant professors in the Departments of Human and Community Resource Development and Agricultural, Environmental, and Development Economics respectively. The project is supported by OSU Extension, the Swank Program in Rural-Urban Policy, and the Agroecosystems Management Program.

For more information, please visit the web site at <http://aede.osu.edu/programs/exurbs> or e-mail Elena Irwin at [irwin.78@osu.edu](mailto:irwin.78@osu.edu). ■

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