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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 come 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 conversion 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...
Financial Security

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 a 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:

1) Financial Security in Later Life
http://www.reesusa.gov/financialsecurity

Estate Planning Considerations for Ohio Families
http://ohioline.osu.edu/estates

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. Then, 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.

- USDA—Financial Security in Later Life: Preparing for retirement and potential long-term care costs
http://www.reesusa.gov/financialsecurity/

- Center for Farm Financial Management—From the makers of FINPAC: Includes FINBIN, a farm financial database
http://www.cffin.umn.edu/

- Midwest Plan Service—A large collection of farm management publications for download or purchase
http://www.mwpsa.org/

- Northwest District Farm Management Web Site
http://northwest.osu.edu/farm_mgt/index.html

- East District Farm Management Web Site
http://east.osu.edu/farmmgmt/fm.html

- 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
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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.

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