TAX MAKEOVER

?DO YOU NEED ONE?

BUSINESS PURPOSE

- NEVER MAKE A BUSINESS DECISION BASED SOLELY ON TAXES
  - PAINT FOR DEPRECIATION
  - NOT SELLING DUE TO CAPITAL GAINS
  - PRE-PAYING OR DELAYING SALE
    - RISK OF NOT GETTING PAID OR PRODUCT

A MISUNDERSTOOD TRUTH

- NOT PAYING TAXES NOW DOES NOT NECESSARILY CREATE MORE CASH FLOW
  - – WHAT WILL FUTURE TAX RATES BE
  - – DEFERRALS ARE LIMITING
    - LESS AVAILABLE CASH FOR OPPORTUNITIES
    - MANAGE DEFERRALS INSTEA BUSINESS
    - ADDED RISKS

WHAT CAN BE DONE

- There are several types of taxes
  - Capital gains
  - Ordinary income tax
  - Estate tax

- Separate equity from operations

Self-employment tax

- Own operations with Non-SE tax entities
- Fringe benefits
  - Meals and lodging
  - Medical insurance/reimbursements
  - Retirement plans
- Utilize grain wages

Ordinary income tax

- Own operations with corporations
- Utilize tax brackets of entire family
- Fringe benefits allow living expenses to become deductible, the cash would be spent regardless
- Retirement plans allow grain and pre-paid deferrals to be converted to cash, lowering creditor risk

Estate taxes

- Equity in an entity
  - Off-farm can participate without being part of operations
  - Discounting opportunities
  - Gifting – particularly after discounting
  - Control it, do not own it

An example

Basic outline of existing tax structure

C-corporation

Land and Improvements

Buildings (Hog finishers)

Vehicles

Farm machinery/equipment

Associated debt

General partnership

Grain

Line of credit debt

Limited liability companies

Invested in non-family farm operations

Only asset is investment

Client

Farm machinery/equipment

Land

Investment in hog operations (within LLC's)

Problems

- Appreciating assets in corporation
- Investments, land and equipment owned all over the place, based on tax planning
- Using equipment as tax strategy – beginning to have to much paint
- Cash tends to be in corporation, with little access

Problems continued

- SE tax is building issue
- Controlling ordinary tax is difficult
- In a growth environment, low on cash
- Estate is taxable with no structure
- Just plain confusing

Solution

- Equipment of client and corporation funded into S-corp, eliminates SE tax on rent of equipment
- Land of client and corporation funded into limited partnership – discounts value of land and from there can more easily gift.
- Purchase interest in limited partnership from corporation – freeze appreciation of land value in corporation

Solution continued

- Hog facilities remain in corporation
- Pay some cash wage out of corporation, but mostly…..
  - Pay meals and lodging fringe benefit
  - Fund high dollar retirement plans
    - Reduces equity in corp and moves to client
  - Pay health insurance through corporation

Result

- Only pay SE tax on cash wage
  - – Controlled by tax payer
- $30,000 of living expenses now being deducted by corporation
- Excess cash going to corporation is funding a retirement plan - $100,000 per year
- Farm operation not considered till actual farm bill comes out and have something to work with – but…….
  - – Make corporation one of the owners of the farm operation
    - Pay grain wages instead of cash