

# YEAR END TAX PLANNING STRATEGIES

By Dennis Veeh, CPA

As we approach the end of another calendar year, it is important to take advantage of available tax planning strategies in order to manage the amount of income taxes that will be due for the 2003 tax year. Included in this article are a few ideas and strategies to consider in your year-end planning.

## Machinery & Equipment Expensing Election

Code Section 179 of the Internal Revenue Code allows taxpayers to deduct certain machinery and equipment purchases entirely in one year. This election applies to "tangible personal" property, which means that real estate (land, buildings and their structural components) does not qualify. The property acquired can be new or used and needs to be placed in service during the tax year. The maximum amount that can be deducted in 2003 is \$100,000. Any purchases in excess of this threshold can be depreciated by the taxpayer. If a taxpayer acquires more than \$400,000 of qualifying property in the tax year, then the expensing election available is reduced or eliminated. It is geared toward taxpayers who purchase less than \$400,000 of equipment and other qualifying property during a tax year. Additionally, the taxpayer is required to have earned income of at least \$100,000 from their business to take full advantage of the election, which is limited to a taxpayer's earned income. All tangible personal property acquisitions qualify, so review your equipment needs prior to December 31, 2003.

## Year-End Gifting

Each taxpayer can gift to their child or any other donee \$11,000 a year without having to utilize their lifetime gift exclusion. This means a husband and wife can gift to one child \$22,000 a year, only using their annual

gift tax exclusion. If a taxpayer's estate is large enough to be subject to estate taxes, it may be beneficial to consider taking advantage of a gifting program to the next generation in order to reduce the amount of estate taxes at their death. In addition to the \$11,000 annual exclusion, each taxpayer currently has a \$1,000,000 lifetime gift tax exclusion that can also be utilized to transfer property. We can assist you in determining the benefits of initiating a gifting program for your family.

## Commodity Credit Corporation Loans (CCC Loans)

Recent changes in the tax law now permit taxpayers who previously reported CCC loans as income to change their method of accounting and treat these CCC loans as debt and not income. Prior to these tax law changes, taxpayers who had previously made a prior election to treat CCC loans as income were bound by that

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election for all future years. The only alternative in the past to change your method of accounting was to request permission from the Internal Revenue Service. Now the I.R.S. is allowing taxpayers automatic consent to change without a lengthy and formal request. This allows taxpayers the ability to determine how best to classify CCC loans, without having to be bound by these elections for future years.

*continued on page 4*

## 2003 AG BUSINESS AWARD: PRODUCERS DAIRY FOODS

Baker, Peterson & Franklin, Certified Public Accountants, is pleased to announce that the recipient of its 2003 Ag Business Award is Producers Dairy Foods of Fresno.

Producers Dairy Foods exemplifies a leading for-profit ag organization whose achievements and impact have significantly contributed to the ag industry and the Central Valley. The Baker, Peterson & Franklin Ag Business Award honors a for-profit service or product-related agribusiness or farming entity headquartered in the Central San Joaquin Valley. The award recipient is selected by a committee representing the AgFresno Advisory Board, NAMA (National AgriMarketing Association), and the BP&F Ag Department. Past recipients are P-R Farms of Clovis, J&L Vineyards of Fresno, Fowler Packing Company, Joseph Gallo Farms of Atwater, Wawona Frozen Foods of Clovis, Wilbur-Ellis Western Division, and Zacky Farms.

Producers Dairy was incorporated by a group of men in 1932 to package quality dairy products for the Fresno area. In 1949, Larry Shehadey purchased a major interest in Producers Dairy, and became the General Manager shortly after. Producers opened its present plant on East Belmont Avenue in 1949, and installed the first quart and half-gallon packaging machine in the Central Valley. By 1951, Producers was the first dairy to have a 100% refrigerated delivery fleet assuring cold products in stores. Bar 20 Dairy Farms, an ultra-modern milking parlor, was built in 1959 with air-conditioned viewing rooms for the benefit of visiting students on school field trips. Motivated by a commitment to quality products, a larger Bar 20

operation was established in 1971. Today over 3,400 cows produce 10 million gallons of milk each year—about 25% of the amount processed at Producers Dairy. Producers is a leader in the dairy industry, providing quality products to consumers from Redding to Santa Maria. The company offers a full line of milk products, ice creams, fruit beverages, and recently introduced Grab 'N Go bottles in six flavors and Looney Tunes flavored milk.

Mr. Shehadey created a promotional campaign with a snappy jingle that featured cowboy Hopalong Cassidy's photo on its cartons. In the 1950s and 1960s, Producers Dairy sponsored the Hopalong Cassidy movies, and "Hoppy's Favorite" milk became a household phrase.

Mr. Shehadey serves as chairman of the board, son Richard Shehadey is president, grandsons Kevin and Scott are managers, and the fourth generation of Shehadeys are poised to join the company.

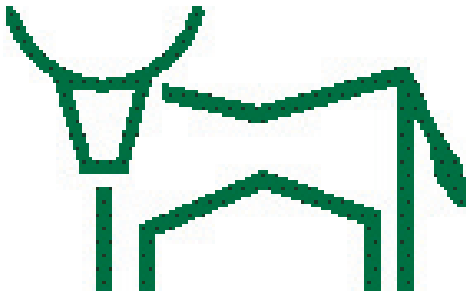
Producers Dairy and the Shehadey family are known for a half-century of civic commitment to the Valley. Producers Dairy has pledged over \$200,000 in scholarships for our community

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college district and has been a major contributor to Fresno State, Children's Hospital Central California, Saint Agnes Hospital and Community Hospitals. The family has also actively supported the Boys & Girls Clubs of Fresno, Big Brothers & Big Sisters, Boy Scouts, Girl Scouts, the YMCA, and the Chaffee Zoo.

A true success story, beginning with 25 employees in Fresno and growing to 400 across California today, the 70-year-old Shehadey family business symbolizes the best Central California has to offer.



## AGFRESNO AWARDS LUNCHEON

The Baker, Peterson & Franklin Ag Business Award and the Fresno Chamber Agriculturist of the Year will both be presented on Wednesday, November 12, at 12 noon in the Fresno Fairgrounds Home Arts Building.

The recipients of the two awards, Producers Dairy and Paul Betancourt, respectively, will be honored. The keynote speaker is Victor Davis Hanson, nationally renowned war scholar and author, Fresno State history professor, and Selma farmer. Luncheon tickets at \$30 each are available through the Fresno Chamber of Commerce, 495-4800.

## 2003 AGFRESNO WELCOMES NEW ONE-DAY SHOW, NOVEMBER 12

This year's AgFresno show will kickoff with the Valley Growers Breakfast at 7 a.m. in the Industrial Education Building. The keynote speaker is Fresno native Sam F. Iacobellis, retired Executive Vice President and Deputy Chairman of Rockwell International. Iacobellis will speak about the B-1B Bomber, one of the major deterrents in the Cold War and the weapon of choice in the Iraq War. Tickets are \$4, and proceeds will be used by the Woodward Park Lions Club to provide hearing aids and glasses to students in need.

Exhibitors will showcase everything from the latest models of farm equipment to insurance designed to help farmers. There will also be a variety of continuing education seminars for private applicator licenses, such as *Understanding Distribution & Uniformity Patterns of Materials When Applied Through Irrigation Regimes*, *Respiratory Safety & Fit Testing*, and *Prevention of Crop Injury Claims*. There will also be label updating seminars from Dupont, BASF, Micro Flo and Monterey Chemical.

Following the Ag Awards Luncheon (see article at left), there will be a wine and cheese tasting from 4 to 5 p.m. in the Industrial Commerce Building. New to the AgFresno Show this year is a virtual wine tasting with Tijuana Mexico, sponsored by the Fresno County Farm Bureau, which begins at 4:30 p.m.

Admission to the 2003 AgFresno Show is free. For more information about the show, please call (559) 650-3247.

***Exhibitors will showcase everything from farm equipment to insurance.***

### **California Net Operating Loss Carryovers**

Taxpayers need to keep in mind that California has suspended the utilization of net operating loss carry-forwards in 2002 and 2003. If taxpayers have losses coming forward from years prior to 2002, these losses are suspended and cannot offset taxable income generated in 2002 or 2003. These net operating loss carry-forwards are scheduled to be available in years after 2003. Be sure to keep this in mind as you plan for 2003.

### **Preproductive Period Expenses**

Expenses incurred in developing an orchard, vineyard or other permanent planting are generally capitalized during the preproductive period and not expensed. The rationale behind not allowing a current expense is to match the costs of developing these plantings against the future income to be received after they become bearing. The costs are capitalized and accumulated in an asset account. The asset account is then depreciated, generally over 10 years for trees, when the trees begin production.

Taxpayers using the cash method of accounting can make a special election to deduct these preproductive expenses on certain permanent plantings, rather than capitalize these costs. However, if this election is made during the preproductive period, all assets acquired by the taxpayer and placed in service are restricted from using shorter depreciation lives and instead are expensed over longer depreciation periods. The effect of this would be to reduce depreciation expense in the early years, which may be detrimental. Development of almond and citrus orchards are not allowed this special election. Be careful and review the effects of whether it is beneficial to expense or capitalize preproductive period expenses.

## **TAX TIDBITS: BONUS DEPRECIATION**

By Karen E. Morais, CPA

The “Jobs and Growth Tax Relief Reconciliation Act of 2003” (JGTRRA) significantly increased bonus depreciation. Bonus depreciation of 30% was made available for assets purchased after September 10, 2001. Assets acquired on or after May 6, 2003 and before January 1, 2005 may qualify for an increased bonus depreciation of 50%.

Generally, to qualify for this special election, the property must have a depreciation period of 20 years or less and be “new” property. If you purchase a new tractor for \$100,000 during this period, you would be able to expense \$50,000 in addition to any small business expensing (Section 179 depreciation). The first year depreciation expense would be calculated on the remaining basis of the tractor.

For example, if you purchased a tractor prior to September 11, 2001 for \$100,000, the depreciation expense is \$10,700 for the first year. The same tractor purchased September 11, 2003, has a first year depreciation of \$55,300 before



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# CORN FOR FUEL

By Nancy Ervin

A new market for local corn may become a reality for valley farmers very soon.

Pacific Ethanol, Inc., a Fresno based corporation, plans to build two corn ethanol plants in Madera and Visalia over the next three years.

The use of fuel ethanol as a clean-burning gasoline additive is growing at a rapid rate in the United States. Ethanol production in the U.S. is currently in excess of two billion gallons per year. The market demand is expected to more than double in the next three to five years. The phase out of MTBE in California and seventeen other states is the primary reason for the strong growth in the fuel ethanol market. MTBE has been found to pollute ground water and will likely be phased out nationwide in the near future. Ethanol is considered the only viable renewable alternative.

The California ethanol market is expected to exceed 750 million gallons annually. Currently, there are two small ethanol plants operating in California with a combined capacity of 8 million gallons per year—but not a single plant is located in the Central Valley.

Corn is the preferred feedstock for ethanol production because of the high ethanol yield and excellent distillers grain co-product used as cattle feed. According to Ryan Turner, Chief Operations Officer for Pacific Ethanol, Inc. (PEI), their project will require about 12.5 million bushels of corn annually, with a goal of 20% sourced locally, or about 2.5 million bushels of corn grown by valley farmers on mid- to long-term (three- to five-year) contracts.

The production of ethanol from starch or sugar-based feedstocks has been practiced for thousands of years. While the basic steps remain the same, the process has been considerably refined in recent years, leading to a highly efficient process that now yields more

energy in the ethanol and co-products than is required to make the products.

In the dry milling process, corn or other high-starch grains are first ground into meal and then slurried with water to form a mash. Enzymes are added to the mash to convert the starch to the simple sugar. The mash is processed through a high temperature cook, then cooled and transferred to the fermenters where yeast is added and the conversion of sugar to ethanol begins.

After fermentation, the resulting “beer” is transferred to distillation where it is separated from the residual “stillage” and concentrated to approximately 200 proof. The resulting anhydrous ethanol is blended with about 5% gasoline and is then ready for shipment to markets throughout the state.

PEI’s primary competition is from ethanol producers in the Midwest of the United States. Currently, Midwestern ethanol facilities must invest in expensive machinery to dry the distillers grain for shipment to widely dispersed dairy and cattle operations outside the region. This adds significant capital and energy costs to the Midwest ethanol producer. The Central Valley site enables wet distillers grain to be delivered via short-haul truck to the nearly 500,000 dairy cows located within a 50-mile radius.

The resulting combination is a new ag industry that is both good business and great for California.



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# CALENDAR

- November 12** AgFresno Farm Equipment Exposition, Fresno Fairgrounds: Valley Growers Breakfast featuring speaker and Fresno native Sam Iacobellis on the B-1 Bomber. Ag Awards Lunch honoring Producers Dairy as the Baker, Peterson & Franklin Ag Business of the Year and Paul Betancourt as the Fresno Chamber Agriculturist of the Year, with Victor Davis Hanson as the luncheon speaker. Virtual Wine Tasting to end the show. Admission free.
- December 4** First Central Valley Insights program sponsored by the California Association of Wine Grape Growers, the Central California Winegrowers Association and the Wine Industry Symposium Group, Pardini's, Fresno. Info: (707) 255-9222.
- February 10-12** World Ag Expo (Tulare Farm Show), International AgriCenter, (800) 999-9186
- March 1** Due date for tax returns of taxpayers filing as farmers.
- March 15** Due date for tax returns of calendar year-end corporations.
- April 15** Due date for individual tax returns.

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