AGRIVIEWS

BAKER PETERSON FRANKLIN

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CONTENTS

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TAX PLANNING STRATEGIES: 2015

By Thomas Goodpaster, CPA

As 2015 is rapidly coming to a close, we are constantly reminded about tax planning. Tax day comes and goes every year, and it is tempting to put our tax planning on the backburner once April 15th has passed. However, it is all too important that we stay up to date on the ever-changing rules and regulations in the tax world and to consult with tax experts each year to properly plan our business strategies.

In 2014, the proposed EXPIRE Act (Expiring Provisions Improvement Reform and Efficiency) that would have extended many beneficial tax provisions through the 2015 tax year died in Congress mainly due to a Republican filibuster on the proposed tax breaks for wind power. As such, one-year extenders were enacted through the 2014 tax year, and it is looking like much of the same will take place for the 2015 tax year.

Much like 2014, there is a long list of these provisions on the docket for extension in 2015. Some of the more important and relevant provisions include the increased dollar limitations of expensing certain tangible property purchased (IRC Code section 179), 50% bonus depreciation, special rules for 15-year qualified leasehold improvement, restaurant, and retail property, and certain hiring and employment credits.

Under Code Section 179, a taxpayer had the ability to elect to expense tangible property. Eligible Section 179 property consists of new or used property placed into service, including machinery, equipment, limited computer software and some non-building land improvements. Prior to January 1, 2015, the election was available for up to $500,000 of Section 179 property per year. The dollar limit was reduced, dollar for dollar, for the excess 179 property placed into service in the year exceeding $2 million.

If a tax extender bill is not passed for 2015, the dollar limit drops to $25,000 and the dollar for dollar phase-out is $200,000. The computer software and non-business improvements are also eliminated from eligible property under the new guidelines.

The 50% bonus depreciation deduction has also expired at the end of December 31, 2014 and is no longer applicable for depreciable assets purchased in 2015. Prior to January 1, 2015, a taxpayer was able to expense 50% of the cost of an item of new qualified property in the year placed in service. Bonus depreciation results in a 50% deduction and only applies to the following qualified property: new tangible property with a depreciable period less than 20 years including machinery, equipment, tangible personal property, and non-building land improvements, most computer software, and certain leasehold building improvements.

A tax extender bill is expected to reinstate both of these advantageous provisions for taxpayers to the prior thresholds and deductions effective for the 2015 tax year. Members of the House Ways and Means Committee and Senate Finance Committee are constantly meeting to discuss tax extenders, but more than likely there will be no action taken or decision made until November or December.

As a refresher, in 2014 the Treasury Department and the IRS released final regulations on the deduction and capitalization of tangible assets. The “repair regulations” will impact businesses in most industries—farming, banking, manufacturers, food processors, real estate developers, hotels, retail businesses, and auto dealerships.

The IRS specifies that repairs and maintenance expenditures must be capitalized according to the IRS’ “RABI” criteria (Restorations, Adaptations, Betterments, and Improvements). Restorations include replacing crucial components of assets already capitalized, restoring property to normal operating condition if the property is currently unusable, and rebuilding property to like-new conditions after the end of its class life. Adaptations include the costs associated with adapting a property to a use that is not consistent with the intended use at the time of original acquisition. Betterments include a material addition to the property in which the end result increases capacity, productivity, efficiency, etc. Improvements include costs that put the property in a better operating condition than before. Note that improvements and betterments are similar in nature.

That being said, there are a couple of “safe harbor” exceptions that will allow the taxpayer to expense repairs, materials, and supplies. Examples of these safe harbors include a de minimis safe harbor election, a routine maintenance safe harbor election, and a safe harbor for small taxpayers.

The final repair regulations will continue to apply to the 2015 tax year. It is important to continue to consult with tax advisors on these repair regulation issues and determine the effect that they will have on the 2015 tax year for your business.

The Tax Court recently provided guidance on the deductibility of prepaid supplies for tax purposes. The deduction was allowed for tax return purposes on the cash method, even though the taxpayer used the accrual method for financials statements and included the prepaid supplies in inventory. This case, Agro-Jal Enterprises, Inc. et al. v. Comm., is not a deviation from previous rulings, it upholds a previous ruling from 2006. As a reminder, §464 specifies the 50% limit on prepaid expenses connected to the growing or raising function, and cash method farmers for tax return purposes should continue to use the cash method to deduct such purchases of materials and supplies. Finally, this is based on the assumption that the cash method is limited by the one year rule, under which items providing a benefit for more than one year must be capitalized.

There are several hiring and employment credits that expired at the end of 2014. To date, there has been no legislation to extend these credits to the 2015 tax year.

The Work Opportunity Tax Credit (WOTC) is one such credit. This credit was a federal tax credit providing incentives to employers for hiring groups of people facing high rates of unemployment, such as veterans, youth, and others. This credit was based on the number of hours an employee works and benefits the employer directly. Also, as a reminder, credits such as the Federal Empowerment Zone Employment Credit and California Enterprise Zone Credit have also expired.

One new credit to be aware of is the California Competes Tax Credit. It can provide major incentives to businesses looking to relocate to or stay and grow in California. For a more detailed explanation, see the California Competes Tax Credit excerpt later in this issue.

If you have questions or would like tax planning advice, please call our office (559) 432-2346.

UNDERSTANDING BANK LOAN COVENANTS

by Janell Attebery, CPA

For a majority of businesses there will be a point where they will need to look to a bank for financing. A bank will only lend you money once they are comfortable that your business will be able to repay the debt and still continue to operate. The bank will look at your balance sheet and income statement and create a loan agreement that addresses your business' needs.

Typically, every loan agreement with a bank will have some type of covenants written into the agreement. These covenants can be affirmative, negative or financial covenants. The covenants can be as straight forward and simple as providing the bank with financial reports and as complex as having to get bank approval for various financial decisions. It is imperative that you understand the terms of your loan agreement and any covenants that are included when you are considering financing.

A loan covenant is a condition in a loan agreement that requires the borrower to fulfill certain conditions or forbids the borrower from undertaking certain actions. An affirmative covenant is used to tell the borrower that they need to do certain things for the health of the business. These covenants may state that the business must maintain current financial records or provide CPA prepared financial statements within a certain number of days after year end. A negative covenant is used to create boundaries for the business and its owners and are usually related to financial and ownership matters. These covenants may restrict the amount of distributions that are paid to the shareholders or prevent a merger or acquisition without bank permission. Financial covenants are used to measure how the business is performing and may be used to restrict the amount of credit the business can obtain. Financial covenants include performing calculations such as current ratio, debt service coverage ratio and working capital and comparing them to thresholds set by the bank.

Loan covenants should be monitored to ensure that you do not find yourself in violation of a loan covenant. If you do not meet any one of the covenants, the bank has the legal right to take action, which is generally addressed in the loan agreement, but can include increasing your interest rate or demanding that you pay the loan off immediately.

The loan covenants should be reviewed prior to signing the loan agreement. We also suggest reviewing the loan agreement with your CPA prior to signing as well so that they can assist you in determining if the loan covenants are appropriate for your business and attainable and that any due dates for financial information such as tax returns and financial statements can be met. You should never sign a loan agreement which has a covenant in it that you know your business will not be able to meet. Loan covenants can be negotiated with the bank before you sign the loan agreement, but once you sign you are responsible for adhering to them.

2015 FRESNO FOOD EXPO NEW PRODUCT AWARD WINNERS AND BAKER PETERSON FRANKLIN

The Fresno Food Expo New Product Awards acknowledge the San Joaquin Valley's food trendsetters with two distinctive awards: The Buyer's Choice Award and The People's Choice Award. The award winners were announced at the recent July 23, 2015 Fresno Food Expo. Baker Peterson Franklin is the presenting sponsor of the New Product Awards program.

BUYER'S CHOICE AWARD WINNERS:

The Buyer's Choice Award criteria was marketability, presentation & packaging, and innovation & creativity. An honorary judging panel of four food industry professionals selected the following winners for 2015:

1st Place

FARMSTEAD SWEET CREAM BUTTER
Top O' The Morn Farms, Inc., Tulare

2nd Place

SRIRACHA SUN DRIED TOMATO KETCHUP
Traina Foods, Patterson

3rd Place

BUSSETO NATURAL SALAMI SNACK CUPS
Busseto Foods, Fresno

PEOPLE'S CHOICE AWARD WINNER:

All entries received for the New Products Awards program were entered in the People's Choice Award, and were voted on by the public through the Fresno Food Expo Facebook page and website. Exhibitors were encouraged to promote their new product through their own marketing efforts to encourage voter participation.

CRAFT CHOCOLATE BARS by Molucca Chocolate of Fresno won the 2015 People's Choice Award.

We thank the exhibitors who participated in the New Products Award program, and look forward to next year's Fresno Food Expo on Thursday, July 28, 2016.

HALL MANAGEMENT CORPORATION 2015 BPF AG BUSINESS AWARD RECIPIENT

Baker Peterson Franklin, Certified Public Accountants, is pleased to announce the recipient of the 2015 BPF Ag Business Award is Hall Management Corporation of Kerman.

Hall Management Corporation 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 agri-business or farming entity headquartered in the Central San Joaquin Valley. The award recipient is selected by a committee representing the local agribusiness industry and the BPF Ag Department. Hall Management has a distinguished record of positive leadership, entrepreneurship, and service to the agriculture industry and our community making them the 2015 Baker Peterson Franklin Ag Business Award recipient.

Established in 1964, Hall Management has grown to become the largest farm labor contractor service in California, operating in 26 counties and providing labor services for over 50 years. Hall Management supplies all labor and personnel management for their clients, helping to minimize operating costs. The company employs up to 25,000 employees throughout the year and approximately 5,000 employees a week during peak harvest. Hall Management distinguishes itself, not only in their operations and client service, but in reducing costs for their clients as all services are performed in house. Their philosophy is to fully service clients to the best of their ability, as well as being fully compliant with the law at all times. Hall Management's emphasis is their clients must have the same philosophy and meet with owners to ensure a successful partnership is established. The company has been a leader in farm labor transportation safety and heat illness prevention. Hall Management is rated in the top five agricultural employers by state and federal agencies, farm employer groups, and organizations in safety, compliance, payroll and employee services.

Hall Management is recognized and respected by growers and competitors as a leader in labor issues and general ag expertise. The company advocates for workers and small business on regulatory changes, state and federal legislation, safety, labor and compliance issues. It is a strong advocate for ag labor reform and reprieve from ineffective, burdensome regulations. As one of the largest employers in the state, one of Hall's greatest satisfactions is providing a way of life for his employees. During the historic drought, the company has not laid off an employee. Also, Hall Management feels morally responsible to take care of their employees and payroll is always issued on time. Hall Management is active in numerous ag organizations and provides generous financial contributions to the community. Hall Management has earned the reputation of being highly ethical, a significant "mover & shaker" in the industry, and a positive advocate of agriculture

The past 19 recipients of the Baker Peterson Franklin Ag Business Award are: HMC Farms of Kingsburg, Gar Tootelian of Reedley, Sun-Maid Growers of California, Allied Grape Growers of Fresno, Fresno Equipment Company, Errotabere Ranches of Riverdale, Harris Farms of Coalinga, Borba Farms of Riverdale, National Raisin Co. of Fowler, Ballantine Produce Co. of Sanger, Woolf Enterprises of Fresno, Producers Dairy Foods of Fresno, 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 of Fresno.

bpf AG BUSINESS AWARD 2015

2015 AG AWARDS LUNCHEON

Honoring Baker Peterson Franklin Ag Business Award – Hall Management Corporation

Fresno Chamber's Agriculturalist of the Year – Joe Del Bosque

Hall Management Corporation of Kerman and farmer Joe Del Bosque of Los Banos will be honored at the Ag Awards Luncheon on Wednesday, October 28, 11:30 – 12:00 p.m. check in, 12:00 – 1:30 p.m. luncheon & program, at DoubleTree by Hilton in downtown Fresno. The Baker Peterson Franklin Ag Business Award and the Fresno Chamber of Commerce Agriculturalist of the Year will both be presented.

You may register at www.fresnochamber.com or call (559) 495-4800. Members: $40 ticket and $320 for table of eight. Non-members: $55 ticket and $440 for table of eight.

THE CALIFORNIA COMPETES TAX CREDIT

By Cathleen Wiens, CPA

Doing business in the state of California can be expensive, but a tax credit available to businesses that want to come to California or stay and grow in California could make it a little less so. The California Competes Tax Credit is an income tax credit that offsets California state income tax. It began in March of 2014 and is administered by the Governor's Office of Business and Economic Development (GO-Biz).

For each fiscal year through 2017/2018, GO-Biz has allocated up to $200 million to be awarded to California businesses. Twenty-five percent of the amount of the credits available each fiscal year are specifically reserved for small businesses (defined as businesses with gross receipts of less than $2 million).

Application Process

Applications are submitted online and go through a two-phase review process. Phase I is a quantitative analysis in which the applicant's requested tax credit, aggregate employee compensation, and aggregate investment are evaluated to determine a cost-benefit ratio. This cost-benefit ratio is then compared to other applicants in a competitive process. The applicants with the lowest ratios advance to Phase II.

Phase II includes a review of more subjective information related to factors such as growth and economic impact. Some of these factors include:

- Number of jobs to be created
- Compensation paid, including wages, benefits, and fringe benefits
- Amount of investment in the state
- Incentives available to the taxpayer within and outside of California
- Duration of the proposed project
- Unemployment or poverty where the business is located
- Overall economic impact
- Opportunity for future growth

In certain circumstances, companies can move directly to Phase II. For example, if by necessity the company must move to another state in order to continue a project or operations, this qualifies as a direct skip to Phase II. Situations where the company would otherwise relocate or terminate employees in California is grounds to move directly to Phase II.

Following this review process, GO-Biz will then select applicants to begin negotiations regarding the dollar value of the credit and the timeframe during which the credit may be taken. Each company awarded an incentive enters a contractual agreement with the state.

Central Valley Awardees

The California Competes Credits have been awarded to a few growing companies right here in the Central Valley, with award amounts up to $500,000. Below are the local awardees, their industries and the award amounts:

Fresh Select, LLC	Produce Distribution	$500,000
J&D Meat Co., Inc.	Food Processing	$150,000
Lokes, Inc.	Construction	$ 75,000
Graveline Financial, Inc.	Financial Services	$ 20,000
Helios Document Solutions	Office Equipment Supplier	$ 20,000
Bandy & Associates, Inc.	Accounting Services	$ 20,000

Application Information

Applications will be accepted at *www.calcompetes.ca.gov*

Application periods for the fiscal year 2015/2016:

- January 4, 2016 – January 25, 2016
- March 7, 2016 – March 28, 2016

To learn more about the California Competes Tax Credit, please contact, Cathleen Wiens, CPA, at *cwiens@bpfcpa.com*, or call our office at (559) 432-2346.

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CALENDAR

OCT. 15 Due date for 2014 individual tax returns, including extensions.

OCT. 23 18th Annual Jordan College of Agricultural Sciences and Technology Alumni & Friends Wine Tasting, Fresno State Winery. For reservation information, call 559-278-4266.

OCT. 28 Ag Awards Luncheon honoring BPF Ag Business Award & Greater Fresno Chamber of Commerce Agriculturalist of the Year recipients. 11:30 check in, 12:00 to 1:30 event, Double Tree by Hilton. For more information, call the Chamber at 559-495-4800.

NOV. 4 34th Annual Agribusiness Managment Conference. Double Tree by Hilton.

NOV. 5 Ag Lenders Golf Tournament at Sunnyside Country Club.

NOV. 19 Ag One Trap Shoot. Kingsburg Gun Club. For more information, call 559-278-4266.

NOV. 26-27 Thanksgiving (observed). BPF office closed.

DEC. 25 Christmas. BPF office closed.

JAN. 1 New Year's. BPF office closed.

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