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AGRIVIEWS

BAKER PETERSON FRANKLIN

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TAX PLANNING STRATEGIES

by Shad Winters, CPA

There has been a great deal of discussion concerning tax reform these days, and many people are putting tax planning on hold until they see what Congress is actually going to do. Since that could take time and we don't know if changes will occur, it makes more sense to plan now and adjust later if the world changes. Focus on what you know and what you can control, and don't worry about any changes until they actually occur. While we are in a state of uncertainty over tax reform, we will look back at the passing of the Protecting Americans from Tax Hikes Act or the PATH Act in December of 2015. The PATH Act made permanent or extended a number of provisions, business deductions and credits through 2017.

Code Section 179 provides for an election to expense eligible tangible property, which is new or used, placed into service during the year. This includes machinery, equipment, limited computer software and some non-building land improvements. The PATH Act has made the Section 179 election permanent at a $500,000 dollar limitation and $2 million investment ceiling which are indexed for inflation. The dollar limit is reduced, dollar for dollar, for the excess Section 179 property placed into service in the year exceeding $2 million.

The bonus first-year depreciation deduction was extended by the PATH Act at 50% deduction for 2017; 40% for 2018; and 30% for 2019. Bonus depreciation is available for qualified property placed in service during the year. Qualified property is new tangible property with a life of 20 years or less. This includes machinery, equipment, other tangible personal property, non-building land improvements, most computer software, and certain leasehold building improvements.

The research and development credit was made permanent by the PATH Act. There is a 20% credit for increasing research expenditures. Starting

in 2016, small businesses (gross receipts less than $5 million) can use up to $250,000 of the credit as an offset to the employer's portion of payroll taxes, instead of as an offset to income tax liability.

Several employment-related credits have been extended by the PATH Act. The Work Opportunity Tax Credit (WOTC) was extended through 2019. This federal tax credit is available for hiring the long-term unemployed and other targeted groups.

Solar energy credits were extended until the year 2021. For individuals, there is a credit for qualified property up to 30% of the cost, up to set dollar limits. For businesses, there is also a 30% investment credit for the cost of solar energy property. The federal depreciable basis of the property is reduced by 50% of the credit amount.

Food inventory donations were permanently enhanced by the PATH Act. Traditionally, the lesser of basis plus half of the item's appreciation or two times basis could be deducted. The PATH Act expanded the deduction to those on the cash-method not required to account for inventories (e.g. farmers). For cash-method, zero-basis inventory items, the charitable deduction is 50% of the fair market value. Beginning in 2017, the limit on deductible contributions of inventory is 15% of the business' AGI per year.

Defer Income & Accelerate Deductions

Feed your retirement account—money you contribute to your 401(k) or similar employer-based retirement plans (not a Roth account) is excluded from your income which lowers your taxable income. Company-sponsored plans are beneficial because employers often match contributions. Try to increase your 401(k) contribution to the maximum amount allowed, $18,000 for 2017 or $24,000 if you are over 50.

If your employer does not offer a 401(k) plan, consider contributing to an IRA. You have until April 15, 2018 to make IRA contributions for 2017. Making deductible contributions reduces your taxable income for the year. You can contribute a maximum of $5,500 or $6,500 if you are over 50 years of age.

If you are self-employed, qualified retirement plans are a good choice. These plans must be established by December 31st but contributions can be made until the tax filing deadline, including extensions for your 2017 return. The amount you can contribute depends on the type of qualified plan you choose.

Minimum distributions from your traditional IRA are required by April 1st following the year in which you reach age 70 ½ and annual withdrawals each year following. Failing to withdraw enough money triggers a 50% excise tax penalty on the amount you should have withdrawn.

The IRS has made permanent a tax break for individuals over age 70 ½ which allows tax-free distributions of up to $100,000 from their IRAs directly to charitable organizations. The charitable transfer allows you to give the money to charity and count it as a required minimum distribution, but avoid taxes on the withdrawal.

Spend down your flex plan—flexible spending plans are fringe benefits that allow employees to steer part of their pay into a special account which can be used for child care or medical expenses. Money that goes into a flex account avoids both income and Social Security taxes. The catch is you must decide at the beginning of the year how much to contribute to the plan and, if you do not use it all by the end of the year, you forfeit the excess.

Most employers have adopted the IRS permitted grace period which allows a carryover of up to $500 in the flex accounts from one year to the next. This allows employees to spend 2017 flex dollars as late as March 15, 2018. However, if you expect to end the year with more than $500, it's time to spend your flex dollars on qualified expenses. Make a last minute appointment with the dentist or optometrist to use up the excess funds in your account. Remember, if you don't use it, you lose it.

Manage Gains and Losses

Consider selling investments, such as stocks and mutual funds, to realize capital losses. You can then use those losses to offset any taxable gains you have realized during the year. Losses offset gains dollar for dollar. If it turns out that your capital losses are more than your capital gains, you can use up to $3,000 of excess loss to reduce other income if you file a joint return ($1,500 if married filing separately). More than $3,000 of excess losses will be carried over to future years.

Bunch Itemized Deductions

If you're on the itemize versus standard deduction borderline, your year-end strategy should focus on bunching. This is the practice of timing itemized expenses to produce lean and fat years. In one year, you cram in as many deductible expenses as possible. The goal is to surpass the standard deduction amount and claim a larger write-off every other year. Ways to achieve this are to accelerate your expenses such as charitable contributions, your state tax bill due January 15th or a property tax bill due early next year, by paying before the end of the year. Be careful because speeding up the state tax deduction could subject you to alternative minimum tax.

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

TAX REFORM: THE UNIFIED FRAMEWORK FOR FIXING OUR BROKEN TAX CODE

by Cathleen Wiens, CPA

The latest proposal for tax reform, entitled *Tax Cuts and Jobs Act (H.R. 1),* was released November 2, 2017 (https://waysandmeansforms.house.gov/uploadedfiles/bill_text.pdf).

President Trump has expressed the four basic principles of tax reform as: 1) making the tax code simple, fair and easier to understand, 2) give American workers more money in their pockets by allowing them to keep more of their paychecks, 3) level the playing field for American businesses and workers in order to make America a job magnet of the world, and 4) bring back the trillions of dollars kept offshore to reinvest in the American economy.

What is actually proposed that will accomplish these goals? Here is a recap of the highlights from the *Tax Cuts and Jobs Act*:

- Consolidate to four tax brackets for individuals of 12%, 25%, 35% and 39.6%
- Double the standard deduction and enhance child tax credits
- Eliminate many itemized deductions, while protecting retirement deductions
- Repeal both the estate tax and the Alternative Minimum Tax
- Create a new lower maximum tax rate for small and family-owned businesses at 25%
- Reduce the corporate tax rate to 20%
- Allow businesses to immediately expense the cost of new capital investments
- Impose a one-time, low tax rate on wealth accumulated overseas to remove incentive to keep money offshore

By now most of these are familiar concepts, changing only slightly from prior proposals. The overall broad effect of the tax reform is intended to provide tax relief for middle-class families and small businesses; simplify tax filings; end incentives which encourage sending jobs, capital and tax revenue overseas; broaden the tax base; and close special interest tax loopholes to provide greater fairness for all Americans.

Where are we in the process? The House began markups the week of November 6 and plans to vote the week of November 13, 2017.

PROPOSED REGULATIONS: NEW PARTNERSHIP AUDIT RULES

by Thomas Goodpaster, CPA

In June of this year, the IRS re-released proposed regulations regarding changes to partnership audit rules initially established by the Bipartisan Budget Act of 2015 (BBA). At its core, IRS REG-136118-15 is designed to make it easier for the IRS to audit partnerships, assess, and collect any taxes based on IRS audit adjustments.

Under these new proposed rules, any tax on adjustments that result in an increase of partnership income is assessed on and collected from the partnership itself. In addition, these rules require the partnership to designate only one representative to serve as the sole point of contact with the IRS. Furthermore, partners in these partnerships will have no statutory right to participate in tax audits or litigation, no right to opt out, and no partner-level defenses. If this regulation passes, it will basically change a pass-through entity into a tax paying entity with regards to audit adjustments from the IRS.

Adjustments are reflected in the year the audit is completed and not the year that is under review. This means the result of an audit adjustment will be the responsibility of the partners in the year of adjustment. If partners have changed, the individuals that end up being affected may not be the same individuals that received the benefit.

These new rules do allow for the partnership to make a "push-out" election, which allows for the partnership to pass any adjustments through to its partners. The "push-out" election requires that extremely detailed and specific statements be furnished to the IRS for each individual partner. Also, the partnership must calculate a "safe-harbor" amount of any IRS adjustment for each partner. Any partner in the partnership may then choose to pay that safe-harbor amount instead of any additional tax that would otherwise be calculated on the adjustment by the partner.

It is important to note that the IRS is still in the process of determining the effect of these new rules on tiered partnership structures. It is also important to note that IRS will allow an election out of these new rules altogether for certain partnerships that issue 100 or fewer schedules K-1, provided that each partner of the partnership is an individual, a C corporation, an S corporation, or the estate of a deceased partner. Ineligible partners include partnerships, trusts, disregarded entities, and nominees that are not eligible partners.

If accepted, the new partnership audit rules will be effective for tax years beginning after December 31, 2017. As of October 12, REG-136118-15 is still in the proposed state, and there is no further indication on the timeline or its possible acceptance.

2017 BAKER PETERSON FRANKLIN AG BUSINESS AWARD: BEE SWEET CITRUS OF FOWLER

Baker Peterson Franklin, Certified Public Accountants, is pleased to announce the recipient of the 2017 Baker Peterson Franklin Ag Business Award is Bee Sweet Citrus of Fowler.

Bee Sweet Citrus 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 local agribusiness industry and the BPF Ag Department. Bee Sweet Citrus has a distinguished record of positive leadership, entrepreneurship, and service to the agriculture industry and our community making them the 2017 Baker Peterson Franklin Ag Business Award recipient.

Founded in 1987 in a wood shed by President Jim Marderosian, Bee Sweet Citrus has grown to a 400,000 square foot state-of-the-art facility on 36 acres. They grow 20 citrus varieties on 10,000 acres, and annually pack 10 million cartons of conventional, organic and specialty citrus. On average, 125 truckloads ship daily to points in the U.S., Australia, New Zealand and several Pacific Rim countries. Vertical integration is the key to exceptional product quality with control at every step of the process. Bee Sweet Citrus is environmentally sustainable with a high-tech solar panel system, water conservation and recycling, electric forklifts, and recyclable packaging.

Bee Sweet Citrus is an active leader in the industry and a partner in the community. The organization serves on numerous industry boards and supports a variety of organizations. Some recent giving includes: $1 million to Valley Children's Healthcare new pediatric care center in Fowler; $600,000 custom built citrus processing line to Fresno State; $1.5 million to Cal Poly San Luis Obispo's new plant pathology lab and serves on Dean's Advisory Council; $100,000 gift to Breast Cancer Research Foundation (each mandarin pack has the BCRF logo); FARMS Leadership Program; and Fowler Fall Festival Fun Run/Walk. Bee Sweet Citrus leadership actively serves on California Citrus Mutual, Citrus Science Council, Central California Orange Growers, and California/Arizona Lemon (including Mandarin) Growers Association.

The past 21 BPF Ag Business Award recipients are: Booth Ranches of Orange Cove, Hall Management of Kerman, 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.

Bee Sweet Citrus was honored at the Ag Awards Luncheon on Wednesday, November 1 at Clovis Veterans Memorial District. The Baker Peterson Franklin Ag Business Award and the Fresno Chamber Agriculturalist of the Year, Don Cameron of Terranova Ranch, were presented.

NEW REVENUE RECOGNITION ACCOUNTING STANDARD AND WHAT IT MEANS FOR YOUR COMPANY

by Chad Smith, CPA

There's been an overwhelming buzz in the accounting world regarding two significant, and almost daunting, new accounting standards proposed for implementation in the next couple of years. These standards are the new revenue recognition standard and the new lease accounting standard.

In this issue we will cover the revenue recognition standard and in our next issue we will cover the lease accounting standard.

The beginning talks of the new revenue recognition standard date back over 15 years to early 2000's. The new standard is formally known as Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606), and was issued on May 28, 2014. The standard is effective and required for implementation for calendar year-end private companies starting in 2019.

In an effort to converge international accounting standards and U.S. accounting standards related to revenue recognition, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) worked together to come up with one all-encompassing revenue recognition standard which improved upon previous standards issued under U.S. Generally Accepted Accounting (U.S. GAAP) Principles and International Financial Reporting Standards (IFRS). The previous revenue recognition standards under U.S. GAAP and IFRS were more complex and offered little comparability of revenue recognition practices across multiple industries. The new standard seeks to limit the complex nature of the previous standard, while still keeping it robust. The new standard also seeks to improve disclosure requirements which will provide more useful information to the users of the financial statements. Disclosures will now include information related to the company's contracts with customers, including the nature, amount, timing, and uncertainty of revenue and cash flows.

The FASB outlines five new steps for the revenue recognition process:

1. **Determine Whether a Valid Contract Exists with the Customer**

   A contract should be able to demonstrate that the agreement between the parties satisfies the following:

   a. Approval and commitment of the involved parties, whether verbally or in writing;

   b. Identifiability of rights and responsibilities of the involved parties;

   c. Establishment of payment terms;

   d. The contract has commercial substance; and

   e. It is probable that the entity will collect the consideration it is entitled to.

2. **Identify the Performance Obligations (i.e. Deliverables)**

   Performance obligations are considered promises in the contract to transfer goods or services to the customer. In a contract, there may be multiple promises or deliverables, therefore multiple performance obligations may exist. In order for a deliverable to be considered a performance obligation, is has to be distinct. Distinction exists when the customer benefits from the good or service either on its own, or in conjunction with resources that are readily available to the customer. Additionally, the promise must be separately identifiable from other performance obligations in the contract in order for it to be considered distinct.

3. **Determine the Transaction Price**

   The transaction price is the amount of consideration, or payment, you expect to receive. When determining the transaction price, the new standard gives several considerations:

   a. Variable consideration: The entity must estimate the most likely amount it will receive as consideration, taking into account various variable factors.

   b. Constraining estimates of variable consideration: Any events that will likely reverse some or all revenue should be considered. Examples of these events could be volatility in the market or a limited experience with similar types of contracts. (examples taken from www.revenuerecogntion.com).

   c. Significant financing component: The impact of the time value of money should be considered and accounted for in the estimate of the transaction price.

   d. Noncash consideration: If consideration in a form other than cash is being received, the fair value should be used.

e. Consideration payable to the customer: If any consideration is paid to the customer which the customer can apply against amounts owed the company, revenue must be reduced by the amount paid to the customer.

4. **Allocate the Transaction Price to Performance Obligations in the Contract**

   If the contract includes multiple performance obligations, the transaction price should be allocated to each specific performance obligation based on the amount of consideration the company expects to be entitled to in exchange for satisfying each performance obligation. In order to allocate the appropriate amount to each performance obligation, the company must determine the standalone selling price of each performance obligation at the contract's inception.

5. **Recognize Revenue When (or As) the Entity Satisfies a Performance Obligation**

   Revenue is recognized when the transfer of goods or services is complete. A good or service is considered transferred when control changes hands. The entity must also consider if a performance obligation is satisfied over time or at a point time, and revenue should be recognized in accordance with the satisfaction of the performance obligation.

In the agricultural industry, sales agreements and contracts with customers are second nature, so we encourage Ag companies (and all companies for that matter) to start taking a closer look at the new revenue recognition standard, and its impact on your company. We know this new standard is not taken lightly, so BPF will be there along the way to help your company with implementation. Starting in mid-2018, we will be reaching out to our clients to help them implement this new standard and answer questions they may have. We exist as a resource for our clients and want to make this process as painless as possible for them.

All information contained herein related to the new FASB accounting standards has been taken from www.fasb.org.

CALENDAR

NOV. 23-24 — Thanksgiving (observed). BPF office closed.

NOV. 30 — Ag One Trap Shoot, Kingsburg Gun Club. Information: 559-278-4266 or shemsath@csufresno.edu.

DEC. 05-07 — Almond Board Conference, Sacramento.

DEC. 25 — Christmas Day. BPF office closed.

JAN. 01 — New Year's Day. BPF office closed.

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