



AGRI VIEWS

BAKER PETERSON FRANKLIN



CONTENTS

- 1 *The Tax Cuts and Job Act: New Deduction for Noncorporate Taxpayers for Qualified Business Income*
- 2 *2018 Deduction for Net Business Interest*
- 3 *Tax Reform, the Uniform Capitalization Rules and Farmers*
- 4 *New Cash Basis Limitations for C Corporations*
- 4 *Tax Reform Depreciation Changes*
- 4-7 *BPF Golf Tournament and Forms*
- 8 *Calendar*

THE TAX CUTS AND JOBS ACT

THE TAX CUTS AND JOB ACT: NEW DEDUCTION FOR NONCORPORATE TAXPAYERS FOR QUALIFIED BUSINESS INCOME

by Michael Holtermann, CPA

The Tax Cuts and Jobs Act adds a new deduction for noncorporate taxpayers for qualified business income (also referred to as the “pass-through deduction”). The deduction is generally 20% of a taxpayer’s qualified business income from a partnership, S Corporation or sole proprietorship, defined as the net amount of items of income, gain, deduction, and loss with respect to the trade or business. Certain types of investment-related items are excluded from qualified business income, e.g., capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business). Guaranteed payments to a partner and wages paid to a shareholder are also excluded. Taxpayers whose taxable income exceeds the threshold amount of \$157,500 (\$315,000 in the case of a joint return) are also subject to limitations based on W-2 wages paid by the business and the business’ unadjusted basis in acquired qualified property.

The deduction is taken for partnerships and S Corporations at the partner or shareholder level. Trusts and estates are eligible for the deduction. W-2 wages and the adjusted basis in acquired qualified property are apportioned between the trust or estate and the beneficiaries. Specified agricultural or horticultural cooperatives are also eligible for the deduction under special rules.

Under the current 199A Qualified Business Income code, there is a 20% deduction on qualified cooperative dividends received from a cooperative. Any patronage dividend, any per-unit retain allocation, and any written notice of allocation, or any similar amount received from an organization which is governed by the rules applicable to cooperatives, are defined by the code to be qualified cooperative dividends. The 20% deduction on cooperative dividends is on the gross revenue received from the cooperative, where the other provisions of this code start the 20% deduction calculation based

on the net income of the qualified trade or business. The deduction is limited to the overall taxable income of the taxpayer. This provision within the code is being discussed and could be revised.

A qualified trade or business is any trade or business, other than a specified service trade or business, or the business of performing services as an employee. In such a case, an activity qualifies as a trade or business if the taxpayer's primary purpose for engaging in the activity is for income or profit, and the taxpayer is involved in the activity with continuity and regularity. Thus, a sporadic activity or a hobby doesn't qualify as a trade or business.

There is a threshold exception to exclusion of specified service trade or business. If for any tax year, the taxable income of any taxpayer is less than \$157,500 (\$315,000 in the case of a joint return), the exclusion for specified service trades or businesses does not apply, and the deduction is available to the taxpayer for that year. No deduction is allowed to a specified service trade or business where 2018 taxable income is \$207,500 (\$415,000 in the case of a joint return) and greater.

There is a potential 20% deduction for qualified business income depending on meeting certain thresholds. To determine if you qualify for this deduction and the amount:

First, identify if your taxable income is under the first threshold:

- Married Filing Joint - \$315,000 - \$415,000
- Single/ Head of Household - \$157,500 - \$207,500

If your taxable income is under the above threshold, there is no limitation. If you make \$200,000 from your qualified business, you will reduce your taxable income by \$40,000 (20% of your qualified business income). However, if your taxable income is over the above threshold then there are potential limitations.

Second, identify if your qualified business income is from a Non-Service or Service trade or business:

- Service Business - any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees.

If your qualified business income is from a service business and your taxable income is over the threshold, then you do not qualify for the 20% deduction on this income.

- If your qualified business income is from a non-service business and your taxable income is over the threshold, then the 20% deduction is limited to the amount of W-2 wages you pay and/or qualified assets you own. The total 20% deduction cannot exceed either 50% of your share of the wages the business pays or 25% of your share of the wages plus 2.5% of your share of the qualified assets.

The new deduction for noncorporate taxpayers can have a significant impact on the overall taxable income an individual or couple pay taxes on. Please consult your trusted business & tax advisor to see how this might impact your specific situation.

2018 DEDUCTION FOR NET BUSINESS INTEREST

by Shad Winters, CPA

Effective 2018, there will be a limitation on the deduction of business interest. Under this limitation, the deduction allowed for business interest for any tax year cannot exceed the sum of:

- the taxpayer's "business interest income" for the tax year;
- 30% of the taxpayer's adjusted taxable income for the tax year; plus
- the taxpayer's floor plan financing interest for the tax year.

Note: 30% of the taxpayer's adjusted taxable income for the year cannot be less than zero. Floor plan financing interest is fully deductible under the new law. "Floor plan financing interest" means interest paid or accrued on floor plan financing indebtedness. "Floor plan financing indebtedness" means indebtedness (i) used to finance the acquisition of motor vehicles held for sale or lease, and (ii) secured by the inventory so acquired.

"Business interest" is considered any interest paid or accrued on indebtedness properly allocable to a trade or business. Further, any amount treated as "interest" under the Internal Revenue Code is interest for purposes of the business interest limitation. "Business interest" does not include investment interest.

"Business interest income" means the amount of interest income that can be included in the taxpayer's gross income for the tax year that is properly allocable to a trade or business. The term does not include investment interest.

Because the business interest limitation ties the amount of deductible business interest to the taxpayer's adjusted taxable income, it can hurt a business that has had an unprofitable year. The reduction in the taxpayer's adjusted taxable income in the off-year will reduce the amount of interest that the taxpayer can deduct in that year. This effect is partly, but not fully, mitigated by the carryforward of disallowed interest. More specifically, any business interest that is not deductible because of the business interest limitation is treated as business interest paid or accrued in the following tax year, and may be carried forward indefinitely (subject to the restrictions applicable to partnerships). "Carryforward of disallowed interest" does not apply to partnerships, and business interest that is not deductible because of the business interest limitation is instead treated as excess business interest that is allocated to each partner in the same manner as the partnership's non-separately stated taxable income or loss.

The business interest limitation applies at the taxpayer level (i.e. at the corporate level for C Corporations, and at the partner/shareholder level for partnerships and S Corporations, respectively). For an affiliated group of corporations that file a consolidated return, it applies at the consolidated tax return filing level.

EXAMPLE

For 2018, Corporation X has the following items:

- \$100,000 of adjusted taxable income;
- \$2,000 of business interest income;
- \$12,000 of business interest expense; and
- No floor plan financing interest.

X can deduct all \$12,000 of its business interest expense, because that amount is less than its \$2,000 of business interest income plus 30% of its adjusted taxable income ($30\% \times \$100,000 = \$30,000$).

VARIATION

For 2019, the same Corporation X has the following items:

- (\$20,000) of adjusted taxable income;
- \$2,000 of business interest income;
- \$12,000 of business interest expense; and
- No floor plan financing interest.

Since X's adjusted taxable income is negative, it is deemed to be zero for purposes of the business interest limitation. Thus, X can only deduct \$2,000 of its business interest,

but can carry forward the \$10,000 of disallowed interest indefinitely.

SMALL BUSINESS EXCEPTION

The business interest limitation will not apply to a taxpayer for any taxable year if the taxpayer's average annual gross receipts for the three preceding tax years does not exceed \$25 million dollars.

For a taxpayer that is not a corporation or a partnership (i.e., a sole proprietorship), the gross receipts test is applied as if the taxpayer were a corporation or partnership.

The small business exception does not apply to tax shelters that are prohibited from using the cash method of accounting.

OTHER EXCEPTIONS

For purposes of the business interest limitation, the term "trade or business" does not include the trade or business of performing services as an employee, any electing real property trade or business, any electing farming business, and certain trades or businesses of regulated utilities.

TAX REFORM, THE UNIFORM CAPITALIZATION RULES AND FARMERS

by Cathleen Wiens, CPA

The Tax Cuts and Jobs Act has made broad revisions to the tax code and will affect many of the tax treatments for not only income and expenses, but also the items to be capitalized. For those not familiar with the Uniform Capitalization (UNICAP) rules, they provide that direct and certain indirect costs allocable to property used in production by a taxpayer must be capitalized into the basis of the property. For farmers this means for newly planted trees and vines (permanent crops), the cost of the trees, planting costs and the cultural costs required to grow those trees must be capitalized until they produce a marketable crop. Depending on the type of crop, the capitalization period can range from three years to seven years. You can elect to claim a 50% depreciation allowance for the adjusted basis of certain specific trees placed in service before January 1, 2018.

What are the exceptions to the UNICAP rules? (1) If the pre-productive period for the plant, tree or vine is 2 years or less, then capitalization is not required. (2) Under the small business exception, taxpayers with average annual gross receipts of \$10 million or less over the immediately preceding three years are also exempted from capitalization.

The small business exception for gross receipts has been expanded by The Tax Cuts and Jobs Act. Under the new provisions, the gross receipts test amount of \$10 million has

been increased to \$25 million. In other words, any farmer that meets the \$25 million gross receipts test is exempt from the capitalization rules. Taxpayers required to use the accrual basis are still bound by UNICAP rules.

This results in more farmers qualifying for the small business exception to UNICAP. While this relieves the taxpayer from capitalizing the cultural costs during the preproductive period, it does not however exempt a farmer from the requirement of capitalizing the cost of the newly planted trees or vines, along with the planting costs.

NEW CASH BASIS LIMITATIONS FOR C CORPORATIONS

by Thomas Goodpaster, CPA

One item included in the 2017 tax reform is the expansion of the limitations and requirements for C Corporations utilizing the cash basis method of accounting for tax return purposes. Previously, a C Corporation was not allowed to use the cash basis method of accounting for tax return purposes if the average annual gross receipts of the corporation for the three-tax-year period ending with the tax year before the cash-method year exceeded \$5,000,000. Under the new Tax Cuts and Jobs Act, this \$5,000,000 threshold has been increased to \$25,000,000, essentially broadening the scope of taxpayers who are now allowed to use the cash basis method of accounting. Another provision of the Tax Cuts and Jobs Act is this \$25,000,000 will now be adjusted annually for inflation, whereas the previous \$5,000,000 threshold was not.

TAX REFORM DEPRECIATION CHANGES

by David Rodriguez, Senior Accountant

One of the significant changes of the Tax Cuts and Jobs Act of 2017 is how businesses can depreciate assets. While everyday depreciation stays relatively the same, there have been major changes to bonus depreciation and Section 179.

Bonus depreciation is a 100% deduction for new and used qualifying assets acquired and placed in service after September 27, 2017, with a deduction phase out beginning in the year 2024. For assets placed in service before September 27, 2017, the taxpayer is allowed 50% bonus depreciation on qualified new assets only -- meaning if the asset was used, it did not qualify for bonus depreciation. Qualifying assets now include used equipment, furniture and fixtures, farm buildings and solar systems just to name a few. One significant difference between bonus and Section 179

is bonus depreciation is not limited by business income. This means bonus depreciation can take the taxpayer into a loss.

Section 179 is a 100% election that can be made on qualified 179 assets. In 2017 this deduction is limited to \$510,000 and begins to phase out for asset purchases over \$2,030,000. Beginning January 1, 2018, the deduction will increase to \$1,000,000 and the phase out jumps to \$2,500,000. Therefore equipment, full-size pick-up trucks, wells and qualified leasehold improvements, just to name a few, can be deducted up \$1,000,000. Another benefit is "qualified real property," including improvements to nonresidential properties such as HVAC and roofs, now qualify for Section 179.

The use of Section 179 and bonus depreciation are an excellent tax saving tools for business owners. If you have any questions or concerns regarding depreciation, please call our office and we will apply these changes to best suit your needs.

BPF GOLF TOURNAMENT MAY 21, 2018

Baker Peterson Franklin's 7th Annual Golf Tournament will be held Monday, May 21, 2018 at Fort Washington Country Club in Fresno. The BPF Golf Tournament will feature a premier golf experience - a day with our BPF staff, lunch, dinner, and prizes. The tournament is also a networking event with other business owners and professionals, as well as an opportunity to give back to the community where we live and work.

Thanks to our generous golf tournament sponsors, last year BPF committed a \$50,000 match for Community Food Bank's first summer match program. It was a huge success and \$143,978 was raised! In the six years of the BPF Golf Tournament, a total of \$374,000 has been raised for the Community Food Bank. Due to last year's successful matching campaign, \$50,000 will be committed to this summer's match program with Community Food Bank. We thank you in advance for your generosity in creating a hunger-free Central Valley.

The deadline for sponsorships is April 6th. The deadline for tournament player registration is April 27th; space is limited so please register early. Sponsorship and player registration forms are included in this newsletter. Prizes or donations are also appreciated.

If you have questions, please contact Janell Attebery (janelattebery@bpfcpa.com) or Michael Holtermann (mholtermann@bpfcpa.com), or call our office at (559) 432-2346.



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Annual
**Baker Peterson Franklin
Golf Tournament**

May 21, 2018

Fort Washington Golf & Country Club
Proceeds Benefit the Community Food Bank



A member of
**FEEDING
AMERICA**

Sponsorship/Donation Opportunities

Tournament Sponsor - \$5,000

- Two foursomes
- Table set up at tournament
- Name prominently displayed at event
- Name prominently displayed on all printed materials & eblasts

Hole Sponsor - \$2,600

- One foursome
- Table set up at hole
- Name prominently displayed on all printed materials & eblasts

Dinner Sponsor - \$2,000

- One twosome
- Name prominently displayed at dinner
- Name displayed on all printed materials & eblasts

Refreshment & Prize Sponsor - \$1,000

- Name displayed at refreshment or prize location
- Name displayed on all printed materials & eblasts
- (Player spots not included)*

Tee Sponsor - \$250

- Tee sign with name

Donation Opportunities

Raffle Prizes • Cash Donations • Food Donations*

- * There is a California tax credit and a federal tax deduction available for farmers who donate fresh produce to a California food bank.

If you have questions, please contact Janell Attebery or Michael Holtermann at (559) 432-2346,
or janellattebery@bpfcpa.com or mholtermann@bpfcpa.com.



Annual
**Baker Peterson Franklin
Golf Tournament**
May 21, 2018



Fort Washington Golf & Country Club
Proceeds Benefit the Community Food Bank

Sponsorship/Donation Reservation Form

Thank you for your contribution.

Level of sponsorship/donation:

Sponsorship:

- Tournament – \$5,000
- Hole – \$2,600
- Yes No - If tournament or hole sponsor, indicate if table will be set up at the tournament
- Dinner – \$ 2,000
- Refreshment & Prize – \$1,000
- Tee – \$250

Donation:

- Raffle prize
- Cash donation
- Food donation*

If donation, please describe item (include dollar value): _____

* There is a California tax credit and a federal tax deduction available for farmers who donate fresh produce to a California food bank.

Name as you wish it to appear: _____

Company name: _____ Contact name: _____

Phone #: _____ Email: _____

Sponsorship payment due by Friday, April 6, 2018.

- Check enclosed (payable to: Baker Peterson Franklin)
- Pay with credit card (Visa, Mastercard, American Express)

Account number: _____

Cardholder name: _____

Expiration date: _____ 3-digit security code: _____

Billing address: _____

Signature: _____

Return form and payment to:

Baker Peterson Franklin
Golf Tournament
970 W Alluvial, Fresno, CA 93711
Fax: (559) 432-5831
janellattebery@bpfcpa.com



**Annual
Baker Peterson Franklin
Golf Tournament
May 21, 2018**



Fort Washington Golf & Country Club
Proceeds Benefit the Community Food Bank

Check-in & box lunch 10:00 am
 Shotgun start 11:00 am
 Buffet dinner & awards 5:00 pm (approx.)
 Register early – space limited to maximum 128 players

Soft spike golf course. No denim, tank tops, tee shirts. Fee includes lunch, green fee, cart, refreshments, dinner, & gift items. Bring cash for Mulligans and Community Food Bank raffle.

Player Registration Form

Player Fee \$175. Register as a foursome, threesome, twosome or single.

Mark if sponsor (player spots included): Tournament Hole Dinner

Name _____ Handicap _____ Phone _____

Email _____ Dinner: Self Guest \$35

Name _____ Handicap _____ Phone _____

Email _____ Dinner: Self Guest \$35

Name _____ Handicap _____ Phone _____

Email _____ Dinner: Self Guest \$35

Name _____ Handicap _____ Phone _____

Email _____ Dinner: Self Guest \$35

Contact name: _____ Firm name: _____

Mailing address: _____ City, Zip: _____

Deadline for registration & fees (\$175 per player): Friday, April 27, 2018

Check enclosed (payable to Baker Peterson Franklin) Pay with credit card (Visa, Mastercard, American Express)

Account number: _____

Cardholder name: _____

Expiration date: _____ 3-digit security code: _____

Billing address: _____

Signature: _____

Return form and payment to: Baker Peterson Franklin
 Golf Tournament
 970 W Alluvial
 Fresno, CA 93711

Information: Janell Attebery or Michael Holtermann
 (559) 432-2346
 janellattebery@bpfcpa.com
 mholtermann@bpfcpa.com

CALENDAR

MAR.
15 Deadline to file income tax returns for calendar year Partnerships and S corporations.

MAR.
20 National Ag Day, www.agday.org.

MAR.
21 Common Threads luncheon at Clovis Veteran's Memorial Hall. Contact Sadie Hemsath at Ag One Foundation for tickets or sponsorships, 559-278-4266.

APR.
06 Deadline for sponsorship opportunities for BPF Golf Tournament.

APR.
17 Deadline to file Individual and C Corporation income tax returns (April 16th holiday in District of Columbia this year).

APR.
18 Tax holiday, BPF office closed.

APR.
27 Deadline for player registration for BPF Golf Tournament.

MAY
14 47th Annual Turf Day Golf Classic at Belmont Country Club. Contact Sadie Hemsath at Ag One Foundation, 559-278-4266.

MAY
21 7th Annual BPF Golf Tournament at Fort Washington Golf & Country Club. Contact Janell Attebery or Michael Holtermann, 559-432-2346.

MAY
28 Memorial Day, BPF office closed.

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