NOVEMBER 2018

AgriViews

BAKER PETERSON FRANKLIN

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TAX CUTS AND JOBS ACT

by Thomas Goodpaster, CPA

There has been a great deal of discussion regarding tax reform this past year with the passing of the Tax Cuts and Jobs Act (TCJA). This legislation is the most dramatic tax reform in over 30 years, and it leaves many people wondering how it will affect them. While there is still some uncertainty as to how the majority of this tax reform will be implemented in real-world scenarios, it is important to lay out the facts of what we do know. We expect more guidance to come from the IRS in the coming months, but it is extremely important to try to get ahead of this tax reform and attempt to put ourselves in a position to maximize any benefits that may come as a result.

Depreciation is always a hot-button issue when it comes to tax reform and tax planning. The Tax Cuts and Jobs Act makes significant changes to two

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BAKER PETERSON FRANKLIN JOINING MOSS ADAMS

Baker Peterson Franklin is joining Moss Adams, one of the largest accounting, consulting and wealth management firms in the nation effective January 1, 2019. The combined firms will grow Moss Adams' Fresno office to 71 employees.

"We are proud to combine with such a well-respected accounting firm," said Chris Morse, partner in charge of the Moss Adams Fresno office. "Baker Peterson Franklin is deeply rooted in the agriculture space, perfectly complementing and expanding our existing practice and industry specific service offerings. The addition of their talented staff grows Moss Adams into the largest accounting and consulting firm in Central California."

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Baker Peterson Franklin - continued

Founded in 1917 in Fresno, Baker Peterson Franklin has grown into one of the largest locally owned accounting firms in California's Central Valley. The firm offers specialized expertise in agriculture, food and beverage processing, auto dealerships, closely held and family businesses, tax and estate planning, business consulting and auditing.

"Combining with Moss Adams allows us to significantly broaden our service offerings," said Kyle Stephenson, managing partner at Baker Peterson Franklin. "We will now have a greater range of capabilities and resources to bring to our clients while continuing to offer the personalized service that our clients have come to expect from us."

Moss Adams has more than 2,900 professionals in 25-plus locations in the West.

Tax Cuts and Jobs Act - continued

aspects of depreciation in particular: Section 179 expensing and special first-year bonus depreciation on qualified assets.

- Beginning January 1, 2018, the Section 179 expensing deduction is increased from $510,000 to $1,000,000, and the phase out for total qualified asset purchases increases from $2,030,000 to $2,500,000. Another benefit of the TCJA is that "qualified real property" now qualifies for Section 179 expensing. "Qualified real property" includes improvements to nonresidential properties such as HVAC and roof replacements.

- Beginning September 27, 2017, 100% bonus depreciation is allowed for both new and used asset purchases. Prior law only allowed for 50% bonus depreciation, and it could only be utilized on new asset purchases.

These changes to depreciation present a major opportunity to maximize deductions up front when it comes to purchasing new and used equipment, furniture and fixtures, certain vehicles, and others. It might be beneficial to purchase needed pieces of machinery and equipment prior to year-end in order to manage and lower income and taxes. Keep in mind, Section 179 expensing and bonus depreciation are still disallowed for residential and nonresidential real property.

Perhaps the most talked about change brought about by the TCJA is the new deduction for non-corporate taxpayers for qualified business income, more commonly referred to as the new Section 199A deduction. While there are still a lot of unknowns as to how this will be implemented, we do know and can plan for the following:

- The deduction is generally 20% of a taxpayer's qualified business income from a partnership, S Corporation, or sole proprietorship (including farming activities).

- Qualified business income will usually exclude investment-type income such as interest, dividends, and capital gains, and it will usually exclude expenses such as guaranteed payments to partners and wages paid to shareholders.

- 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.

- For those who exceed the threshold amounts listed above, the 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.

- Owners of service businesses (i.e. doctors, lawyers, accountants, consulting, 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) who exceed the income threshold amounts listed above are not allowed the 20% deduction.

This new law presents a unique opportunity to analyze your business, and to make sure you have the proper pieces in place in order to take advantage of the benefits being offered. It is important to take a look at the wages your business is paying as well as the qualified assets of your business, as these will be the limiting factors in benefiting from the 20% deduction.

Beginning January 1, 2018, the TCJA is implementing a limitation on the deduction for net 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, and the taxpayer's floor plan financing interest for the tax year (something typically dealt with by the dealership industry). Floor plan financing interest, meaning interest related to debt used to finance the acquisition of vehicles held for sale or lease and secured by inventory, is fully deductible under the new law. 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. There is a small business exception to this new regulation. 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. A taxpayer must take into account aggregation rules and constructive ownership when assessing the small business exception.

Beginning January 1, 2018, the TCJA has also made changes to the Uniform Capitalization (UNICAP) rules. UNICAP rules require certain direct and indirect costs allocable to property used in production by a taxpayer to be capitalized into the basis of that property. This is most commonly seen in the manufacturing and maintaining of inventory, as well as the production of permanent crops for farmers. Under the TCJA, the requirement to capitalize such direct and indirect costs into the basis of either your inventory or another type of property 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. In other words, there is now a small business exception for Uniform Capitalization rules.

Other TCJA Provisions

Beginning January 1, 2018, the TCJA has reduced the number of individual income tax brackets from six down to four, with 32% being the highest tax bracket (down from 39.6% in 2017). Also, there is now one flat C Corporation rate of 21%. There are no longer any personal exemptions, and the standard deduction for individuals has increased from $6,350 to $12,000 (from $12,700 to $24,000 in the case of a joint return).

The deduction for state income taxes and property taxes (personal and real) have been limited to $10,000 in total. The mortgage interest deduction will now be limited on mortgages with an average outstanding principal balance of $750,000 or greater. Previously, the limitation only applied to mortgages with an average outstanding principal balance of $1,000,000 or greater. Furthermore, miscellaneous itemized deductions, such as tax preparation fees and unreimbursed employee expenses, are no longer deductible.

Deferring Income & Accelerating 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, $18,500 for 2018 or $24,500 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, 2019 to make IRA contributions for 2018. 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 2018 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.

Managing 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 ($1,500 if married filing separately). Losses in excess of these amounts will be carried over to future years.

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

NEW RULES FOR EXPENSING TREES

by Daniel Dreitzer, CPA

The Tax Cuts and Jobs Act (TCJA) has made modifications to the rules relating to the expensing of trees. One significant change stems from the adjustment of the Uniform Capitalization (UNICAP) rules. These rules require farmers with newly planted trees and vines to capitalize the cost of the trees, the planting costs, and the cultural costs until the trees produce a marketable crop.

Under the TCJA, farmers with average annual gross receipts of $25 million or less over the immediately preceding three years are exempt from the UNICAP rules. Keep in mind, taxpayers required to use the accrual basis are still bound to the UNICAP rules.

The exemption of the UNICAP rules frees the taxpayer from capitalizing the cultural costs during the pre-productive period. This includes citrus and almond trees. Regardless of electing out of UNICAP, the cost of trees & vines and the related planting costs must still be capitalized.

Please be aware that Taxpayers previously subject to UNICAP who desire to take advantage of these new rules will need to file an abbreviated Form 3115 (Application for Change in Accounting Method).

GIFTING LIMITS FOR 2018

by Cathleen Wiens, CPA

The annual gift tax exclusion for the 2018 tax year is $15,000. This is the amount of money you can give as a gift to one person, in any given year, without having to pay any gift tax or file a gift tax return. You can give gifts valued up to the annual gift tax exclusion amount each year without ever touching your lifetime exemption. If you're married and your spouse consents to a joint gift – referred to as a split gift – the annual exclusion amount is effectively doubled to $30,000 per recipient for 2018.

BAKER PETERSON FRANKLIN ANNOUNCES 2018 AG BUSINESS AWARD — AGRIAN, INC. OF CLOVIS

Baker Peterson Franklin, Certified Public Accountants, is pleased to announce the recipient of the 2018 Baker Peterson Franklin Ag Business Award is Agrian, Inc. of Clovis.

Agrian 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. Agrian has a distinguished record of positive leadership, entrepreneurship, and service to the agriculture industry and our community making them the 2018 Baker Peterson Franklin Ag Business Award recipient.

bpf AG BUSINESS AWARD 2018

Agrian is an agriculture software company founded in 2004 with the goal of consistent documentation for growers, agronomists, crop advisors, retailers and food processors. Their free software provides compliance, agronomy, precision farming, sustainability and analytic tools. Agrian is the first ag software company to operate cloud-based software creating a paradigm shift in the industry and significantly increasing documentation efficiencies. Agrian has built the largest crop protection label database in the world with 11,000 manufacturer-reviewed labels. With 130 employees in Clovis, Armenia and Nepal, Agrian's software has documented over 1 billion acres and has over 200,000 users.

AGRIAN®

Agrian is an active leader in the industry and a partner in the community. They regularly support the Central California Food Bank, Marjoree Mason Center, Philip Patino School of Entrepreneurship, The Plant Foundation and City of Clovis community policing. Agrian has an active internship program with Fresno State, and was named a 2018 Child-Friendly Business by First 5 Fresno County. CEO Nishan Majarian was recently named Entrepreneur of the Year by PrecisionAg Institute.

Agriculturalist of the Year – Gary Serrato, GM Fresno Irrigation District (left) and Ag Business Award winner – Agrian CEO Nish Majarian (right).

The past BPF Ag Business Award recipients are: Bee Sweet Citrus of Fowler, 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.

Agrian, Inc. was honored at the Ag Awards Luncheon on Wednesday, November 7 at Fresno Convention Center. The Baker Peterson Franklin Ag Business Award and the Fresno Chamber Agriculturalist of the Year, Gary Serrato of Fresno Irrigation District, were presented.

Agrian Co-Founders L to R: Joshua Frese, Richard Machado, Nish Majarian

CALENDAR

NOV. 22-23 — Thanksgiving (observed) Office closed.

NOV. 29 — Ag One Trap Shoot, Kingsburg Gun Club. For more information call 559-278-4266 or email *shemsath@csufresno.edu*

DEC. 04-06 — Almond Board Conference, Sacramento Convention Center.

DEC. 24-25 — Christmas Office closed.

DEC. 31 — New Year's Eve Office closed.

JAN. 01 — New Year's Day Office closed.

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