



AGRI VIEWS

BAKER PETERSON FRANKLIN



CONTENTS

- 1 *Tax Reform Update*
- 2 *Update on the Meals and Entertainment Deductions*
- 3 *Why We Don't Want Losses*
- 4 *New Financial Statement Lease Accounting Standard and What It Means for Your Company*
- 4 *2018 Call for Ag Awards Nominations and Luncheon*
- 5-6 *2018 Ag Awards Nomination Form*
- 7 *BPF Golf Tournament and \$50,000 Match for Community Food Bank*
- 8 *Calendar*

TAX REFORM UPDATE

by Thomas Goodpaster, CPA

The Tax Cuts and Jobs Act (TCJA) created a new deduction for taxpayers other than C Corporations for qualified business income. As set forth by Internal Revenue Code Section 199A, this deduction would generally be 20% of a taxpayer's qualified business income from a partnership, S Corporation, or sole proprietorship, subject to certain limitations.

As presented by the original Act, Code Section 199A also allowed for a 20% deduction on qualified cooperative dividends received from a cooperative, as defined by the Code. The 20% deduction on cooperative dividends was applied to the gross revenue received from the cooperative, with the only limitation being 100% of a taxpayer's taxable income. Theoretically, a taxpayer could receive a substantially higher deduction by selling their commodities to cooperatives rather than to non-cooperatives. While many saw this as an opportunity to take advantage of the new tax law and perhaps establish a cooperative to benefit from these lower limitations, it became apparent that the whole purpose of the Section 199A deduction was being taken advantage of, and that a fix was needed to level the playing field between cooperatives and non-cooperatives.

On March 23, 2018, President Trump signed the Consolidated Appropriations Act in order to fix this so-called "grain glitch". This legislation was made retroactive to January 1, 2018. Under this new Appropriations Act, the following is now true:

- Things remain unchanged for farmers who sell their commodities solely to non-cooperatives.
- The deduction for 20% of gross sales to cooperatives is eliminated.
- Farmers who sell their commodities **solely** to cooperatives receive the following:
 - o A "DPAD-like" deduction that flows through from the cooperative with only a taxable income limitation; plus,

- o A deduction of 20% of net farm income minus the lesser of 9% of net farm income or 50% of wages paid. The purpose of this reduction is so that the income from selling to a cooperative is not counted twice in determining the amount that is deductible under Section 199A.

In summary, this fix to the “grain glitch” will create the following most common scenarios.

- If a farmer sells all of their commodities to a cooperative and they pay no wages subject to payroll taxes, they will receive a “DPAD-like” deduction (similar to the old Section 199 DPAD) plus a deduction of 20% of their net farm income. This holds true due to the fact that since they pay no wages, they are not required to reduce their 20% deduction. This will most likely be the most beneficial situation that a taxpayer can find themselves in.
- If a farmer sells all of their commodities to a cooperative and they pay a significant amount of wages subject to payroll taxes, they will receive a “DPAD-like” deduction (similar to the old Section 199 DPAD) plus a deduction of 11% of their net farm income. In this example, we are assuming the 50% of wages paid is greater than 9% of net farm income. This would mean that the farmer would have to reduce their 20% deduction by 9% of net farm income, resulting in an effective deduction of 11%. Again, this prevents the taxpayer from counting the income from the cooperative twice when determining the proper deduction on Section 199A.

It is worth noting that the taxable income threshold exception that was introduced in the original Tax Cuts and Jobs Act is still in effect. This would mean that if a taxpayer’s taxable income is below \$157,500 for single taxpayers (or \$315,000 in the case of a joint return), then there are no limitations to the 20% deduction on qualified business income. Additionally, if a farmer does not sell their commodities to cooperatives, then the original rules of the TCJA still apply (a 20% deduction on qualified business income, subject to the limitations laid out in Code Section 199A).

This new Appropriations Act can have a significant impact on all farmers. An analysis must be done to determine the consequences of selling to cooperatives. Each individual taxpayer’s situation can be different and fairly complex. Please consult your tax advisor to see how the Appropriation Act might impact your specific situation, and what type of planning can be done to optimize your tax benefits.

UPDATE ON THE MEALS AND ENTERTAINMENT DEDUCTIONS

by Mitch Grubb, CPA

Some of the most widely known deductions for businesses were the deductions related to meals and entertainment. With the passage of the Tax Cuts and Jobs Act (TCJA), there have been some revocations of items that were once considered deductible and modifications to others.

Entertainment

Prior to the passage of the TCJA, entertainment expenses determined to be sufficiently business related were allowed as a 50% deduction. Unfortunately, the TCJA has done away with the entertainment expense deduction. Entertainment expenses included items such as tickets to sporting events, stadium license fees, private boxes at sporting events and theater tickets. As before the TCJA, if the costs of the entertainment expense are included in an employee’s W-2 wages or paid through a reimbursement arrangement, then the expense may qualify as deductible.

Meals

Since 1987, businesses have been able to deduct 50% of the amount paid for meals directly associated with the conduct of a taxpayer’s trade or business and deduct the full cost of meals provided to employees on the business’s premises. The TCJA does not completely remove these deductions, but it does alter them.

Meals with clients, customers or business affiliates that relate directly to the business are still considered deductible and continue to be subject to the 50% limitation. The changes in this deduction occur with meals in an entertainment setting and meals provided to employees. First, meals with potential clients, customers or business affiliates in an “entertainment” setting will not qualify as a deductible expense. Second, meals provided to employees on the business’s premises that were once fully deductible will now be subject to the 50% limitation -- to be distinguished from social or recreational activities for employees such as holiday parties or company picnics which will continue to be 100% deductible.

After 2025, no income tax deduction will be allowed for employee meals for the employer’s convenience.

WHY WE DON'T WANT LOSSES

by Paul Neiffer, CPA

Under the old tax laws, a farmer who had a bad year could create a net operating loss (NOL) that was allowed to be carried back five years to offset income reported in that year plus any subsequent years if the loss was that large. The farmer could also elect to carry the loss back only two years (if that was a high income year) or elect to carry the loss forward for up to 20 years.

A net operating loss carryback could also impact the farmers ability to use farm income averaging for subsequent years in a positive way. Also, a farmer who had received a subsidy from the USDA and/or a loan from the CCC was only able to deduct a loss equal to the greater of \$300,000 or the total net income earned from farming over the last five years. This provision essentially prevented a farmer from carrying back more than a \$300,000 loss in most cases.

The new tax law has changed all of these rules and most of the changes are not good for farmers. Here are some of the key changes:

- A farmer can only carry back a loss 2 years. All other taxpayers are unable to carry back any losses. However, loss carry forwards do not expire after 20 years. Remember, this is only for farm losses. A farm may have net income from farming but a large business loss on Schedule C. The farmer may believe they can carry back this loss. The answer is no. You can only carry back an actual farming loss.
- Any loss that is either carried back or carried forward can only offset 80% of taxable income in that year. This means that 20% of a farmer's income will be taxed in a year of NOL carryback or carry forward. Plus this can substantially reduce the benefit of any Section 199A deduction earned in that year.
- For C corporations with a fiscal year ending in 2018, non farm losses cannot be carried back. Farm losses can be carried back but only for two years. Some commentators believe this was an error by Congress. I believe they knew what they were doing and this was on purpose to generate revenue.
- The maximum aggregate loss that can be deducted in any one year is now \$500,000. The law eliminated the old excess farm loss rule (described previously) and replaced it with the new provision that indicates a tax-

payer adds all of its business income, losses and gains together. If this net number is a loss, then it is limited to \$500,000 and the excess is carried forward as part of an NOL. Essentially, the maximum loss carryback will be \$500,000.

Let's look at an example:

- John operates a farm and incurs a Schedule F farm loss of \$750,000 during 2018. His wife has wage income of \$100,000 and no other income. The net business loss for the year is \$650,000 (we believe that wages is considered business income at least under the old NOL rules). This loss is greater than \$500,000, therefore, John can carry back \$500,000 to 2016 and carry forward \$150,000 or he can elect to carry forward all \$650,000 to 2019. He elects to carry it back to 2016 where he reported \$500,000 of net taxable income. He can only use \$400,000 of the loss to offset taxable income. The remaining \$100,000 is carried forward to 2017 where he had \$400,000 of income and he can reduce his income by the remaining \$100,000. In some cases, the ability to only offset 80% of taxable income is a good thing since it keeps the lower tax bracket income in place. For 2016, the \$100,000 of income not allowed to be offset by the NOL is taxed at 10% or 15% (about \$25,000 at 25%).

Due to the new laws, most farmers should plan to not create net operating losses due to these rules. To prevent these losses, farmers have multiple options they can use:

- Elect out of 100% bonus depreciation on some or all asset classes (for example take bonus on 15 year property but not on 5 or 7 year property),
- Elect to bring some deferred payment contracts into income in the current year,
- Do not make the de minimis election to expense all assets under \$2,500 (this can also help increase your Section 199A deduction),
- Elect to capitalize appropriate fertilizer costs,
- Elect to capitalize all repairs,
- Use Section 179 to reduce taxable income to appropriate levels to soak up the 10 and 12% tax brackets and standard deduction, etc.

If a farmer had a NOL carry forward from 2017 to 2018, the law continues to allow the farmer to offset 100% of taxable income until the NOL expires or is used up. This is on a first-in first-out basis.

As you can see, the new tax law continues to add complexity to our tax planning. We will need to spend even more time before year-end to determine the appropriate amount of taxable income or in certain cases, net operating losses. It won't always be easy to get to the right number.

This article was originally published on CLAconnect.com. The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting, investment, or tax advice or opinion provided by CliftonLarsonAllen LLP (CliftonLarsonAllen) to the reader. For more information, visit CLAconnect.com

NEW FINANCIAL STATEMENT LEASE 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 the November 2017 issue we covered the revenue recognition standard and in this issue we will cover the lease accounting standard.

The new lease accounting standard, formally known as ASU No. 2016-02, Leases (ASC Topic 842), was issued in February of 2016. The standard is effective and required for implementation for fiscal years beginning after December 15, 2019.

This standard dramatically changes accounting for leases, especially for operating leases. Under the new standard, the FASB retains the two types of leases: financing (previously named "capital") and operating. Distinguishing between financing and operating leases remains relatively the same as previous guidance, which utilizes the four step test.

The main difference between the new guidance and the old is the addition of a right-of-use asset and a lease liability recorded on the balance sheet for leases that are greater than 12 months. Under the previous guidance, only capital leases appeared on the balance sheet, whereas now all leases, including operating, must be recorded on the balance sheet. The FASB believes this will increase comparability and transparency among companies. Additionally, adding in a more robust set of disclosures related to leases ensures that users of financial statements have a complete picture of a company's leasing activities. This picture meets the objective of enabling the users to assess certain leasing information, such as the amount, nature, timing, and uncertainty of cash flows arising from leases. These

new disclosures will include both qualitative and quantitative information.

The new terms of "right-of-use asset" and "lease liability" are correlated with the rights and obligations of the lease, meaning the right to use the asset and the obligation to make lease payments. Upon inception of the lease, whether a finance or operating lease, the right-of-use asset and liability are recorded at the present value of future lease payments. For finance leases, the interest portion of the lease will be recognized separate from the amortization of the right-of-use asset. Non-lease components such as maintenance services should be omitted from the value of the right-of-use asset. For leases with options to extend, if it is reasonably certain that the option to extend will be exercised, lease payments related to the term of extension shall be included in the value of the right-of-use asset and lease liability.

For leases executed prior to the effective date, lessees may elect to apply a prospective approach, in which the present value of the remaining minimum rental payments must be recorded as a right-of-use asset and lease liability as of the reporting date.

As a majority of companies have at least one lease, this standard has a significant impact across all industries, especially the agricultural industry. Ag companies usually have multiple leases, covering assets such as equipment, vehicles, buildings, and land. We will be working with our clients during 2018 and 2019 to assist and provide guidance on implementing this new standard.

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

2018 CALL FOR AG AWARDS NOMINATIONS AND LUNCHEON

Both Baker Peterson Franklin's Ag Business Award and the Fresno Chamber of Commerce Agriculturist of the Year recipients for 2018 will be honored at the Ag Awards Luncheon. The lunch event will be held on Wednesday, November 7, 11:30 – 12:00 check in, 12:00 – 1:30 luncheon and program. Luncheon tickets will be available through the Fresno Chamber of Commerce (559) 495-4800. Sponsorship opportunities for this ag industry event are also available.

Nominations for both awards will be accepted until Friday, September 7. A BPF Ag Business Award nomination form is enclosed in this newsletter to nominate a deserving ag business or farming entity. To nominate a deserving individual for the Agriculturist of the Year, please visit the Fresno Chamber website, www.fresnochamber.com.

 **bpf** AG BUSINESS
AWARD 2018

The Baker Peterson Franklin Ag Business Award honors an organization whose achievements and impact have significantly contributed to the ag industry and the community.

CRITERIA

- Any for-profit agribusiness or farming entity based in the central San Joaquin Valley is eligible.
- Prior Baker Peterson Franklin Ag Business Award winners are not eligible.
- Self-nominations are encouraged.
- The award is bestowed annually at the Ag Awards Luncheon with the Fresno Chamber of Commerce.
- Award recipient is selected by a committee of representatives from the BPF Ag Department and local agribusiness community.
- Submitted nominations are considered for the following three years.

Complete the form on the reverse side and mail or fax by September 7, 2018. For further information, please call:

Baker Peterson Franklin, CPA, LLP
Julie Maldonado
Ag Business Award Selection Committee
970 W. Alluvial
Fresno, CA 93711
Phone: (559) 432-2346
Fax: (559) 432-5831
mail@bpfcpa.com

Previous recipients:

Bee Sweet Citrus
Booth Ranches
Hall Management Corp.
HMC Farms
Gar Tootelian, Inc.
Sun-Maid Growers of California
Allied Grape Growers
Fresno Equipment Co.
Errotabere Ranches
Harris Farms
Borba Farms
National Raisin Co.
Ballantine Produce Co.
Woolf Enterprises
Producers Dairy Foods
P-R Farms
J&L Vineyards
Fowler Packing Co.
Joseph Gallo Farms,
Wawona Frozen Foods
Wilbur-Ellis Western Division
Zacky Farms



Accounting. Consulting. Connecting.



Application

Name of organization: _____

Mailing address: _____

City: _____ Zip: _____ County: _____

Street address (if different from above): _____

City: _____ Zip: _____ County: _____

Phone: _____ Fax: _____

Chief Executive: _____ Title: _____

Contact person: _____ Title: _____

Contact person email: _____ Year established: _____

Brief description of the company and its products or services: _____

Please answer the following mandatory questions on one sheet of paper and attach the sheet to this application. (Please be specific, list accomplishments, etc.)

- 1. Describe the organization's growth and success.
- 2. What are the contributions of the organization to the agricultural industry and our community?

Nominated by: (Optional)

Name: _____ Title: _____

Email address: _____

Name of organization: _____

Address: _____

City: _____ Zip: _____

Phone: _____ Fax: _____

Only the application form and your one-page response to the above questions will be judged.
Deadline September 7, 2018.

BPF GOLF TOURNAMENT & \$50,000 MATCH FOR COMMUNITY FOOD BANK

The firm and generous BPF Golf Tournament sponsors & players donated \$1 for every \$1 donated up to \$50,000 during June to Community Food Bank. For every \$1 donated, Community Food Bank can provide 7 meals for the hungry in the Central Valley. Any donation or pledge to Community Food Bank was matched 100% during June, until \$50,000 was matched. Thank you to BPF Golf Tournament sponsors and players for making this generous match possible.

We sincerely thank the sponsors, donors and players for supporting our golf fundraiser to benefit our local community and for making a difference.

Presenting Sponsor

Leon S. Peters Foundation

Hole Sponsors

CTI/Corporate Tax Incentives
Dowling Aaron Incorporated
Meyers Farms
Regency Investment Advisors
Rick & Julie Skaff
Whelan Financial
Woolf Farming & Processing

Refreshment & Prize Sponsors

California Bank & Trust
Del Rey Farms
Ingleby Farms & Forests—Eriksson, LC
JFB Ranch
Katayama and Sons, Inc.
Sunnyland Mills
Ultra Gro Plant Food

Tee Sponsors

Allied Electric Motor Service
American Business Machines
Bank of America
Bulldog Village Apartments
EKC Enterprises
Hope Now for Youth
Manco Abbott
Minturn Huller Cooperative
Plan Financial
Redfern Ranches, Inc.

Other Donations

Marlene Britton
Chipotle Mexican Grill
Fort Washington Country Club



1st Place Team: Coleman Sutton, Jeff Wills, Mike Rosander, Nick Ostdiek



CALENDAR

JUL. Fresno Food Expo. Fresno Convention
Center & Entertainment Center.
26 Information www.fresnofoodexpo.com

SEP. Labor Day – BPF office closed.
03

SEP. Ag Boosters' Barbeque, Rancho Vista del
Mar. Ticket information: 559-278-4266.
09

SEP. Due date for 2017 tax returns for
calendar year end S corporations and
partnerships including extensions.
17

OCT. Big Fresno Fair.
03-14

OCT. Due date for 2017 individual tax
returns and calendar year end
C Corporations including extensions.
15

Nov. Ag Business and Agriculturalist of
the Year Award luncheon at Fresno
Convention Center.
07

AG DEPARTMENT:

Dennis M. Veeh, Partner
Karen E. Morais, Partner
Michael Holtermann, Partner
Janell Attebery, Partner
Cathleen Wiens

PUBLISHED BY:

Baker Peterson Franklin,
CPA, LLP
970 W. Alluvial Avenue
Fresno, CA 93711

TEL: (559) 432-2346

FAX: (559) 432-5831

EMAIL: mail@bpfcpa.com
bpfcpa.com