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Time to Review Your 2011 Tax Situation

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Before you get into the field for harvest, you should take a few minutes to review your income tax situation. Many Illinois farmers experienced excellent yields in 2010 and were able to sell their crops at a high price. Consequently, it does not matter what the 2011 yield is; 2011 will be a year that can create a huge income and self-employment tax liability. In addition, the 2% increase in Illinois state income tax will also take another bite out of your profit. Unless you plan, you could miss out on possible deductions or be required to recognize more income than you expected.

Constructive Receipt

You may be planning on receiving payment for your 2011 crop in 2012 and have already contracted for the sale. However, the IRS can require you to report the income in 2011 if you have violated any provision in the contract. If the date on the contract is after you first delivered grain to the elevator, the IRS can rule you had constructive receipt of the grain proceeds. This is because there was nothing that prevented you from receiving payment for that delivery.

If you have the grain contracted and decide you need some of the proceeds before the end of the year and the elevator then issues you a check, the IRS can rule you did not have a valid contract as you were able to violate one of the provisions in the contract. The same is true if there is no date on the contract showing when you will receive payment.

Establish a Retirement Plan

If you have not established a retirement plan in the past, this is an excellent time to begin. There are numerous options available to you. The type of plan you choose will determine the maximum amount of money you can contribute each year. If you have employees, some plans require you to contribute to their retirement as well.

Available plans include the traditional IRA, Roth IRA, SEP IRA and SIMPLE IRA. The various plans have different contribution limits. Some require contributions for employees while others do not have the employee requirement.

While your contribution to the Roth is not deductible, any distributions you receive are not taxable as long the plan has been in existence for at least five years and you are age 59 ½ or older.

The traditional IRA, Roth IRA and SEP IRA can be set up as late as the due date of the tax return. However, a SIMPLE IRA must be established between January 1 and October 1 of the current year.

If you are considering establishing a retirement plan, you should consult with your financial advisor to ensure you meet all of the requirements for the plan.

IRC §179 Expensing Deduction

If you are considering purchasing equipment to reduce your tax liability, keep in mind that the purchase must be in your possession and available for service before year end. Signing a contract with the equipment dealer and making payment is not enough. For example, if you purchase a planter on December 29, 2011, make sure the planter is delivered to you before December 31. You do not have to use the planter, but it must be available for use.