FARM MANAGEMENT SERVICES, INC.
310 Washington St.
PO Box 622
Concordia, KS 66901-0622
785-243-1854

Transition of Knowledge...
the delivering end and the receiving end

Sometimes I feel like I don't know "nothin"
And sometimes I really don't!
Other times it seems the answers are right there
And I don't know where they came from
I think I am just lucky when I learn through osmosis
Yet then I don't feel confident that I know where to get more knowledge

How do I share what I know
When I just learned by doing?
I don't have a book or a curriculum, I just figured it out
Over the years the business grew, so did I
I learned by trial and error
Making mistakes I don't want to repeat…
and I don't want them to repeat either!

I created the wheel
Now I don't want it reinvented
So I have to figure out how to share that process
With patience, persistence and clarity
But I am no teacher, I am a do-er
I am not the creator
I am a learner
Who may be able to add to
But I have to understand the basics first
So surround me with lessons and compassion
With tools and talk

Let's learn together
Grow through our process
Enrich our souls through the collaboration
That our family transitions provide for us.
The reality is, that each day I am both a learner and a teacher
And I have to succeed at both.
-Leslie Dashew

New Staff Accountant

We are excited to announce that ***Jill Kearn*** recently joined our firm as a staff accountant. She graduated from Friends University with a Bachelors of Business Administration in Business Management. She brings experience in service and manufacturing industries. Jill is originally from Concordia and she and her husband, PJ, have three daughters, Kelsey, Katie and Kira. In her spare time, Jill enjoys CrossFit and activities with her family.

The fmsi REPORT

Farm Management Services, Inc. fmsi@ksfmsi.com

FMSI Summer Update

We are now in the process of making farm visits and have a few observations to share with you. North Central Kansas farm income for 2015 is still undetermined, but don't be a pessimist yet. Yes, commodity prices are lower and input expenses have remained about the same. However, the 2015 wheat crop was better than last year and prospects look excellent for a good fall harvest. Remember, we are in the process of signing up for the 2014 & 2015 farm program. *We feel* there will be government payments coming this fall, anywhere from $20 to $50 per acre based on whether you chose ARC or PLC. Land prices (for good farmland) in North Central Kansas remain stable. The sale price of good pasture for livestock may be increasing slightly. The drought across the nation is over except for the West Coast (especially California). As for the cattle industry, beef prices remain high with the drought over and cattlemen rebuilding their cow herds.

We continue to get calls from clients that have received fictitious calls claiming to be the IRS. Please be advised that the real IRS **will not**:

- **Call you** to demand immediate payment. IRS will not call you if you owe taxes without first sending you a notice / bill in the mail.
- **Demand that you pay taxes** and not allow you to question or appeal the amount that you owe.
- **Require that you pay your taxes a certain way**. For instance, require that you pay with a prepaid debit card.
- **Ask for credit or debit card numbers over the phone**.
- **Threaten to bring in police** or other agencies to arrest you for not paying.

If you don't owe taxes or have no reason to think that you do: **Do not** provide any information to the caller. **Hang up immediately**. **Just hang up!**

Roughly 25% of the tax returns we prepare involve entities. In this issue we outline some of the most used entities in farming. **BEFORE** you set-up an entity, be sure to consult with your FMSI Fieldman to ensure that it is set up properly for your type of operation.

Choosing the Right Entity

Selecting an entity type is important for any type of business, but for the farming industry it's particularly important. There are many entity types depending upon the farmer's long-term goals and needs, tax goals, and even his/her succession plan. Here's what farmers need to know:

Sole Proprietorship: This is the simplest way to go, and many farmers begin as a Sole Proprietorship and change to a different entity type later on. Taxes are filed on Schedule F of the individual income tax return, and the recordkeeping is pretty straightforward. However, the farmer should maintain a separate bank account for the farming enterprise. Closing the business is as easy as walking away from it, and all profits are subject to self-employment tax. If the farmer wants to bring children into the business, it may be advantageous to entertain another entity structure that more easily accommodates the continuity of the business.

Married Filing Jointly – 2014 Federal Tax Rates

$0	-	$18,150	10.0% + 15.3% SE Tax
$18,151	-	$73,800	15.0% + 15.3% SE Tax
$73,801	-	$148,850	25.0% + 15.3% SE Tax
$226,851	-	$405,100	33.0% + 15.3% SE Tax

Single – 2014 Federal Tax Rates

$0	-	$9,075	10.0% + 15.3% SE Tax
$9,076	-	$36,900	15.0% + 15.3% SE Tax
$36,901	-	$89,350	25.0% + 15.3% SE Tax
$89,351	-	$186,350	28.0% + 15.3% SE Tax
$186,351	-	$405,100	33.0% + 15.3% SE Tax

ALSO IN THIS ISSUE:

Volume 29 Issue 1 August, 2015

the Right Entity, continued

C Corporation: With the C Corporation, you enjoy limited liability, but the paperwork requirements are much more stringent and it can be difficult to pull money out of the business without suffering from "double taxation". Profits of the corporation are taxed at 15%-38% on the corporate level; and in order to take distributions out, a dividend must be declared which is then taxed at the individual shareholder level at another 10%-39.6%. Tax return is filed on Form 1120. The owner is on payroll and earns a W-2 wage.

S Corporation: An S Corporation is similar to a C Corporation in that ownership enjoys limited liability and the owner is on payroll and earns a W-2 wage. Tax return is filed on a Form 1120S. Profits from the S Corporation flow to the owners via Schedule K-1 to the owner's individual income tax return, and these profits are not subject to self-employment tax.

	C Corporation	S Corporation
Taxation	Double taxation on profits. Income is taxed at the corporate level; profits distributed as dividends are taxed at the individual level. 2014 Corporation Tax Rates $0 - $50,000 15.0% $50,001 - $75,000 25.0% $75,001 - $100,000 34.0% $100,001 - $335,000 39.0% $335,001 - $10,000,000 34.0%	Profits are passed through directly to shareholders, escaping corporate-level tax. 
Dividends	Dividends are generally taxed to the individual at the same rate as long-term capital gains (0%, 15%, or 20%)	S corporation earnings passed through to a shareholder are taxed as ordinary income.
Ordinary Losses	Losses are not passed through to shareholders. Losses can be deducted only at the corporate level as NOL carrybacks and carryforwards.	Losses are passed through to shareholders. Current year losses are deductible up to the shareholder's basis in S corporation stock and loans to the S corporation.
Capital Gains	Taxed at the same rate as ordinary income.	Pass through to shareholders and are eligible for favorable capital gain tax rates for individuals.
Capital Losses	Allowed only to the extent of capital gains. Net capital losses are carried back 3 years and forward 5 years.	Pass through to shareholders. Capital losses are deductible subject to limitations on the shareholder's return.

Limited Liability Companies (LLCs): This is a newer form of business entity and provides coverage for liability issues and can be taxed as a sole proprietorship (Schedule F), a partnership (Form 1065), a C Corporation (Form 1120), or an S Corporation (Form 1120S). In order to protect assets, oftentimes separate LLCs or LLPs are created – one for the holding of assets which are then leased to another LLC or LLP which governs the operations of the farm. Most of our clients use LLC's and are taxed as a partnership. With this most common case, profits from the LLC flow to the owners via Schedule K-1 to the owner's individual income tax return, and these profits are subject to self-employment tax. There are ways to structure your LLC into different ownership classes (Voting & Non-Voting) which can help reduce self-employment taxes

Limited Partnership: This is one of the more popular ways to structure a farm enterprise as it works especially well as an estate planning tool. It's a great way to transfer assets, such as land, from one generation to the next. There are two ownership classes within a Limited Partnership, **General Partners** (GP) and **Limited Partners** (LP); with the GP retaining control of the entity. Essentially, you set up the partnership and the farmer retains a small percentage (typically <10%) GP interest and gifts LP interests (typically 90%+) to his children and grandchildren. The interest is in the partnership itself, not in the assets owned by the partnership. The partnership interests that are gifted can be substantially discounted (15%-50%) and valued less than the value of the assets thus reducing or eliminating the impact of estate taxes. With land values increasing substantially over the last 10 years, if your estate value is approaching the exemption amount of $5,430,000, a Limited Partnership may be your best option to protect these assets from estate tax. Tax return is filed on a Form 1065. Profits from the Limited Partnership are subject to self-employment tax for the GP's, but not for the LP's.

Yes, we are accepting new clients.

We are often asked if we have time to serve additional clients. We are a growing firm, and we would appreciate your referrals. If you are pleased with our services, please mention us to your friends and business contacts.

the Right Entity, continued

General Partnership: A typical case for a General Partnership would be two brothers that share equipment and farm together. Tax return is filed on a Form 1065. This entity does not offer liability protection and profits from the Partnership flow to the owners via Schedule K-1 to the owner's individual income tax return – these profits are subject to self-employment tax.

Trusts, Estates and Fiduciary Returns: Another estate planning tool is the use of a trust as the legal form of the business – continuity can be achieved through the use of beneficiaries. A simple grantor trust (living trust) is treated as a sole proprietorship for tax purposes – no separate tax return is filed. The other common trust form is the simple trust – tax return is filed on a Form 1041. Income from a simple trust passes through on a Schedule K-1 to the beneficiaries but operating losses are held within the trust. Placing your assets into a trust can help your estate avoid probate and make the transition of assets to the next generation more efficient and less costly.

As you can see, there are advantages and disadvantages to every legal form, and jumping from one legal form to another requires a tax impact analysis. There could be taxable events on distributions and liquidations of prior entity structures; such as when a Corporation decides to become an LLC, or a Sole Proprietorship becomes a Trust. Be sure to consult with your FMSI Fieldman to determine which entity is the right one for your farming operation.

Drawing Social Security—Now or Later?

Now or later? When it comes to deciding when to start taking your social security, this is a common question retirees ask themselves. The choices are **(1)** take reduced benefits starting at age 62, **(2)** wait until full retirement age (FRA) (age 67 if you're born after 1959), or **(3)** delay receiving benefits until after age 67. Let's explore these options in more depth:

Reduced Benefits at age 62: For individuals who begin taking retirement benefits at age 62 in 2015, the monthly benefit is reduced by **25%** of what it would be at FRA…..but the individual will receive more months of payments because benefits are drawn early. If the worker waits until FRA to draw benefits (and his earnings are largely unchanged), it will take around **12 years** to reach the break-even point to make up for the payments that would have been received under early retirement.

Individuals who take benefits before FRA **and** intend to keep working must beware of the earnings test which reduces the benefits received by $1 for each $2 earned over $15,720/year. So, if you earn $20,000/year and your Full Retirement Benefit at age 67 would be $2,000/month; that would be reduced considerably:

Full Retirement Benefit	$2,000	
Less: 25% Early Retirement Deduction	($ 500)	
Less: Earnings Test Reduction	($ 178)	[$20,000-$15,720=$4,280/2=$2,140/12=$178]
Monthly Benefit Received	$1,322	

Waiting Until Full Retirement Age: There are advantages to waiting until FRA, factors to consider include:

- *Life Expectancy* – Your life expectancy may be the biggest factor in deciding whether to receive Social Security benefits early. In general, if you reasonably expect to reach age 80, waiting until FRA may be the best choice.
- *Need to Shorten Retirement Period* – The length of the retirement period is determined by subtracting the age at retirement from the life expectancy. For example, if an individual wants to retire at age 62 and has a life expectancy of 85, he has a 23-year retirement period to fund. By working past age 62, the individual shortens his retirement period and decreases the resources needed to fund his retirement.
- *Replacing Lower-Wage Years* – An individual's Social Security benefits are based on his primary insurance amount (PIA). The PIA is calculated from the individual's highest earnings during a 35-year calculation period. If an individual can replace lower-wage years early in his career with higher-wage years after age 62, he can increase his PIA. This can lead to a higher retirement benefit when he retires. A higher PIA will also increase disability and survivor benefits.
- *Effect on the Spouse* – A spouse without her own earnings record will be dependent on the working spouse's PIA for retirement benefits. A worker who retires early and has a lower PIA than if he had waited until FRA may cause his spouse's benefit to be permanently reduced.

Delay Receiving Benefits After FRA: An individual who begins receiving benefits after his FRA receives larger benefits because of the delayed retirement credit. This credit increases the benefit by a 8%/year (if born after 1942) for each year the worker does not receive benefits between the time he reaches FRA and the time he starts taking benefits. You **must** start taking benefits at age 70.