TAX PLANNING IN LOW INCOME YEARS
by Chaney Black

Many people often feel there is no need to do tax planning in a down year, however in many ways, it is more important to tax plan in low income years than it is in high income years. This is especially the case for agricultural producers. Each year you can have taxable income up to the amount of your standard deduction (which is $24,400 for a married couple). In essence, you do not necessarily need to target $0 in income because the first $24,400 is tax free (for a married couple).

There are some planning strategies you can use to ensure you aren't reducing your taxable income below $0 and leaving tax free income on the table. Keep in mind that these strategies are dependent on specific issues related to your operation and tax return.

Convert Traditional IRAs Into Roth IRAs

When producers are under income pressure, they often use tax deductible IRAs to defer income taxes. In a down year, it may make sense to consider converting a traditional IRA to a Roth IRA. The transaction would generate taxable income on the tax return, but the earnings would be tax free. Any farm losses may be offset by the income generated from the conversion and no income taxes would be due. After conversion, any Roth IRA earnings and distributions will be tax-free for you or beneficiaries.

Avoid Farm Losses

We know that it is not always possible to avoid a farm loss, but it should normally be the goal if possible. A loss on Schedule F typically means that income could have been recognized free from self-employment taxes. Since the self-employment tax amounts to 15.3%, it is something that should be managed whenever possible. A simple thing to do is sell more grain/livestock or reduce expenses.

Do a Year-End Estimate

At Kaup's Financial Advisors it is our goal to not only help prepare your taxes but PLAN before year end. The time to gather your records and give to us to prepare an estimate can be the best investment and use of your time all year long. As the year comes to a close, we would love to meet with our clients before year end to ensure we keep as much money in your pocket as we can.

If you have any questions or concerns, please give us a call!

Thanks,

Chaney Black, CPA

Kaup's Financial Advisors, Inc.
113 N Main Street
PO Box 265
Stuart, NE 68780
402-924-3607
www.kaupsfinancial.com

The opinions contained in this material are those of the author, and not a recommendation or solicitation to buy or sell investment products. This information is from sources believed to be reliable, but Cetera Advisor Networks LLC cannot guarantee or represent that it is accurate or complete. Kaup's Financial Advisors, Inc. is an independent firm with securities offered through Cetera Advisor Networks LLC, member FINRA/SIPC. Advisory services offered through Summit Financial Group, Inc., a registered investment adviser. Cetera Advisors Networks LLC, nor any of its representatives may offer legal or tax advice. Any tax advice is offered solely through Kaup's Financial Advisors, Inc. The information in these articles are not intended as specific tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek your specific tax or legal advice from an independent professional advisor. Information provided herein was obtained from www.irs.gov. This information is designed to be educational. This information covers selected tax issues that are condensed. The recipient is cautioned not to rely on these summaries in lieu of a full review of applicable statutes, regulations and authorities, affecting any specific tax issue or transaction. Consult with your tax preparer for more detailed information and how it may apply to you and your specific situation.

Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first-time home purchase (up to a $10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.