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Deferring crop sales to reduce income tax liability

by Steven D. Johnson, Ph.D., Farm & Ag Business Management Field Specialist, Iowa State University Extension, (515) 261-4215, sdjohns@iastate.edu, www.extension.iastate.edu/polk/farmmanagement.htm

According to the USDA Economic Research Service, U.S. net farm income for 2007 is forecast to be \$87 billion. If realized, that would be an increase of \$26 billion over 2006 and \$30 billion higher than the average for the previous 10 years. Most Iowa farms face good 2007 crop yield prospects, and now the challenge will likely be deferring a portion of their new crop sales until the following tax year to avoid paying higher income taxes.

Many row crop operations are now busy with harvest and may not be aware of their potential income tax liability.

A solution is to use a CCC (Commodity Credit Corporation) marketing loan. These loans can be established at the local USDA Farm Service Agency (FSA) office once the crop is harvested and beneficial interest is maintained. The proceeds are at a pre-established county loan rate (5.125% in November). Interest will accrue up to 9-months when the loan plus interest must be repaid and the interest deducted as an expense.

The loan proceeds would be made at the county loan rate, which is more than a \$1 per bushel for corn and \$3 per bushel on soybeans below the

current cash price. Producers need to manage this difference on unpriced bushels, as the loan only protects price at the county loan rate. A producer could then use the loan proceeds to reduce interest costs on existing loans, pay some 2007 bills and prepay up to 1/2 of 2008 crop expenses. Use of the loan proceeds can thus be treated in one of two different ways for tax purposes, either as a "loan" or as "income."

Some farms choose to treat this loan like any other loan and not include the proceeds as income. When a producer treats the loan proceeds as a "loan" the actual loan repayment is not a deductible expense, but the interest when paid would be.

By electing the "income" method, the CCC loan is treated as income in the tax year the loan is received. The loan repayment and interest are deductible expenses.

With high net farm incomes likely beyond 2007, I recommend that producers contact their income tax preparer regarding the implications for CCC marketing loans and determine their own income tax strategies.

Updates, continued from page 1

Internet Updates

The following updates have been added to www.extension.iastate.edu/agdm.

July Corn Basis – A2-43 (12 pages)

July Soybean Basis – A2-44 (12 pages)

2006 Farm Business Summary for Northwest Iowa – C1-11 (9 pages)

2006 Farm Business Summary for Southwest Iowa – C1-12 (9 pages)

2006 Farm Business Summary for North Central Iowa – C1-13 (9 pages)

2006 Farm Business Summary for South Central Iowa – C1-14 (9 pages)

2006 Farm Business Summary for Northeast Iowa – C1-15 (9 pages)

2006 Farm Business Summary for Southeast Iowa – C1-16 (9 pages)

Renting Extra Grain Storage – C2-25 (2 pages)

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