



## Profitable Agriculture Alternatives Newsletter

Annette Dunlap, MBA  
Editor

### Tax Tips for Your 2007 Returns

The IRS and the NC Department of Revenue have already mailed out the tax return booklets this year, and although most of us will need some time to get our records together, it is helpful to know what to look for as we organize our expenses and prepare our returns.

The following list is a quick overview of common tax tips for agricultural producers. For explanations, or a more comprehensive list, contact your CPA or tax advisor, or check out the Internal Revenue Service's web site ([www.irs.gov](http://www.irs.gov)), or the NC Department of Revenue web site ([www.ncdor.com](http://www.ncdor.com)).

**Optional Standard Mileage Rate.** The rate is 48.5 cents per mile for 2007, and increases to 50.5 cents per mile in 2008. The rate for medical mileage is 20 cents per mile (up from 18 cents per mile in 2006), and the charitable mileage rate remains at 14 cents per mile, as it was in 2006.

**Depreciation Methods.** For property placed in service, farmers must use one of the following depreciation methods:

- (1) The 150 percent declining balance method over the GDS recovery period, switching to the straight line method when that method yields a greater deduction
- (2) The straight line method over the GDS recovery period
- (3) The 150 percent declining balance method over fixed ADS recovery periods, switching to the straight line method when that method provides a greater deduction
- (4) The straight line method over fixed ADS recovery periods.

**SUVs (Sports Utility Vehicles):** (NOTE: The information below refers to 2007 only. Check for whether or not legislation has been enacted that reduces the deductions for SUVs to the same as those for light trucks.) Congress restricted expensing for SUVs to \$25,000. This applies to SUVs weighing more than 6,000 lbs., but less than 14,000 lbs. Congress changed this SUV rule for 2008. SUVs weighing more than 14,000 lbs. are allowed a \$125,000

expensing allowance. Some states have decoupled the SUVs from full allowance and applied the \$25,000 limit. Three exceptions: a) greater than 9 passengers, b) greater than a 6' box, c) Cargo vans.

**Single-Purpose Agricultural Structures.** The recovery period for single-purpose agricultural structures is 10 years. Greenhouses that have an area set aside for retail sale are considered multi-purpose agricultural structures.

**Deductions for Meals.** Beginning in 1998, 100 percent of the cost of business meals for employees is deductible if meals are at and for the convenience of the employer, no longer limited to 50%.

**Business Trip Expenses.** Beginning January 1, 1994, business trip expenses for a taxpayer's spouse, dependents or other individuals cannot be deducted unless those individuals are bona fide employees traveling with the taxpayer for a business purpose.

**New Contribution Rules.** Beginning in 2007, individuals who give separate cash contributions (gifts) of any amount are required to obtain a receipt from the organization receiving the donation. This documentation must be in writing and must be contained in the taxpayer's file before the filing of 2007 tax returns.

**Estimated Tax Payments.** To avoid potential penalties, taxpayers with a 2007 adjusted gross income (AGI) of \$150,000 or less should make estimated tax payments of withholdings equal to their 2006 taxes, or make prepayments equal to 90 percent of their 2006 taxes.

If taxpayers' 2007 AGI exceeded \$150,000, they must pay a sum equal to 110 percent of their 2006 tax or 90 percent of their current year's return. Similarly, if 2007 income is 40% higher than 2006, taxpayers must follow these estimated tax guidelines. Payments are due by March 1, 2008 with the tax return if no estimated tax payments were made for 2007.

Self-employed health insurance deduction. The deduction for health insurance expenses of self-employed individuals and their spouses and dependents is 100% in 2007.

Qualified long-term care insurance. (Self-employed) A qualified long-term care insurance contract will generally be treated as an accident and health insurance contract. The deduction for 100 percent of health insurance expenses of self-employed individuals applies to long-term care insurance premiums.

<b>2007 Retirement plan</b>	<b>Contribution Levels</b>
401(k)	\$15,500 > 50yrs + 5,000 (catch up)
403(b)	\$15,500 > 50yrs + 5,000 (catch up)
457	\$15,500 > 50yrs + 5,000 (catch up)
Keogh, Profit Share	\$45,000 > 50yrs + 5,000 (catch up)
Roth 401k	\$15,500 > 50yrs + 5,000 (catch up)

Individual Retirement Accounts (IRA). Effective for tax years beginning after December 31, 1996, (increase in amount for 2005) nonworking spouses will be allowed to contribute up to \$4,000 per year to a deductible IRA. Effective for post-1996 distributions, the 10-percent additional tax on early distributions from qualified plans will not apply to distributions from an IRA that are used to pay medical expenses in excess of 7.5 percent of adjusted gross income. The 10-percent tax will not apply to distributions from an IRA for payment of health insurance premiums to an individual after separation from employment.

Contribution limits for traditional and Roth IRAs will rise from \$3000 to \$5,000; \$4,000 for 2007; and \$5,000 for 2008 and thereafter, with annual adjustments for inflation after 2008.

Taxpayers who are age 50 and above will be permitted to contribute “catch ups” to their IRAs. They can contribute to an IRA an additional \$1,000 in 2006 and all years thereafter. These catch up payments can be either deductible or made to a Roth IRA, if the base-line AGI limits are met for regular contributions for the year.

## **NORTH CAROLINA TAX CREDIT POINTERS**

Conservation Tillage Equipment. North Carolina allows a credit for the purchases of conservation tillage equipment for in state farming business purposes (including tree farming) in the amount of 25 percent of the cost of the equipment. The credit may be claimed only by the first purchaser of the equipment and may not exceed \$2,500 in any one income year. The credit may not exceed the taxpayer’s total income tax for the year. Any excess credit may be carried forward for five years. The basis of the equipment purchased is reduced by the amount of the credit used.

Property Taxes Paid on Farm Machinery. North Carolina allows a credit of up to \$1,000 for the amount of property taxes paid on farm machinery by an individual farmer, general partners or an “S” corporation engaged in the business of farming.

NOTE: These and other credits can be missed; however, they are now listed specifically in the North Carolina tax instruction booklet. Credits include: Gleaning credit, and a business credit to stimulate economic growth in tiered counties.

Credit for recycling oyster shells. The credit is \$1.00 per bushel donated. The credit is limited to the tax liability and any unused portions of the credit can be carried forward for 5 succeeding years.

Credit for Construction of Poultry Composting Facility. The credit is allowed for the construction of a composting facility for poultry carcasses. The credit is 25% of the installation, materials and equipment costs of construction paid during the taxable year, not to exceed \$1,000.00 for any single installation. Cost-share grants cannot be used to calculate the credit. Any unused credit may not be carried forward.

### **For more tax information, contact:**

Guido van der Hoeven, Extension Specialist  
Department of Ag & Resource Economics  
NC State University  
guido\_vdh@ncsu.edu  
919.515.9071

---

For more information on starting and structuring a business, check out the Value-Added & Alternative Agriculture Tool kit at: [www.cals.ncsu.edu/value-added/toolkit.html](http://www.cals.ncsu.edu/value-added/toolkit.html)