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Income Tax Time — Issues you Need to Know Now

The end of the year is tax time for most people. This article will highlight some critical issues to know this year.

(1) **Portability and the Deceased Spouse Unused Exemption (DSUE) Amount** is a potentially big item for farmers if portability has not been elected when a spouse dies. Each person has under current law \$5.49 million each to exempt from their estate and estate and gift tax. Whatever amount of that \$5.49 million the first spouse does not use can be requested and used by the second spouse. This has to be done within 9 months of death typically. The IRS is allowing some leeway if it was not done within the 9 month period required by law. This can be critical for farmers and landowners since farmland is relatively high and could go higher thus putting some farms into the \$10.98 million or above bracket. That can happen depending on the size of the farm due to the surviving spouse living many years afterward, that spouse remarrying someone else with land or if the operation expands under the surviving spouse's name. Portability can be elected by:

- (a) file IRS form 706 by January 2, 2018 or two years after the death of the first spouse.
- (b) the executor of the estate must be the person filing IRS form 706 or their tax preparer. If there is no executor named, then the person who is in control of the assets can file the return.

The IRS has other rules for specific circumstances. A tax professional or University of Missouri Extension Agricultural Business Specialist will be able to help answer questions.

(2) **Classification as a Farmer** seems fairly straightforward but the IRS continues to define who qualifies and who does not. It could affect you if (a) you own no land and just custom farm (you are not a farmer by definition), (b) you do value-added or process a product beyond the raw stage or (c) you do not make a profit in enough years to be classified as a “hobby” farmer. The last two items could be of concern. Someone making wine out of their own grapes would be seen as both agricultural (growing grapes) and value-added (making and selling wine) thus would need to be split into farm and non-farm. It is the “hobby” farm issue that can impact folks if they are not careful. If the farm loses money regularly, you must be certain you operate it as a business by having a written business plan, budget (cash flow) and take agricultural courses to improve knowledge. This is important because farmers get many tax advantages non-farmers do not. The IRS is also looking to audit those returns with high W-2 income along with a schedule F in particular.

(3) **Expense or Capitalize** question has been refined after the new repair rules of several years ago. The IRS raised the limit to \$2,500 per item for being classified as repairs and thus expensed without an approved financial statement. Many farmers

also opted out of the pre-production capitalization rules meaning they could avoid capitalizing (setting up for several years and depreciating) things such as heifer costs. One issue mentioned that could affect some of you is if you demolish old buildings, remember two things: (a) if there is any depreciation left on the building (generally 25 year property), then there is recapture. (b) any costs you have in demolishing the building must be added to the land cost and not expensed.

Most people likely utilize a tax professional but it is ultimately your responsibility to verify the accuracy of your tax return. The *Farmer's Tax Guide*, IRS publication 225, is available at county extension offices. The publication is a great resource one can utilize throughout the year. If you have additional questions, contact a University of Missouri Agricultural Business Specialist.

Source: *Joe Koenen, ag business specialist*

Soil Sampling in Row Crop Fields

Collecting a good representative soil sample is an important step in any soil or nutrient management program. Some of the important factors to consider during soil sampling are soil type, cropping patterns/history, past fertilizer/soil amendment application and tillage. A commonly used method for soil sampling is to determine sample location by soil type. When planning to collect a soil sample divide the fields into areas with similar soil characteristics or soil management practices.

It is recommended to obtain a soil test every three to five years. It is important to wait at least three months after application of phosphorous fertilizer, lime or manure before taking soil sample to obtain accurate soil test results.

The following equipment and materials are needed to collect a good soil sample:

- A soil auger or core sampler
- A clean plastic bucket (avoid using metal buckets or container that can contaminate the soil with micronutrients)
- A small box or sample bag with labels
- Field map with sampling plan

The number of cores per soil sample depends on variation within the field. If there is variability within

the field, 15 to 20 cores should be taken per sample. Fewer cores (10 to 15) are sufficient on uniform fields. Random core sampling in a zigzag pattern within the entire area is the best approach to get a good representative soil sample from the field. The standard soil sampling depth is 6 inches for most of the row crops. Taking cores close to a gravel road should be avoided as road dust may raise soil pH.

After collecting all cores from a field, break up the soil cores/clods and thoroughly mix the sample soils. If the soil is too wet, let it dry at room temperature before mixing. After thoroughly mixing soil from all cores, fill the lab provided soil sample box or plastic bag with the mixed soils and discard the excess. Label the sample bag or box with farmer and field name. Soil sample boxes and a soil test information form are available at your local University of Missouri Extension center.

Soil samples can be submitted through a local extension center or directly to a university or private soil testing lab. The cost for routine soil test (pH, phosphorous, potassium, calcium, magnesium, organic matter, neutralizable acidity and cation exchange capacity) can vary depending on the lab.

For more information on soil sampling in row crops, contact your local extension office or reference MU guide - G9217 at <http://extension.missouri.edu/p/G9217>.

Source: *Dhruba Dhakal, agronomy specialist*

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Holiday Plants

During the holiday season, decorated trees, twinkling lights and familiar carols create a festive atmosphere. Certain plants play key roles as well. Church altars are adorned with poinsettias, mistletoe hangs over doorways, and holly is used in floral arrangements.

The poinsettia, the most popular holiday plant, was introduced into the United States by the first United States ambassador to Mexico, Joel Roberts Poinsett. He had some poinsettias sent to his home in Greenville,

South Carolina in 1825 where he began propagating the plants in his greenhouses on his plantation. He sent poinsettias to friends and botanical gardens.

Today, poinsettias come in many colors and forms. New selections appear in the market every year. An interesting point about poinsettias is their flowers. The true flowers are small, inconspicuous, and yellow in color. The showy red parts, often called flowers, are not parts of the flower. They are modified petal-like leaves, called bracts. The bracts are formed below each flower. When caring for a poinsettia, place it in a well-lit room away from a drafty window. Water the plant when the soil feels dry to the touch. Over-watering can lead to root rot and death of the plant.

Holly adds visual interest to a landscape in winter months. Holly plants come in all sizes, ranging from spreading dwarf holly shrubs 6 inches in height to holly trees 70 feet tall. Their shapes vary from rounded to pyramidal to columnar. English holly (*Ilex aquifolium*) and American holly (*Ilex opaca*) are the most commonly used in holiday decorations, due to their striking evergreen foliage. All holly trees and shrubs are dioecious. Male and female plants must be planted within 30 – 40 feet of each other for berry production.

Mistletoe is a flowering plant which obtains nutrition by living on and parasitizing other plants. By parasitizing other higher plants, they have a competitive advantage over many other forms of life because they do not have to compete in soil for water and nutrients. Mistletoe originated in the tropics where soils are typically poor in nutrients and competition within the soil between plants and microorganisms is fierce. The berries of mistletoe are poisonous.

Christmas trees have been sold commercially in the United States since 1850. Christmas tree farms increased in number during the depression. Nurseries could not sell their evergreens for landscaping, so they cut them for Christmas trees. Cultivated trees were preferred because of a more symmetrical shape than native trees. Approximately 26 million Christmas trees are produced each year. The best selling trees are Scotch pine, Douglas fir, Noble fir, Fraser fir, Virginia pine, Balsam fir and White Pine. Christmas trees take an average of 7-10 years to mature. Ever since the first Christmas tree retail lot was set up on the streets of New York City in 1851, Americans have been enjoying the tradition of a live tree to celebrate the holiday season. Consumers can enjoy a fresh tree throughout the holidays with proper selection and care.

Source: *Jennifer Schutter, horticulture specialist*

Health Insurance under the Affordable Care Act (ACA)

On September 27, 2017, the IRS announced farmers and The law is still in effect which requires most Americans to have health insurance. The open enrollment period has been shortened this year and runs from November 1 – December 15, 2017. There are special allowances for enrollment after this time such as a change in employment, a move within or out of state, if you gain or become a dependent, and several others.

Consumer protections are part of the law. These include:

- Children can be on a parent’s plan until age 26.
- Guaranteed coverage: Cannot be denied based on pre-existing conditions.
- No yearly or lifetime coverage limits.
- Cannot be canceled if you get sick.
- No cost to most people for preventive care.
- Insurers must spend at least 80 cents of every premium dollar they collect on health care.

Premium tax credits and cost sharing are still available to reduce the monthly cost and reduce deductible and co-pays. To be eligible for this assistance, family household income cannot exceed four times the current poverty rate or two and a half times for cost sharing. See table below. Besides household income, family size is also a factor. The only way to know for sure what you qualify for is to go through the marketplace either independently or with free assistance through a navigator or certified application counselor. In all cases, the following information will be needed: Social Security numbers, W-2s or other proof of income (e.g., 1099 or 1040), and employer information for each person.

Household/ Family Size	100%	200%	250%	300%	400%
1	12,060	24,120	30,150	36,180	48,240
2	16,240	32,480	40,600	48,720	64,960
3	20,420	40,840	51,050	61,260	81,680
4	24,600	49,200	61,500	73,800	98,400
5	28,780	57,560	71,950	86,340	115,120
6	32,960	65,920	82,400	98,880	131,840

The penalty for not having health insurance is assessed through the tax-filing process. The penalty for not having coverage in 2017 is the greater of \$695 per adult, \$347.50 per child, not to exceed \$2,085 per household or 2.5% of household income above the filing threshold. If a consumer cannot find minimum essential coverage for less than 8.05% of household income, they are exempt from the individual mandate penalty.

While individuals can get insurance via the marketplace, so can employers through SHOP. The Small Business Health Options Program (SHOP) is a marketplace where employers can compare, choose and buy health insurance for their employees and dependents any time of year.

Bronze, Silver and Gold plans are available in Missouri with coverage at 60%, 70%, and 80%

respectively.

The SHOP is intended to raise the purchasing power of small businesses. Employers with for-profit businesses can get back as much as 50% of their share of the health insurance cost through tax credits. Only employers with 50 equivalent full time employees (30 hours or more per week) are required to offer health insurance to their employees. If employers offer family coverage for spouse and dependents, this may make them ineligible for tax credits through the marketplace, even if the spouse and dependent coverage is unaffordable. So long as the employee's cost for coverage is less than 9.56% of household income for the employee-only share of the premium, then it is considered affordable.

Source: *Darla Campbell, ag business specialist*



Wishing you a Merry Christmas and
Happy New Year!

from the Northeast Missouri Ag Staff