Although most of us have "closed the books" for the 2000 tax year, several options are still available to do some substantial income tax planning for 2000. Up to the due date of the tax return, the following are some of the tax provisions farmers may want to consider to adjust their 2000 taxable income.

First, consider electing Code Section 179, a tax provision which allows the expensing of certain capital assets acquired during 2000, up to a maximum of $20,000. In general, qualifying Section 179 property is defined as business assets with a useful life of 3 or more years and that are: 1) tangible personal property; 2) livestock, or 3) single purpose agricultural or horticultural structures.

Second, the depreciation deduction on 2000 purchases can be adjusted substantially by utilizing the 150% declining balance method versus the straight-line method or by using the accelerated depreciation recovery period versus the extended alternative MACRS life. While the method and life of depreciation along with whether to elect the Section 179 deduction are timing of deduction decisions, the elections can have a substantial impact on tax liability for a particular year. For example, the allowable depreciation and/or Section 179 deductions vary from a high of $21,516 to a low of $2,750 on a $55,000 piece of farm machinery purchased any time during the first 3 quarters of 2000 (assumes half-year depreciation convention).

A word of caution, to qualify for depreciation and Section 179 in 2000, the capital assets must have been placed in service during 2000. That is, delivered to your place of business and in a condition of readiness. Dealerships frequently finalize sales at the end of the year with delivery scheduled for the next year. These assets will be considered placed in service and qualify for depreciation and Section 179 deductions in the year of delivery.

Third, individual retirement accounts (IRAs) for 2000 can be established and funded up to the due date for the tax return (not including extensions). For most people, this means that IRA contributions for 2000 must be made by April 16, 2001. In general, contribution amounts are limited based on earned income up to a maximum deduction of $2,000 on single returns or $4,000 on joint returns.
Additional retirement vehicles for which 2000 deductible contributions can still be made are Simplified Employee Pensions (SEP), Savings Incentive Match Plan for Employees (SIMPLE), and keogh plans. A SEP is the only type of employer-sponsored plan that can be established after the employer’s tax year has ended. 2000 contributions to SEP, SIMPLE and keogh plans can be made up to the due date of the 2000 income tax return including extensions.

Fourth, cash method taxpayers may be able to elect to postpone the income recognition of crop disaster and crop insurance proceeds in the year the crops were damaged. This provision may be elected if the taxpayer can show that the income from damaged crops would have normally been reported in any tax year following the year the crops were damaged. Revenue Ruling 74-145 suggests that if 50% or more of all your crops are sold in the year following harvest, that all of the crop disaster and insurance proceeds can be postponed until the following year. However, this also serves as a reminder to those taxpayers who postponed income from 1999, 2000 is the year to pay the piper.

For information on agricultural taxation, farmers are encouraged to obtain IRS Publication 225, "Farmers Tax Guide". This is a free publication and can be obtained by calling the IRS at 1-800-TAX-FORM or by contacting your local University Extension office.