

TAX PLANNING & WORKING CAPITAL IN A STRONG INCOME YEAR

Brady Brewer, Assistant Professor, Department of Agricultural Economics

Michael Langemeier, Professor & Associate Director, Center for Commercial Agriculture

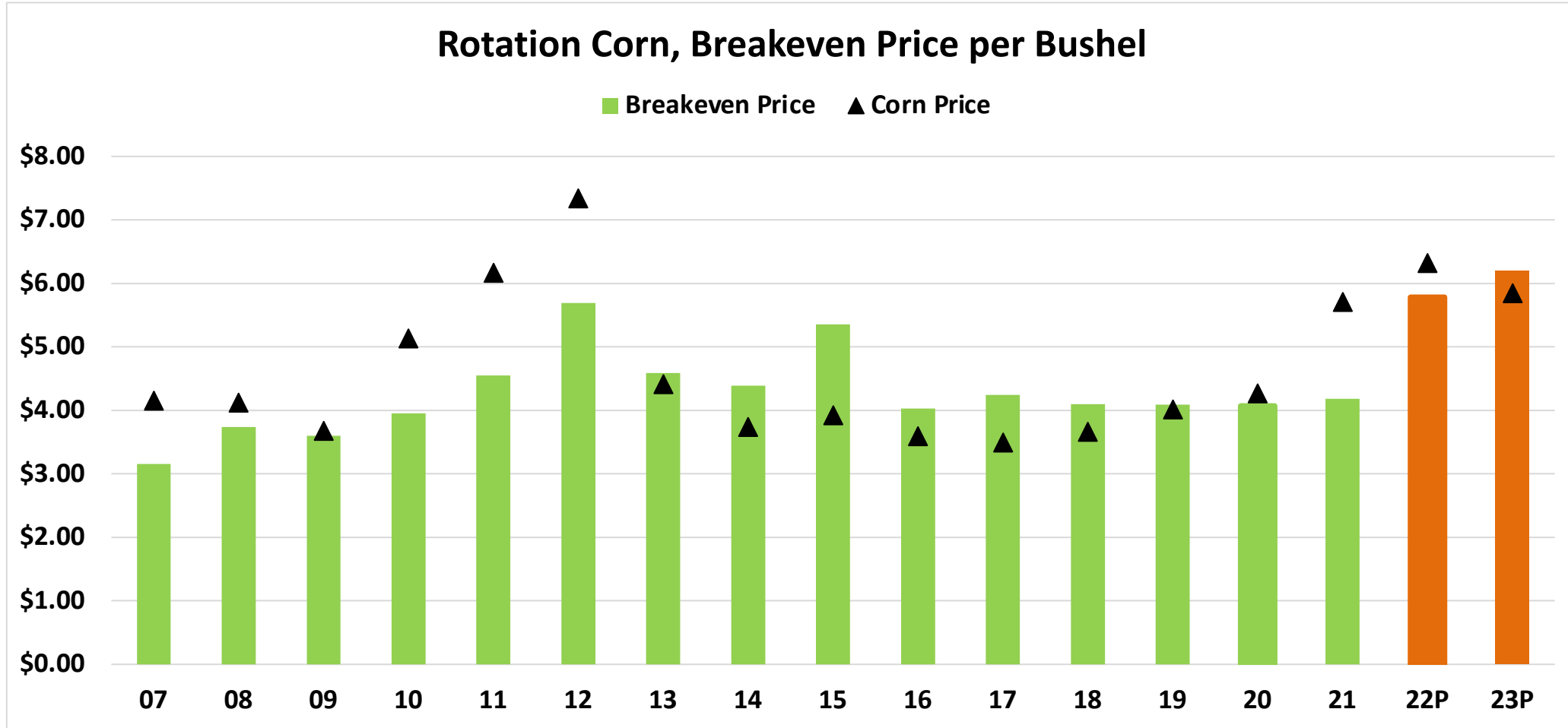


Center for Commercial Agriculture

Tax Planning for High Income Years

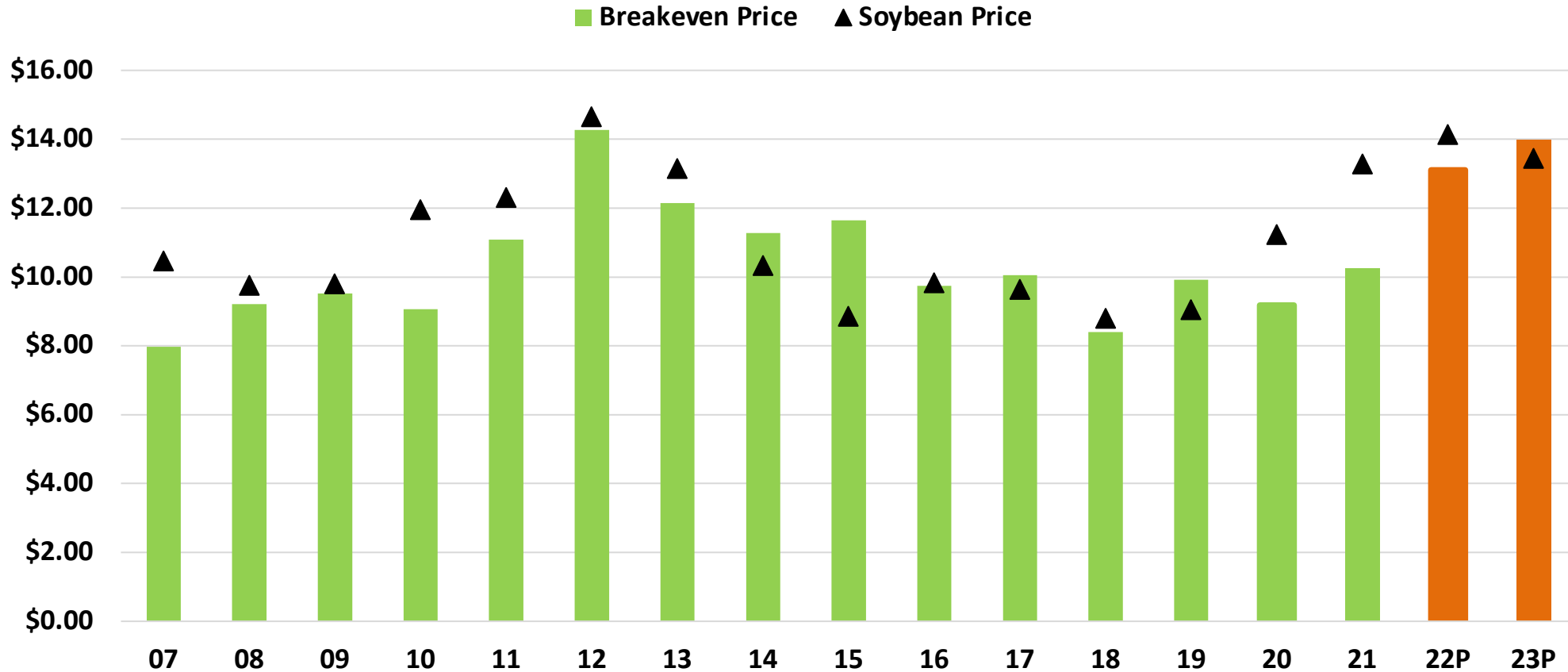
- Defer income
- Prepay expenses
- Retirement plan contributions
- Accelerated depreciation (section 179 deduction or bonus depreciation)
- Bunching itemized deductions
- Maximizing permanent tax benefits (e.g., hire children)

Breakeven Prices for 2022 and 2023 are Substantially Above Long-Run Average



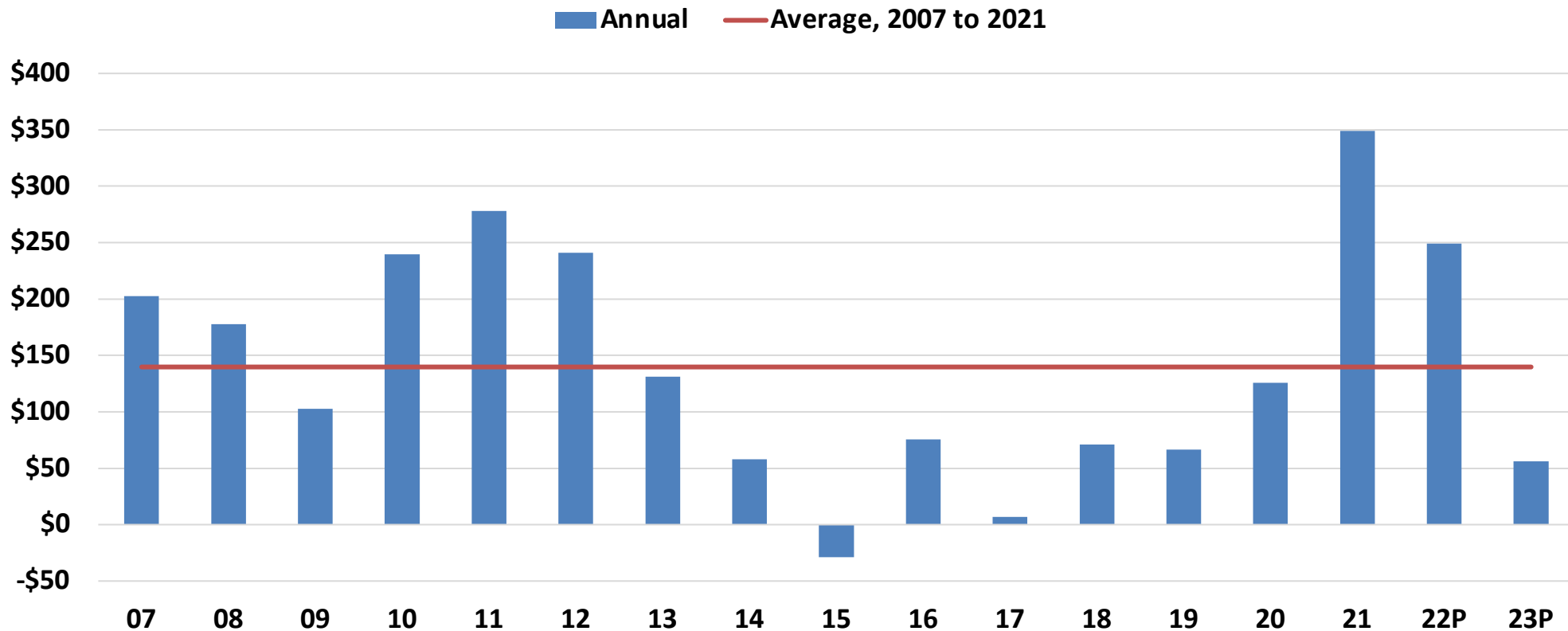
Breakeven Prices for 2022 and 2023 are Substantially Above Long-Run Average

Rotation Soybeans, Breakeven Price per Bushel



Net Farm Income Prospects for 2023 are Considerably Lower than NFI in 2021 and 2022

Net Farm Income, Corn/Soybean Rotation (\$ per Acre)
West Central Indiana Case Farm



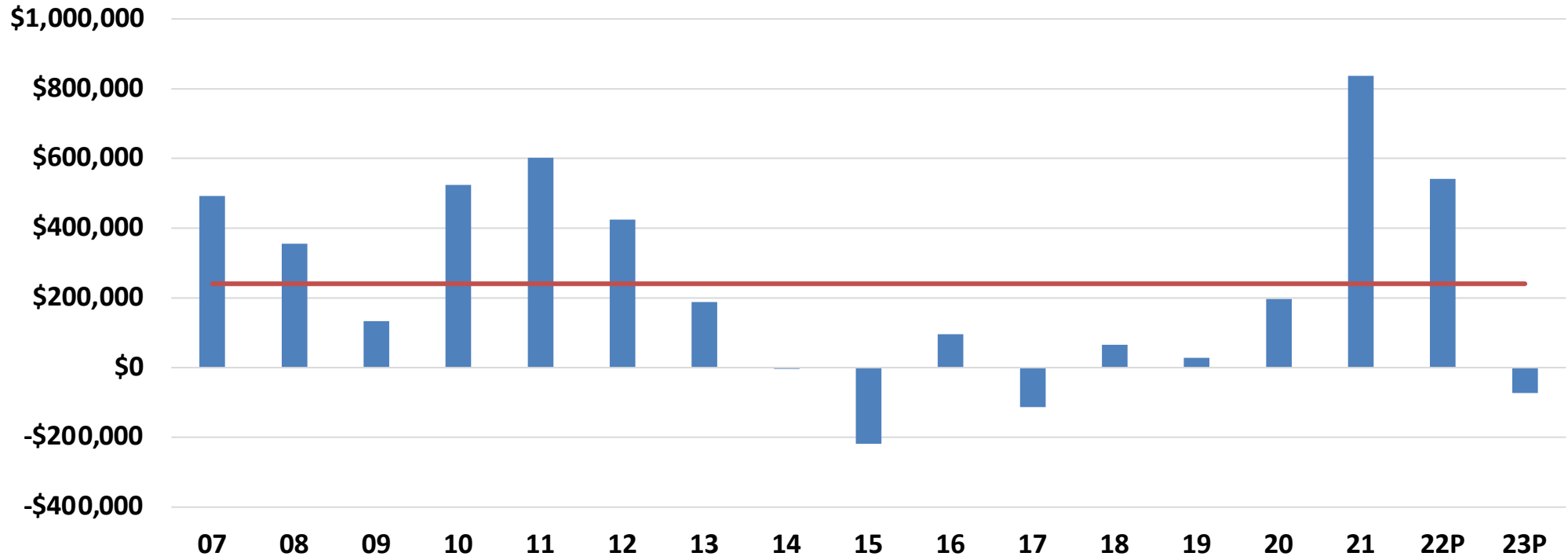
Replacement Margin and Working Capital

- The replacement margin measures a farm's ability to cover owner withdrawals, principal on term debt, and cash used for capital replacement (i.e., depreciation).
- Working capital is typically measured using the current ratio (current assets / current liabilities), and is used to cover cash shortfalls and to make down payments on asset purchases.
- When the replacement margin is relatively low, it is important to preserve working capital so that at least owner withdrawals and principal on term debt can be covered.

Projected Replacement Margin for 2023 is Negative

Replacement Margin West Central Indiana Case Farm

Annual Average



Center for Commercial Agriculture

Tax Planning for High Income Years

- Defer income
- Prepay expenses
- Retirement plan contributions
- Accelerated depreciation (section 179 deduction or bonus depreciation)
- Bunching itemized deductions
- Maximizing permanent tax benefits (e.g., hire children)