



Economic Toolbox

Not Your Father's Accountant

Debit, credit, 943, 1099, 1040, 1120S, 4797, W-2, W-3 and WD-40. Which of the previous terms do not apply to accountants and tax preparers? If you thought that more than one choice is a common lubricating oil, or that any were tractor model numbers, then you may not have a close enough relationship with your accountant. For most farmers, accountants are the people who need to be hired to keep them in compliance with the Internal Revenue Service. Sometime after January, February, March (or April for the procrastinators), file cabinets are dug through, stacks of envelopes and paper are sorted, ledger books are updated and computer reports are printed. Out comes a big envelope and everything goes in. Nearing the end of your task your palms start sweating. You know it's a mess but you'll pay any price to be done with this torture. With that last sealing rub of the envelope a sense of satisfaction and relief overcomes you as you think to yourself - "thank goodness that my accountant enjoys making sense out of all this stuff!" Wrong! Beneath that trademark white shirt and tie there's somebody opening a big envelope and thinking "Another nightmare. Boy, are they going to pay this time!"

A recent survey of tax preparers asked accountants what bothers them the most. Poor or messy bookkeeping topped the list followed by doing something stupid without checking with their accountant. Poor timeliness in providing information and slow payments by customers ranked third and fourth. It may sound like they surveyed the accountants used by farmers. They didn't. See, farms have more in common with other small businesses than you think.

As farm businesses grow in size and complexity, the consequences of making poor business decisions also increase. Many farmers have unhappily discovered these mistakes, soon followed by the begrudging writing of checks paid to the order of the

IRS. It does not take many of these costly blunders to realize that tax planning is an important part of running a farm business.

Building and maintaining a good relationship with your accountant can provide more benefits than just lower income taxes. Sophisticated accountants and accounting firms are doing more than just your income taxes now. They can offer advice on structuring business arrangements such as partnerships and corporations, provide payroll services, and offer off-farm investment and retirement planning. Some provide ongoing advice for investment strategies in new equipment or expansions and can help develop business plans for banks or investors.

For Battaglia, Andrews & Moag, P.C. a respected accounting firm in Western New York, helping farmers develop and manage a team of farm advisors is an emerging role for accounting professionals. "Everything a farmer does has a ripple effect on the business" says CPA Tim Moag. Whether the change is significant such as transferring the business to the next generation or incremental like developing employee incentive compensation plans, a team approach with other professionals is likely to produce the best results says Moag.

To keep plugged into the activities of their farm business clients, accounting professionals are using a number of monitoring techniques and regular farm meetings to discuss the financial progress of the business. The goal is to spot opportunities or problems before it's too late to effect the outcome. With changes in tax laws, this becomes even more important. "After the fact consulting" is a very frustrating experience according to Moag. His sentiments reflect the number two problem of tax and accounting professionals - their clients do something dumb without first checking with them.

In order to help avoid these problems, some accounting firms are monitoring financial data on a quarterly or monthly basis and informing their farmer clients of impending

problems. Special accounting software is being promoted by some so that access to a farm's financial data is quick and easy. Others have the ability to take the farm books directly from the farm's computer over telephone lines, without interrupting the normal operation of the farm office. Improvements in electronic communications are opening up new doorways for financial advisors to help their clients maintain accurate books, develop sound financial statements and relate this information to key players including a farm's middle management, lender, or suppliers.

Still, the centerpiece of most business relationships with accountants is the income tax return. For most accounting professionals, it is their bread and butter. Proper income tax preparation and tax planning is more than a year-end chore, and there are ways to reduce the cost and improve the results of this annual ordeal. From a tax preparer's point of view, there are only two seasons in the year. There's *tax season* and then there's the rest of the year. Tax season generally runs from January thru April. For many, it becomes a grueling 12 day, 7 days a week life. (It's O.K. if you don't have any sympathy since you're working 14 hour days 365 days a year.) Anything a business can do to make the process of preparing the income tax return easier for their preparer is greatly appreciate and can be reflected in your tax preparation fees. The key is to have your financial information properly organized. When it is, the process becomes largely a matter of data entry for the tax preparer. Data entry is not all that expensive.

Most tax preparers now use costly and sophisticated software to guide them through the process of entering your tax information, processing that information and printing completed tax returns. The starting point is the tax organizer you should receive from you preparer in early December if you file on a calender year. This organizer is several pages of questions that are needed to determine your taxpayer status. It helps your preparer determine if you qualify for special deductions or incentives. Not answering all the questions carefully could cause your preparer to overlook an option that could save you enough money to more than cover his or her fees.

The tax organizer packet should also contain instructions about what should be included when your completed information. Supporting documentation such as 1099's and W-2's for interest, dividends, rental payments and off-farm wages should be organized and summarized. Activities regarding farm income, operating expenses, the sale or purchase of breeding livestock, equipment or real estate should be neat, accurate and organized. If you have a on-farm computer for bookkeeping, a print-out of the entire general ledger provides the detail that your preparer can use in developing a lowest income tax strategy for your business. These items should be discussed with your preparer before year-end so that you still can make some adjustments to manage your tax liability before it's too late. Writing checks in January with December dates is a very risky way of reducing your income tax liability.

Take charge of your business by involving your accountant in your decisions and maintaining an on-going relationship. You may be surprised to find that your benefits increase faster than your costs.

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