

Deferred Taxes: Your Balance Sheet May Not Be What You Think

IL Soy Advisor Webinar (AMP Summer Series), August 19, 2021

Agenda

About Presenters

Farm Financial Standards Council

Overview of Deferred Taxes

Examples of Deferred Taxes

Todd Doehring Bio

- Todd is a Director with Centrec Consulting Group, LLC, located in Savoy.
- Centrec is a management consulting company working within the food and ag sector: research, education, consulting.
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 - centrec.com
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- Director at Centrec for over 30 years
- Member of the Farm Financial Standards Council for nearly 20 years, past president, and currently serving as co-chair of the Technical Committee
- Grew up on a farm in central Illinois and attended the University of Illinois earning, degrees in Agricultural Economics
- Taught at the University of Illinois for 10 years

Dick Wittman Bio

- Dick Wittman is former manager and board chair of a 20,000-acre Idaho family farm partnership involving crops, cattle and timber and provides consulting services in family farm business and financial management in the US and abroad.
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 - dick@wittmanfarms.com
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- Former FCS lender
- Served on numerous commodity and financial institution boards
- Member and past president of the Farm Financial Standards Council
- Past president/founding member of the PNW Direct Seed Association
- Adjunct faculty member of Texas A&M University teaching annually at the TEPAP Executive program and King Ranch Institute



About the Farm Financial Standards Council (FFSC)

About the FFSC

- Began in 1989, on the heels of the '80s farm crisis
- Primary mission is to develop standards for preparation and analysis of agriculture financial statements
- Today, the FFSC, is comprised of over 150 members across the U.S., and includes, producers, accountants, lenders, academicians, extension agents, software developers, and consultants.
- Continuing efforts are to keep the guidelines current and relevant to agriculture

Dick Wittman

Overview of Deferred Taxes

Deferred and Estimated Taxes

- What is difference between cost and market value?
- Why is it important to know?
 - Annual tax planning, business expansion
 - Optimizing estate and succession planning strategies
 - Asset transfers/replacement/tax free exchanges
- How much of your net worth is unrealized gain?
 - What portion is deferred income?
 - What portion is valuation equity?
- How do we calculate deferred and estimated tax liability what financial statements do they impact?
 - Impact on Accrual-Adjusted Income Statement
 - Impact on Net Worth Reconciliation

Changes in Current Assets/Liab. + Base Values Breeding Stock, M&E Result in → Change in Deferred Tax (affects Accrual Adjusted Net Income)

Cost **Mkt Value**

B1

B1

Personal Name _____ As of _____, 19____

Business Address _____ Phone _____

Consolidated

ASSETS LIABILITIES AND NET WORTH

Current Assets					Modified Cost	Market Value	Current Liabilities					Modified Cost	Market Value
Cash (on hand) or in checking					\$ _____	\$ _____	Accounts payable:						
Savings accounts & time certificates ...					_____	_____	Labor \$ _____ Feed & seed \$ _____						
Hedging account equity					_____	_____	Repairs _____ Fert. & chem _____						
Marketable bonds & securities (Sch. 1)					_____	_____	Storage _____ Fuel & oil _____						
Notes & accounts receivable (good)					_____	_____	Other _____ Mach. hire _____					\$ _____	\$ _____
Livestock & poultry to be sold:							Medical & other personal						
Kind	No.	Avg. Wt.	\$/Unit	Value			Notes payable within 12 months (to whom, maturity, purpose) ..						
Crops and feed:							Principal portion of longer term debts due within 12 months (Sch. 8):						
Item	Quant.	Unit	\$/Unit	Value			Intermediate						
							Long term						
Cash investment in growing crops:							Estimated accrued interest on:						
Crop	Acres	\$/Ac.	Value				Accounts \$ _____ Notes \$ _____						
							Intermediate liabilities \$ _____						
							Long term liabilities \$ _____						
Supplies (Sch. 2)							Estimated accrued tax liability:						
Prepaid expenses							Property						
Other							Real estate						
							Employer payroll withholdings						
							Income & Soc. Sec.						
TOTAL CURRENT ASSETS \$					\$	\$	TOTAL CURRENT LIABILITIES \$					\$	\$

Deferred Tax Liab

Changes in Cost (Book) vs. MV of Fixed Assets – Valuation Equity

Result in → Change in Estimated Tax (affects NW reconciliation – not Accrual NI)

TOTAL CURRENT ASSETS		\$		TOTAL CURRENT LIABILITIES		\$	\$
Intermediate Assets				Intermediate Liabilities (Sch. 8)			
Notes & accounts receivable (good)	\$			Principal due beyond 12 months)		\$	
Machinery, equipment, trucks (Sch. 9):				Notes payable	\$		
Cost or Basis	\$			Sales contracts			
Less accumulated dep	\$			Life insurance policy loans			
Breeding stock (Sch. 4)				Other			
Retirement accounts (IRA, HR-10)				Contingent income tax liability:			
Cash value of life insurance (Sch. 7)				Machinery			
Securities not readily mktable (Sch. 1)				Breeding stock			
Personal & recreational vehicles (Sch. 3)				Securities not readily mktable			
Household goods & personal effects				Contingent income tax liability &			
Other				interest penalty on retirement accts.			
TOTAL INTERMEDIATE ASSETS	\$	\$		TOTAL INTERMEDIATE LIABILITIES	\$	\$	
Fixed Assets				Long Term Liabilities (Sch. 8)			
Contracts & notes receivable	\$	\$		(Principal due beyond 12 months)			
Farm real estate (Sch. 5):				Mortgage on farm real estate	\$	\$	
Cost or Basis	\$			Land contracts			
Less accumulated dep	\$			Mortgage on non-farm real estate			
Non-farm real estate (Sch. 6)				Other			
Other				Contingent capital gains tax liability:			
				Real estate			
TOTAL FIXED ASSETS	\$	\$		TOTAL LONG TERM LIABILITIES	\$	\$	
				TOTAL LIABILITIES	\$	\$	
				NET WORTH	\$	\$	
TOTAL ASSETS	\$	\$		TOTAL LIABILITIES AND NET WORTH	\$	\$	

Interm.
Assets/
Liab

← Estimated
Tax

Developed by Thomas L. Frey and Danny A. Klinefelter, Dept. of Agricultural Economics, Cooperative Ext. Service, University of Illinois. ©1980 AGRI FINANCE. Available from Agri Finance, 5520-G Touhy Ave., Skokie, IL 60077.

Good Management Practice: Make Valuation Equity Transparent!

Owners	Book Capital	Unreal Gain*	Total Equity
Partner A	\$1,750,000	\$1,300,000	\$3,050,000
Partner B	\$1,500,000	\$1,113,000	\$2,613,000
Partner C	\$900,000	\$675,000	\$1,575,000
Totals	\$4,150,000	\$3,088,000	\$7,238,000

*Unrealized Gain (Valuation Equity & Deferred Income)
= 43% of Total Equity Value

...How much of your NW is YOURS vs. GAIN Subject to Tax?

Items that Contribute to: Deferred Income and Tax

- Excess of Carrying (Book) Value over Tax Basis
- Deferred Income Items: Current Assets that are taxable when sold or converted to cash
 - Commodities, Accts Receivable, Prepaid expenses
 - Hedging Equity, Cash Investment in Growing Crop
- Deferred Expense Items: Current Liabilities that are deductible when paid
 - Accounts payable, accrued interest, property taxes
 - Estimated federal and state income and payroll taxes
 - Unearned government payments
- Book (Base) Value vs. Tax Basis
 - Breeding Stock, Machinery/Equip, Bldgs & Improvements

Items that Contribute to: Valuation Equity & Estimated Tax

- Difference between Market Value and Book (Base Value)*
 - Breeding Stock
 - Machinery & Equipment
 - Building & Improvements
 - Cash Value of Life Insurance
 - Securities and Investments
 - Farm Real Estate

* This difference results in the Valuation Equity portion of Net Worth

In Perfect World – 3 column Balance Sheet is the IDEAL

- Tax/Cost Basis
- Accrual/Book Value
- Market Value

→ Look for accounting systems that can deliver all three sets of values

Where should Deferred Tax be Recorded?

Two Options:

1. Record on the balance sheet as Deferred and Estimated Tax Liability
 - a. Pros – more realistic presentation of net worth for owners' evaluation of retirement wealth, buyouts and transition
 - b. Cons – bankers don't like this...distorts serviceable debt, financial ratios, and credit scoring models
2. Record as footnote to financial statements
 - a. Pros – discloses potential liability that exists; acknowledges the amount is not an exact science (tax laws subject to change; death can erase or reduce tax)
 - b. Cons – tends to overstatement recognizable equity on primary financial statements

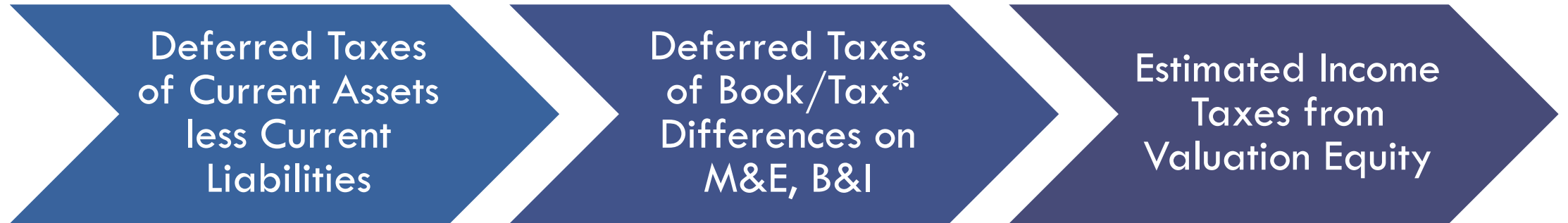
FFSC New Guidelines: Deferred Tax & Estimated Income Taxes

- Draft targeted for 2022 distribution
- Appendix A – Todd will discuss
 - (a) Difference between Book and Tax Value (aka Deferred Income)
 - (b) Difference between Market Value and Book (aka Valuation Equity)

Todd Doehring

Examples of Deferred Taxes

Deferred Taxes Calculation



*Also relates to base value of raised breeding stock

Bill and Betty Farmer
Balance Sheet (Market Value)
Business Assets and Liabilities (with personal separated)
As of 12/31/X7 and 12/31/X8

ASSETS	<u>12/31/X8</u>	<u>12/31/X7</u>	LIABILITIES	<u>12/31/X8</u>	<u>12/31/X7</u>
Cash	\$ 52,208	\$ 68,419	Accounts Payable, Crops	\$ 0	\$ 0
Hedging Account Equity	19,000	22,250	Accounts Payable, Livestock	6,578	4,563
Accounts Receivable, Crops	10,500	0	Overdrafts	0	0
Accounts Receivable, Livestock	0	0	Notes Due Within One Year (Sched. 5)	95,570	74,750
Inventories, Crops (Sched. 1)	88,750	77,625	Current Portion of Term Debt (Sched. 5)	57,816	100,926
Inventories, Feed (Sched. 1)	32,825	33,025	Current Portion of Finance Leases (Sched. 6)	14,215	13,506
Inventories, Livestock (Sched. 1)	51,750	48,600	Accrued Interest, Notes Due Within One Year (Sched. 5)	3,385	1,616
Inventories, Supplies (Sched. 1)	2,548	1,800	Accrued Interest, Noncurrent Loans (Sched. 5)	24,941	27,535
Prepaid Expenses (Sched. 1)	45,000	28,000	Accrued Interest, Finance Leases (Sched. 6)	2,162	2,812
Cash Investment in Growing Crops	35,400	32,679	Business Income Taxes Payable	13,705	14,769
Other Current Assets	0	0	Other Accrued Expenses	0	0
			Other Current Liabilities	<u>0</u>	<u>0</u>
Total Current Assets	<u>\$ 337,981</u>	<u>\$ 312,398</u>	Total Current Liabilities	<u>\$ 218,372</u>	<u>\$ 240,477</u>
Breeding Livestock (Sched. 2)	298,100	307,650	Noncurrent Portion, Notes Payable (Sched. 5)	66,257	94,150
Machinery & Equipment (Sched. 3)	728,000	767,000	Noncurrent Portion, Real Estate Debt (Sched. 5)	501,868	531,791
Right-of-Use Assets, Finance Leases	44,921	58,427	Noncurrent Portion, Finance Leases (Sched. 6)	30,706	44,921
Investments in Other Entities	0	0	Deferred Income Tax (Sched. 7)	231,960	197,178
Investments in Cooperatives	27,763	27,763	Other Noncurrent Liabilities	0	0
Land (Sched. 4)	2,480,000	2,384,000			
Buildings & Improvements (Sched. 4)	207,825	172,825			
Other Assets	<u>0</u>	<u>0</u>			
Total Noncurrent Assets	<u>\$ 3,786,609</u>	<u>\$ 3,717,665</u>	Total Noncurrent Liabilities	<u>\$ 830,791</u>	<u>\$ 868,040</u>
			Total Business Liabilities	<u>\$ 1,049,163</u>	<u>\$ 1,108,517</u>
			Estimated Income Tax (Sched. 7)	<u>\$ 459,545</u>	<u>\$ 432,872</u>
			Total Business Liabilities and Estimated Income Tax	<u>\$ 1,508,708</u>	<u>\$ 1,541,389</u>
			Retained Capital	1,237,246	1,190,059
			Valuation Equity (Sched. 8)	<u>1,378,636</u>	<u>1,298,615</u>
			Total Business Net Worth	<u>\$ 2,615,882</u>	<u>\$ 2,488,674</u>
Total Business Assets	<u>\$ 4,124,590</u>	<u>\$ 4,030,063</u>	Total Business Liabilities and Net Worth	<u>\$ 4,124,590</u>	<u>\$ 4,030,063</u>
Personal Assets (Sched. 9)	\$ 260,900	\$ 251,250	Personal Liabilities and Related Taxes (Sched. 9)	\$ 21,191	\$ 15,780
			Total Liabilities	1,529,899	1,557,169
			Total Net Worth	<u>2,855,591</u>	<u>2,724,144</u>
Total Assets	<u>\$ 4,385,490</u>	<u>\$ 4,281,313</u>	Total Liabilities and Net Worth	<u>\$ 4,385,490</u>	<u>\$ 4,281,313</u>

Note: This Balance Sheet includes both personal and business assets and liabilities

Farm Income Statement (Accrual-Adjusted)
For the Period January 1, 'X8 Thru December 31, 'X8

Revenues		
Crop Sales	\$ 509,518	
Increase (Decrease) in Crop Inventories	11,125	
Increase (Decrease) in Crop Accounts Receivable	<u>10,500</u>	
Total Crop Revenue		\$ 531,143
Market Livestock Sales	118,128	
Increase (Decrease) in Market Livestock Inventories	3,150	
Increase (Decrease) in Livestock Accounts Receivable	<u>0</u>	
Total Market Livestock Revenue		121,278
Raised Breeding Livestock Sales	21,000	
Increase (Decrease) in Base Value of Raised Breeding Livestock	13,000	
Purchased Breeding Livestock Sales	7,915	
Less Net Book Value of Purchased Breeding Livestock Sales	<u>(10,040)</u>	
Total Breeding Livestock Revenue		31,875
Crop Insurance Proceeds	0	
Ag Program Payments	46,336	
Patronage Dividends	3,300	
Other Operating Revenue	0	
Hedging Gains (Losses)*	1,750	
Increase (Decrease) in Other Receivables	<u>0</u>	
Total Other Operating Revenues		51,386
Gross Revenues		<u>\$ 735,682</u>
Expenses		
Operating Expenses	466,329	
Feed Purchases	31,583	
(Increase) Decrease Feed Inventories	200	
Feeder Livestock Purchases	0	
(Increase) Decrease Supplies Inventories	(748)	
(Increase) Decrease Prepaid Expenses	(17,000)	
(Increase) Decrease Cash Investment in Growing Crops	(2,721)	
(Increase) Decrease Other Current Assets	0	
Increase (Decrease) Accounts Payable	2,015	
Increase (Decrease) Other Accrued Expenses	0	
Depreciation Expense	67,204	
Amortization of Finance Leases	<u>13,506</u>	
Total Operating Expenses		560,368
Income from Operations		<u>\$ 175,314</u>
Other Revenue (Expenses)		
Interest Income	0	
Interest Expense:		
Interest on Current Loans	(1,879)	
(Increase) Decrease in Interest Payable on Current Loans	(1,769)	
Interest on Noncurrent Loans	(35,838)	
Interest on Finance Leases	(3,067)	
(Increase) Decrease in Interest Payable on Noncurrent Loans	3,244	
Amortization of Loan Fees	<u>0</u>	
Total Interest Expense		(39,309)
Sales of Farm Assets	0	
Less Net Book Value of Farm Assets Sold	<u>0</u>	
Total Gain (Loss) on Sale of Farm Assets		0
Other Miscellaneous Income (Expense)	<u>0</u>	
Total Other Revenue (Expenses)		<u>(39,309)</u>
Income before Income Tax (Net Farm Income)		<u>\$ 136,005</u>
Income Tax Expense		
Income Taxes	14,769	
Increase (Decrease) in Accrued Income Taxes	(1,064)	
Increase (Decrease) in Deferred Taxes	<u>34,782</u>	
Total Income Tax Expense		48,487
Net Income		<u>\$ 87,518</u>

*Hedging Gains (Losses) may be allocated to Crop or Livestock Sales, or Feed or Livestock Purchases

Bill and Betty Farmer
Statement of Net Worth
For the Period January 1, 'X8 Thru December 31, 'X8

Net Worth at Beginning of Period (Market Value)		\$ 2,724,144
Net Income/Loss (Business Income Statement)	\$ 87,518	
Withdrawals for Labor & Management	\$ (55,740)	
Other Withdrawals	(12,680)	
Nonfarm Income Contributed to the Farm Business	<u>28,089</u>	
Owner Withdrawals, Net	(40,331)	
Other Capital Contributions, Gifts, Inheritances	0	
Capital Distributions, Gifts Made	<u>0</u>	
Total Change in Retained Capital	\$ 47,187	
Change in Excess of Market Value over Book/Base Value of Noncurrent Assets	106,694	
Change in Estimated Income Tax Liability Related to Valuation Equity	<u>(26,673)</u>	
Total Change in Valuation Equity	\$ 80,021	
 Total Change in Total Business Net Worth		 \$ 127,208
 Increase in Value of Personal Assets	 9,650	
Less Increase in Personal Liabilities	<u>5,411</u>	
Net Worth Change due to Changes in Personal Assets and Liabilities		\$ 4,239
 Net Worth at End of Period (Market Value)		 <u>\$ 2,855,591</u>

<u>Net Realizable Value (NRV) Tax Differences</u>	'X8			'X7		
	NRV	Tax Basis	Difference	NRV	Tax Basis	Difference
<i>Deferred Income Items:</i>						
Inventories	\$ 175,873	\$ 0	\$ 175,873	\$ 161,050	\$ 0	\$ 161,050
Accounts Receivable	10,500	0	10,500	0	0	0
Hedging Account Equity	19,000	19,000	0	22,250	22,250	0
Prepaid Expenses	45,000	0	45,000	28,000	0	28,000
Cash Investment in Growing Crops	35,400	0	<u>35,400</u>	32,679	0	<u>32,679</u>
Excess of Carrying Value over Tax Basis of Current Assets			266,773			221,729
Deferred Income Liability on Crop Insurance, Disaster Payments and Contracts			<u>0</u>			<u>0</u>
Total Deferred Income			266,773			221,729
<i>Deferred Expense Items:</i>						
Accounts Payable			6,578			4,563
Accrued Interest			30,488			31,963
Net Operating Losses (NOL) & Other Deductions			0			0
Other Accrued Expenses			<u>0</u>			<u>0</u>
Total Deferred Expenses			37,066			36,526
Net Deferred Income Subject to Income Tax			<u>\$ 229,707</u>			<u>\$ 185,203</u>
Estimated Federal and State Income Tax Rate			30.00%			30.00%
Estimated Federal and State Income Tax			68,912			55,561
<i>Self-Employment Tax:</i>						
Self-Employment Income Cap			128,400			127,200
Self-Employment Tax of 15.3%, subject to SE Income Cap of 93.25% on Net Deferred Income plus 2.9% on Net Deferred Income exceeding SE Income Cap			<u>22,073</u>			<u>20,733</u>
(a) Total Deferred Tax Liability Related to Current Assets and Current Liabilities			<u>\$ 90,985</u>			<u>\$ 76,294</u>

<u>Book (Base Value) Tax Differences</u>	Book/Base	Tax Basis	Difference	Book/Base	Tax Basis	Difference
Raised Breeding Livestock	\$ 228,000	\$ 0	\$ 228,000	\$ 215,000	\$ 0	\$ 215,000
Purchased Breeding Livestock	43,848	29,800	14,048	56,857	42,235	14,622
Machinery and Equipment	382,416	159,802	222,614	437,490	231,731	205,759
Real Estate and Improvements	1,221,480	1,216,225	<u>5,255</u>	1,190,641	1,223,075	<u>(32,434)</u>
Net Deferred Income Subject to Income Tax			<u>\$ 469,917</u>			<u>\$ 402,947</u>
Estimated Federal and State Income Tax		x	30.00%		x	30.00%
(b) Total Deferred Tax Liability Related to Book/Base Value of Noncurrent Assets			<u>\$140,975</u>			<u>\$120,884</u>
Total Deferred Taxes (a + b)			<u>\$ 231,960</u>			<u>\$ 197,178</u>

<u>Estimated Taxes Related to Valuation Equity</u>	Market Value	Book/Base	Difference	Market Value	Book/Base	Difference
Raised Breeding Livestock	\$ 240,600	\$ 228,000	\$ 12,600	\$ 239,250	\$ 215,000	\$ 24,250
Purchased Breeding Livestock	57,500	43,848	13,652	68,400	56,857	11,543
Machinery and Equipment	728,000	382,416	345,584	767,000	437,490	329,510
Real Estate and Improvements	2,687,825	1,221,480	1,466,345	2,556,825	1,190,641	1,366,184
Excess of Market over Book/Base Values of Noncurrent Assets			<u>\$ 1,838,181</u>			<u>\$ 1,731,487</u>
Estimated Federal and State Income Tax		x	25.00%		x	25.00%
(c) Total Estimated Income Tax Liability Related to Valuation Equity			<u>\$459,545</u>			<u>\$432,872</u>

Due to Current Assets & Current Liabilities

<u>Net Realizable Value (NRV) Tax Differences</u>	'X8			'X7		
	NRV	Tax Basis	Difference	NRV	Tax Basis	Difference
<i>Deferred Income Items:</i>						
Inventories	\$ 175,873	\$ 0	\$ 175,873	\$ 161,050	\$ 0	\$ 161,050
Accounts Receivable	10,500	0	10,500	0	0	0
Hedging Account Equity	19,000	19,000	0	22,250	22,250	0
Prepaid Expenses	45,000	0	45,000	28,000	0	28,000
Cash Investment in Growing Crops	35,400	0	<u>35,400</u>	32,679	0	<u>32,679</u>
Excess of Carrying Value over Tax Basis of Current Assets			266,773			221,729
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Accounts Payable			6,578			4,563
Accrued Interest			30,488			31,963
Net Operating Losses (NOL) & Other Deductions			0			0
Other Accrued Expenses			<u>0</u>			<u>0</u>
Total Deferred Expenses			37,066			36,526
Net Deferred Income Subject to Income Tax			<u>\$ 229,707</u>			<u>\$ 185,203</u>
Estimated Federal and State Income Tax Rate			30.00%			30.00%
Estimated Federal and State Income Tax			68,912			55,561
<i>Self-Employment Tax:</i>						
Self-Employment Income Cap			128,400			127,200
Self-Employment Tax of 15.3%, subject to SE Income Cap of 93.25% on Net Deferred Income plus 2.9% on Net Deferred Income exceeding SE Income Cap			<u>22,073</u>			<u>20,733</u>
(a) Total Deferred Tax Liability Related to Current Assets and Current Liabilities			<u>\$ 90,985</u>			<u>\$ 76,294</u>

Due to Book/Tax Differences

	'X8			'X7		
	Book/Base	Tax Basis	Difference	Book/Base	Tax Basis	Difference
<u>Book (Base Value) Tax Differences</u>						
Raised Breeding Livestock	\$ 228,000	\$ 0	\$ 228,000	\$ 215,000	\$ 0	\$ 215,000
Purchased Breeding Livestock	43,848	29,800	14,048	56,857	42,235	14,622
Machinery and Equipment	382,416	159,802	222,614	437,490	231,731	205,759
Real Estate and Improvements	1,221,480	1,216,225	5,255	1,190,641	1,223,075	(32,434)
Net Deferred Income Subject to Income Tax			\$ 469,917			\$ 402,947
Estimated Federal and State Income Tax			x 30.00%			x 30.00%
(b) Total Deferred Tax Liability Related to Book/Base Value of Noncurrent Assets			\$140,975			\$120,884
Total Deferred Taxes (a + b)			\$ 231,960			\$ 197,178

Due to Market/Book Differences

	'X8			'X7		
	Market Value	Book/Base	Difference	Market Value	Book/Base	Difference
<u>Estimated Taxes Related to Valuation Equity</u>						
Raised Breeding Livestock	\$ 240,600	\$ 228,000	\$ 12,600	\$ 239,250	\$ 215,000	\$ 24,250
Purchased Breeding Livestock	57,500	43,848	13,652	68,400	56,857	11,543
Machinery and Equipment	728,000	382,416	345,584	767,000	437,490	329,510
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Excess of Market over Book/Base Values of Noncurrent Assets			\$ 1,838,181			\$ 1,731,487
Estimated Federal and State Income Tax			x 25.00%			x 25.00%
(c) Total Estimated Income Tax Liability Related to Valuation Equity			\$459,545			\$432,872

Earnings Impact of Deferred Taxes

Reconciliation of Total Change in Deferred Taxes for Business

Deferred Tax Liability Related to Book-Tax Differences (a)

Deferred Tax Liability Related to Book (Base Value) Tax Differences (b)

Total Increase (Decrease) in Deferred Tax Liability Used in Calculating Total Income Tax Expense in 'X8

Estimated Income Taxes Related to Valuation Equity (c)

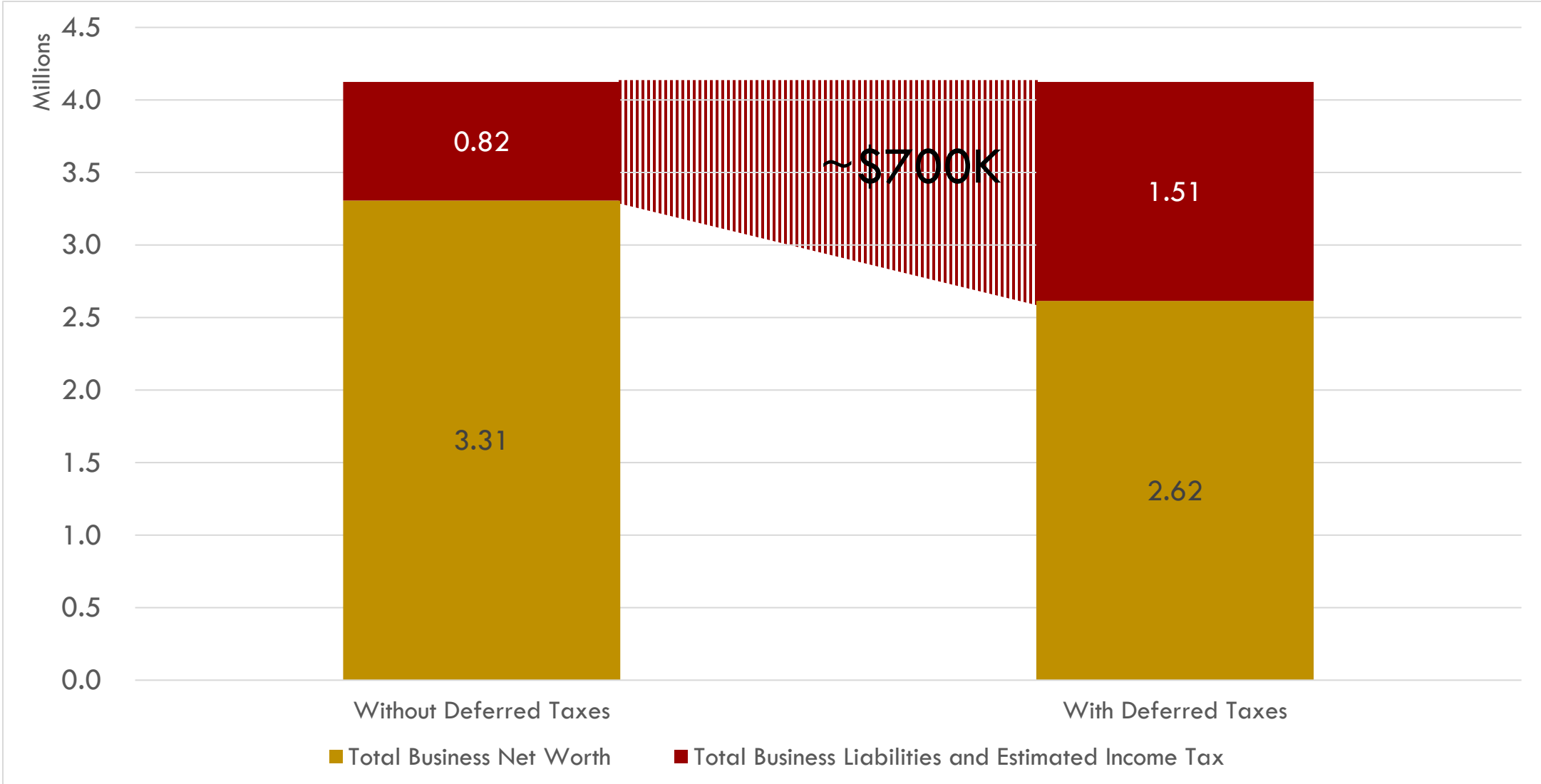
Total Increase (Decrease) in Deferred and Estimated Income Tax Liability

	'X8	'X7	Change
	\$ 90,985	\$ 76,294	\$ 14,691
	140,975	120,884	20,091
			<u>34,782</u>
	459,545	432,872	<u>26,673</u>
			<u>\$ 61,455</u>

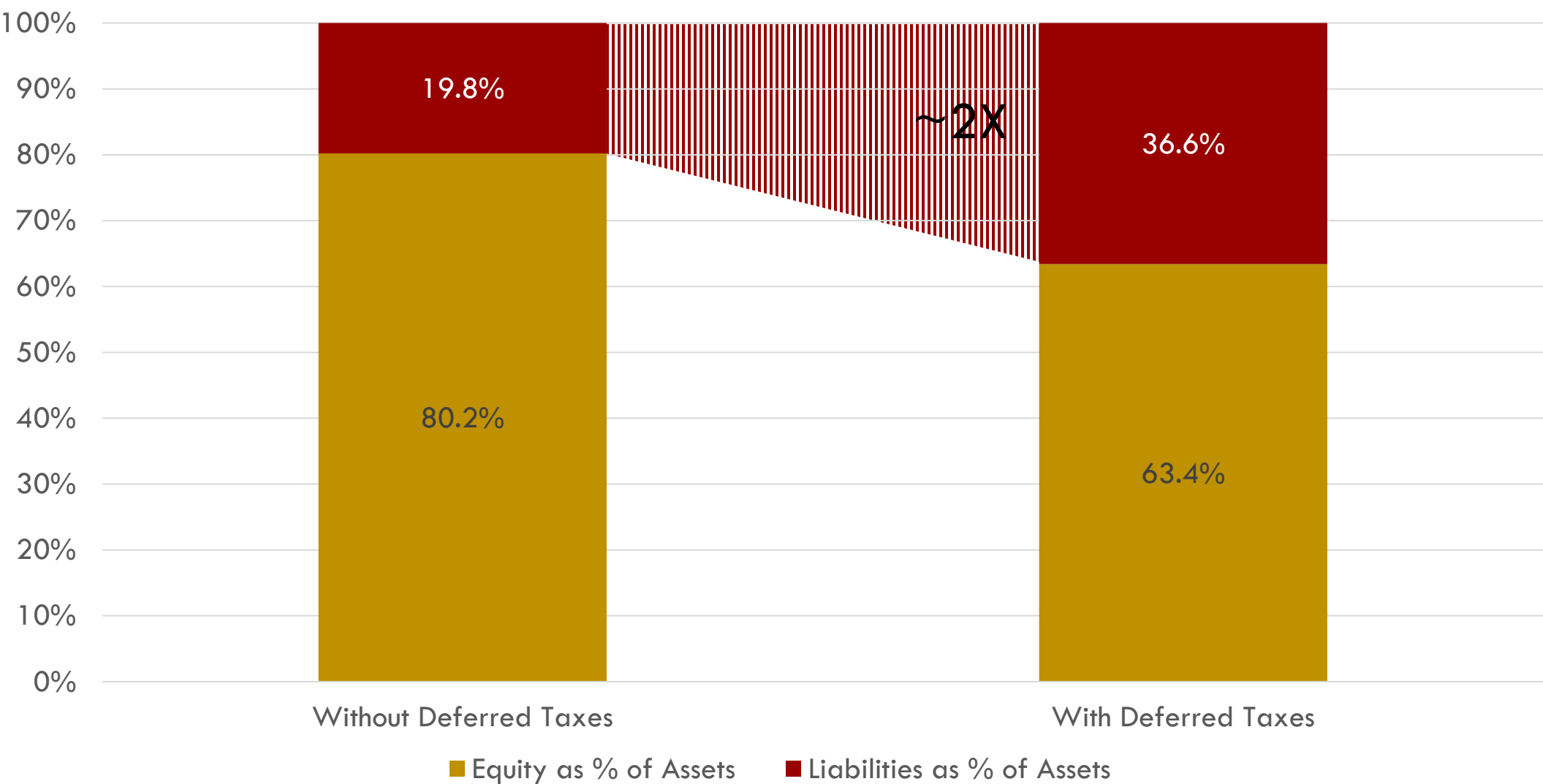
\$ Amounts of Deferred Income/Taxes

	'X8	'X7
Net Deferred Income Subject to Income Tax (NRV/Tax Differences)	\$ 229,707	\$ 185,203
Net Deferred Income Subject to Income Tax (Book/Tax Differences)	\$ 469,917	\$ 402,947
Excess of Market over Book/Base Values of Noncurrent Assets (Market/Book Differences)	<u>\$ 1,838,181</u>	<u>\$ 1,731,487</u>
Deferred Income Subject to Income Tax and Valuation Equity Subject to Estimated Income Taxes	\$ 2,537,805	\$ 2,319,637
(a) Total Deferred Tax Liability Related to Current Assets and Current Liabilities	\$ 90,985	\$ 76,294
(b) Total Deferred Tax Liability Related to Book/Base Value of Noncurrent Assets	\$ 140,975	\$ 120,884
(c) Total Estimated Income Tax Liability Related to Valuation Equity	<u>\$ 459,545</u>	<u>\$ 432,872</u>
Deferred Income Taxes and Estimated Income Taxes	\$ 691,505	\$ 630,050

Liabilities & Equity, Million \$



Liabilities & Equity as % of Assets



<u>Net Realizable Value (NRV) Tax Differences</u>		NRV	Tax Basis	Difference
<i>Deferred Income Items:</i>				
A1	Inventories			\$ 0
A2	Accounts Receivable			0
A3	Hedging Account Equity			0
A4	Prepaid Expenses			0
A5	Cash Investment in Growing Crops			0
A	Excess of Carrying Value over Tax Basis of Current Assets [Sum A1:A5]			0
B	Deferred Income Liability on Crop Insurance, Disaster Payments and Contracts			0
C	Total Deferred Income [A + B]			0

<i>Deferred Expense Items:</i>				
D1	Accounts Payable			
D2	Accrued Interest			
D3	Net Operating Losses (NOL) & Other Deductions			
D4	Other Accrued Expenses			
D	Total Deferred Expenses [Sum D1:D4]			0
E	Net Deferred Income Subject to Income Tax [C - D]			\$ 0
F	Estimated Federal and State Income Tax Rate			30.00%
G	Estimated Federal and State Income Tax (E x F)			0
<i>Self-Employment Tax:</i>				
H	Self-Employment Income Cap			137,700
Self-Employment Tax of 15.3%, subject to SE Income Cap of 93.25% on Net Deferred Income plus				
I	2.9% on Net Deferred Income exceeding SE Income Cap			0
J	Total Deferred Tax Liability Related to Current Assets and Current Liabilities [G + I]			\$ 0

<u>Book (Base Value) Tax Differences</u>		Book/Base	Tax Basis	Difference
K1	Raised Breeding Livestock			\$ 0
K2	Purchased Breeding Livestock			0
K3	Machinery and Equipment			0
K4	Real Estate and Improvements			0
K	Net Deferred Income Subject to Income Tax [Sum K1:K4]			\$ 0
L	Estimated Federal and State Income Tax Rate			30.00%
M	Total Deferred Tax Liability Related to Book/Base Value of Noncurrent Assets [K x L]			\$0
N	Total Deferred Taxes [J + N]			\$ 0

<u>Estimated Taxes Related to Valuation Equity</u>		Market Value	Book/Base	Difference
O1	Raised Breeding Livestock			\$ 0
O2	Purchased Breeding Livestock			0
O3	Machinery and Equipment			0
O4	Real Estate and Improvements			0
O	Excess of Market over Book/Base Values of Noncurrent Assets [Sum O1:O4]			\$ 0
P	Estimated Federal and State Income Tax			25.00%
Q	Total Estimated Income Tax Liability Related to Valuation Equity [O x P]			\$0

Deferred tax
form will be
Made available

Conclusions

- Based on the definition of a balance sheet—a listing of all assets owned, and liabilities owed as of a particular date—deferred (and estimated) income taxes should be included on agricultural balance sheets.
- No impact on liquidity, but can greatly impact solvency*
- Impacts profitability by matching income taxes owed with income earned
- Critical issue for estate, retirement planning, and business valuation



Thank You!