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Planning to Keep Financial and Other Records



Partners in Tax Education

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About the Instructor

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She began her career as a California CPA, and later worked for the USDA.

She holds a Juris Doctor with a certificate in Food and Agricultural Law from Drake University Law School, and a BS in Agricultural Economics from the University of California at Davis.



Overview

1. Understanding what records you will need
2. Evaluating recordkeeping systems needs
3. Special records requirements
4. Planning and budgeting



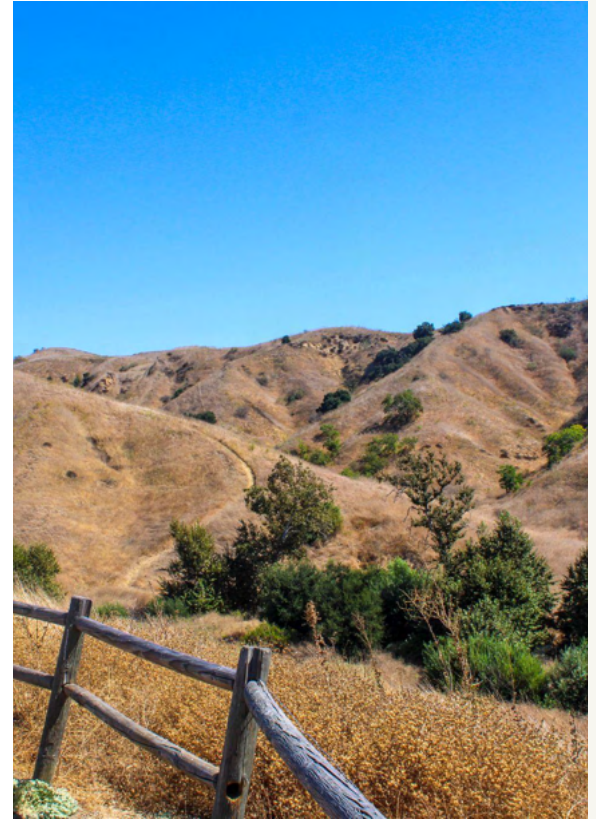
What records will you need to keep?



Financial Records

You will need financial records to:

- **Manage your business for:**
 - Cash flow and credit needs
 - Current profitability
 - Long term planning
- **Comply with IRS requirements**
- **Obtain insurance and to file insurance claims**
- **Sell your land or business at the best price**



Production Records

You will need records of plantings, applications, and harvested yields to:

- **Assess and plan:**
 - Best varieties and planting dates
 - Inputs, rotations
- **Obtain crop insurance and file a claim**
 - NAP, MPCl, Other
- **Comply with environmental programs**
- **Obtain and maintain organic certification**
- **Sell your land at the best price**



Other Non-Financial Records

Sales

- Quantities, items, dates, and vendors (to understand what sells and what customers want)

Labor

- Individual contact info and employment eligibility
- Hours worked, breaks given
- Safety and other trainings given
- Other performance notes

Permits

- Pesticide, building, grading, well digging, depredation, other



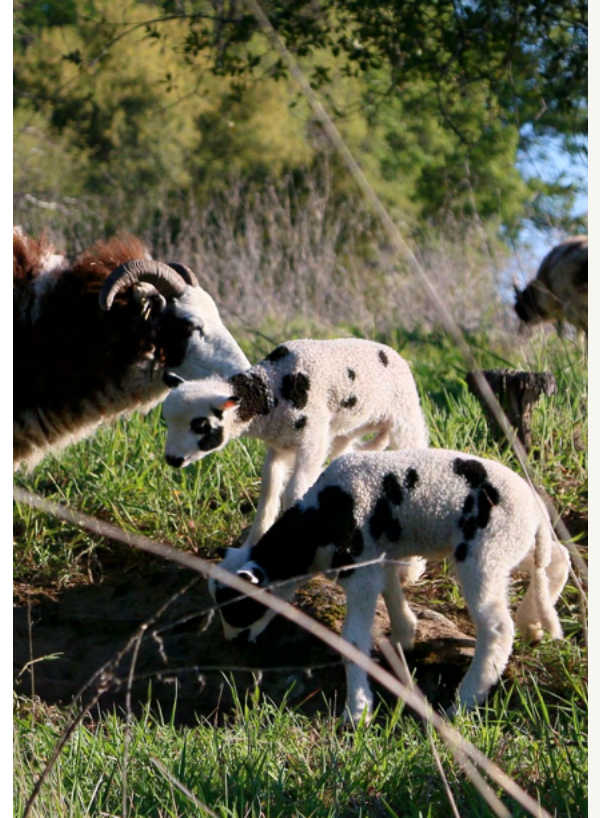
What kinds of systems will you need?



Financial: Required

IRS requirements for financial records depend on the size and complexity of the business.

- **At a minimum a business must have:**
 - receipts for sales and expenditures
 - a system sufficient to organize sales and expenditures into meaningful categories
- Larger, more complex businesses **must have a double-entry bookkeeping system** in order to comply with IRS record-keeping requirements.



Financial: Required or Desired?

The IRS does not require a business with very few transactions to use double entry bookkeeping.

- May use a spreadsheet (a single-entry system) to record and sort transactions
- May manually sort receipts into categories and manually total each category to find the number to report on the tax return

But:

- Only a double-entry bookkeeping system ensures reasonably complete and accurate information
- The best time to set up a double-entry system is the day the business starts

The longer you wait, and the more transactions you have, the harder it will be to set up a double-entry system.

Financial: Required or Desired?

Needed for Good Management	Required by the IRS
A balance sheet showing the assets and liabilities of the business and owners contributions and withdrawals	The IRS does not require for very small business, <i>however</i> an asset list is required and all other items are subject to audit.
An income statement with summary income and expense categories	Required to be reported on the tax return <i>however</i> some expense items have different IRS requirements (discussed later).
Detail by vendor	May be required upon audit.
Perhaps: Additionally detailed expense categories	Not required.

Systems Needs: A double-entry bookkeeping system (like Quickbooks) is best. Support of a trained bookkeeper (monthly) or accountant (annually) is usually advisable.

Production: Required or Desired?

Needed for Good Management - Detail	Required:
Planting records to understand yield and timing by variety: seeds, starts, sources, planting and transplanting dates, fields or rows planted	<ul style="list-style-type: none">● For organic certification● For crop insurance
Applications records to understand efficacy and timing	<ul style="list-style-type: none">● For organic certification● For crop insurance claims● Required for CA Irrigated Lands Program
Harvest records to understand yield and timing by variety: harvest dates and quantities by field and variety	<ul style="list-style-type: none">● Same for organic certification● Same for crop insurance claims

Systems Needs: Manual notes or spreadsheets are fine, or use specialized farm management software like Croptracker, Farmbrite, LocalLine, etc.

Sales: Desired and Required

Needed for Good Management - Detail	Required by IRS - Financial
<p>To understand demand by variety:</p> <ul style="list-style-type: none">● Amounts sold by variety and customer<ul style="list-style-type: none">○ wholesale○ direct to retail buyer○ CSA member○ farmers market <p>To help with cash flow planning:</p> <ul style="list-style-type: none">● Dates of sales	<ul style="list-style-type: none">● Total sales receipts by type<ul style="list-style-type: none">○ cash○ credit cards○ checks● Individual sales by:<ul style="list-style-type: none">○ Date, amount, customer (for wholesale/direct to retail or CSA)○ Date, amount, market (if selling at multiple farmers markets)

Systems Needs: A double-entry bookkeeping system (like Quickbooks) is best for required records and can be set up to keep desired records, though setting it up to track sales by quantity and variety can be quite complex. It may be easier, especially at first, to track quantity and variety information on outside of your bookkeeping system.

Labor: Desired and Required

Needed for Good Management	Required by Regulators
Individual contact info	DOL / ICE: Employment eligibility (I-9)
Hours worked & breaks taken	State labor enforcement (same)
Vacation, sick leave and other benefits earned	State labor enforcement (same)
Safety and other trainings given	Workers comp/state labor authorities (same)
Other performance notes	Insurance/courts in event of wrongful termination action (same)

Systems Needs: A payroll service will track everything except trainings and performance notes, those can be easily tracked in manual and computer files.

Other Required Records

If you are required to have a permit, you are consenting to related enforcement and are required to have the permit ready for inspection.

Many permits grant the issuing regulatory authority permission to enter and inspect the property *without obtaining a court warrant*. The permit itself grants the permitting agency a right of entry for purposes of monitoring compliance.

Systems Needs: For any required permits have physical and electronic copies readily available.



Special Records Requirements



Depreciable Assets

Assets have lasting value to the business.

Depreciable assets have a lasting value that decreases over time.

Depreciable assets include: equipment, machinery, fences, wells, buildings, hoop houses, breeding animals, work animals such as roping horses or guard dogs, and trees or vines that bear annual crops.

If you have a double entry bookkeeping system it will create a balance sheet which will show a summary total of all of your depreciable assets.

If an item costs less than \$500 it is often not treated as an asset even if it will be in use more than a year.



Depreciation Expense

The expense associated with a depreciable asset losing value over time is called **depreciation expense**.

- Depreciation expense is calculated each year over the estimated useful life of the asset.
- The amount of depreciation expense each year depends on the depreciation method selected:
 - Straight line depreciation means the same amount is taken each year
 - Accelerated depreciation methods allow a greater amount of depreciation to be taken in early years



Records for Assets and Depreciation

Needed for Good Management - Detail	Required by IRS - Financial
Description	Same
Cost	Same (but called "basis")
Date Placed in Service	Same
Estimated Useful Life	IRS Statutory Life
Depreciation Method <small>(may be same or different from tax method)</small>	IRS Allowable Depreciation Method
Depreciation Expense by Year	Same
Accumulated Depreciation Expensed to Date	Same

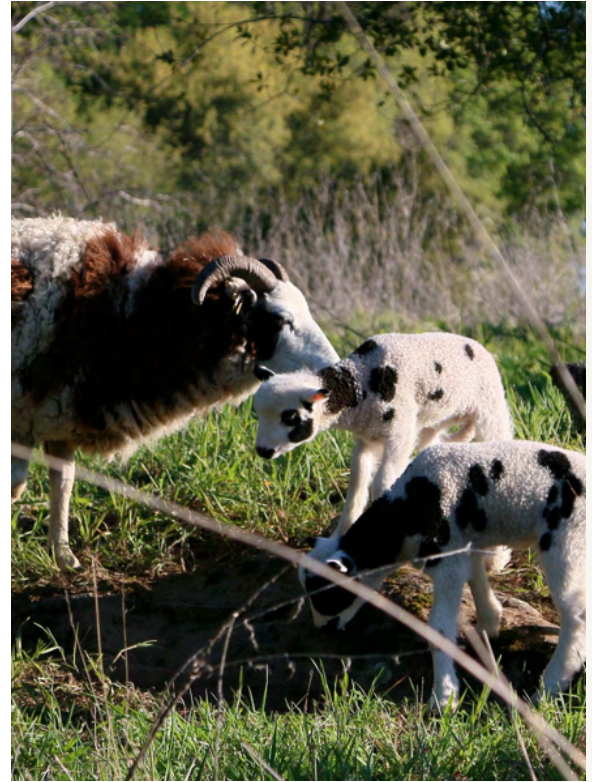
Systems Needs: These records need to be kept in a spreadsheet; a bookkeeping system will not keep the details in the form you will need.

Animals

Animals are depreciable assets if they are held for use in the business:

- Breeding stock
- Stock held to produce dairy or fiber
- Working horses and dogs

Animals held for sale are not treated as assets.



Records for Animals

Function	For Management	Required by IRS
Breeding stock	Asset records, breeding and veterinary records	Asset records
Dairy stock	Asset records, production, breeding & veterinary	Asset records
Herding dogs	Asset records, breeding, training & veterinary	Asset records
Held for sale	Breeding and veterinary records	none unless purchased
Laying hens	Treat a flock of the same age and breed as one asset	purchase cost of flock

Systems Needs: These records may be kept in a spreadsheet, or with specialized software such as Cattlemax or Farmbrite.

Records for Business Use of Vehicle

Type of Vehicle	For Management	Required by IRS
Used 100% for business	Asset records and all costs for fuel and maintenance	Same and written records for any <i>personal</i> use miles driven
Mainly personal use with some business use	Fuel and maintenance should be paid by owner not business	Written records for any <i>business</i> miles driven
Business use but electing “mileage method” for tax	Fuel and maintenance should be paid by owner not business	Written records for any <i>business</i> miles driven

Systems Needs: Written mileage log or a phone-based mileage app. Understanding that bookkeeping records and tax deductions will differ for this item.

Records for Parking and Tolls

Type of Vehicle	For Management	Required by IRS
Used 100% for business	Business-related parking and tolls	Same and ability to demonstrate business purpose
Mainly personal use with some business use	Business-related parking and tolls	Same and ability to demonstrate business purpose
Business use but electing “mileage method” for tax	Business-related parking and tolls	Same and ability to demonstrate business purpose

Systems Needs: Record business-related parking and tolls as business expenses.

Records for Other Travel Expenses

Type of Expense	For Management	Required by IRS
Airfare	Cost	Same and ability to demonstrate business purpose
Ground transportation (taxi, Uber, etc)	Cost	Same and ability to demonstrate business purpose
Hotel	Cost	Same and ability to demonstrate business purpose

Systems Needs: Record business-related travel costs as business expenses. Must be able to demonstrate the business purpose of the trip. See special IRS rules for dual purpose business and personal trips: primary purpose is business but there is a personal element or primary purpose is personal but there is a business element.

Records for Travel Meals and Incidentals

Method	For Management	Required by IRS
Actual Cost	Actual cost	Same and ability to demonstrate business purpose
IRS Per Diem rate	Actual cost (if any) should be paid by owner not business	Record of destination, date and business purpose of trip

IRS rule: You may deduct the cost of meals and incidentals on days when you are away from your usual place of business for more than 8 hours. You may use actual cost, or the IRS per diem rate. The IRS will reduce the meals deduction by 50%.

Systems Needs: Understanding that total expenses in bookkeeping may differ from total tax deductions in part due to the tax treatment of this item.

Records for Business Meals - Owners, Non-employees

For Management	Required by IRS
Actual cost	Same and ability to demonstrate business purpose of meal

IRS rule: You may take a deduction for a business meal if the primary purpose of the meal is to conduct business or further some purpose of the business. The IRS will reduce the meals deduction by 50%.

Systems Needs: Understanding that total expenses in bookkeeping will differ from total tax deductions in part due to the 50% reduction for this item.

Records for Meals for Employees

For Management	Required by IRS
Actual cost of providing the meals	Same and written employment policies showing that meals are provided <i>for the convenience of the employer.</i>

IRS rule: You may take a deduction for the cost of meals provided to employees in order to allow them to complete work as needed, or if it is unrealistic for them to leave work to buy a meal and return during their lunch or dinner break. **The value of meals are not required to be included in taxable employee compensation.**

Systems Needs: Understanding that total expenses in bookkeeping will differ from total tax deductions in part due to the 50% reduction for this item.

Records for Business Gifts

For Management	Required by IRS
Actual cost of business gifts	Ability to demonstrate the business purpose of the gift. No receipt required, but deduction is limited to \$25/recipient.

IRS rule: As long as you can make the connection between the person receiving the thank you gift and a legitimate business purpose (such as promoting your business to potential customers, thanking loyal customers, or thanking mentors) you may deduct business gifts of up to \$25.00 per recipient and no receipt is needed.

Systems Needs: No special needs, but must be able to demonstrate business purpose of gift.

Records for Events

Type of Event	For Management	Required by IRS
Promotional event for customers	Actual cost of event	Evidence of nature of event
Recreational, team-building, or appreciation events for employees	Actual cost of event	Evidence of nature of event

IRS rule: Entertainment is not deductible. However promotional events and recreational, team-building, and appreciation events for employees are not considered “entertainment” even if there is music, games, rides, etc.

Systems Needs: No special needs, but must be able to demonstrate the purpose of the event.

Materials and Supplies and Inventory

For Management	Required by IRS
Records of quantities of supplies and materials on hand and used	<i>Either:</i> Do not deduct the direct cost of material and supplies on hand at the end of the year. This is called “making a NIMS election” and is advised as the simplest method.
	<i>OR:</i> Elect to use the method you use for internal management or for CPA-prepared financial statements.

Systems Needs: None for minimal quantities of farming and marketing supplies. For value-added inventory available for sale you may need a complex system of spreadsheets to calculate quantities produced and sold.

Materials and Supplies and Inventory

For Management	Required by IRS
Records of quantities of supplies and materials on hand and used	OR: Elect to use the method you use for internal management or for CPA-prepared financial statements.
<p>You make a NIMS election by reporting NIMS inventory on the first tax return for which you have NIMS inventory. If you fail to make a NIMS election the IRS will deem you to have elected to use the method you use for internal management, and if you have any records that include both quantity and price those records may be used as the basis for an IRS determination of your non-deductible inventory. <i>This will result in more taxes owed than under a NIMS election. Best practice is to make a protective NIMS election to reduce amount owed if you are audited.</i></p>	

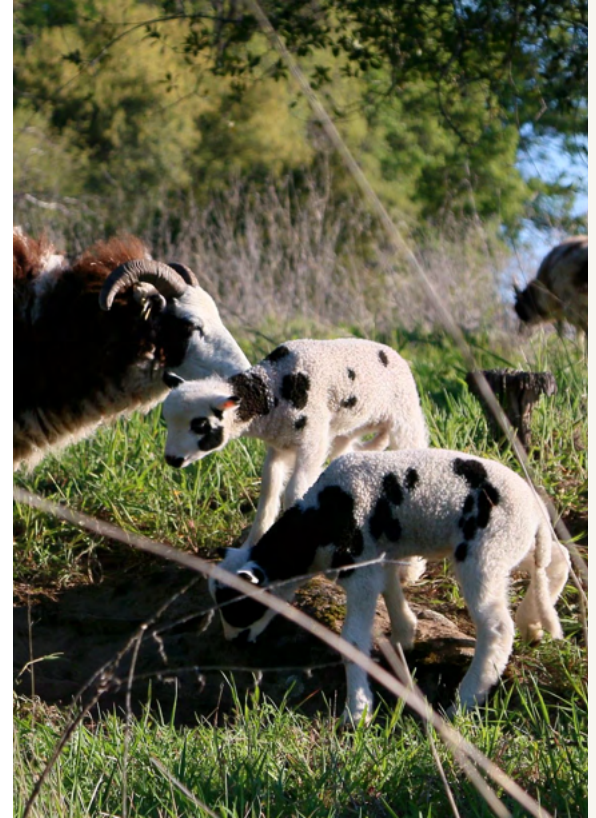
How Long to Keep Records?

Keep most records for 3 years from the date you filed your original return or 2 years from the date you paid the tax, whichever is later, if you file a claim for credit or refund after you file your return.

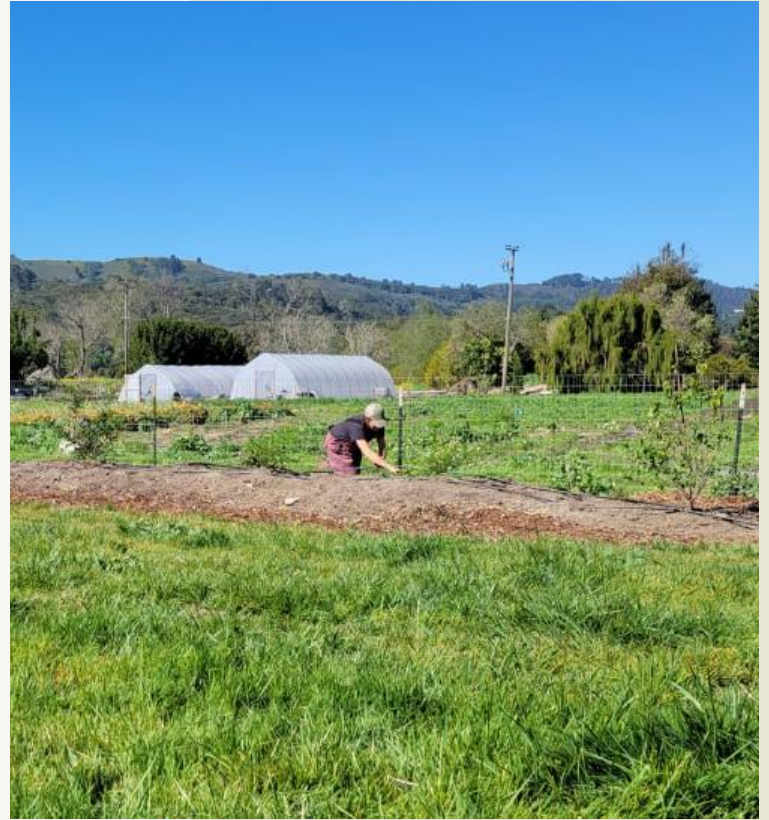


How Long to Keep Records?

- Keep employment records for four years.
- Keep records for 7 years if you file a claim for a loss from a bad debt.
- Keep records related to depreciable assets as long as you keep the assets.
- Keep records related to asset sales for three years after the sale.
- Keep records related to land for as long as you own the land and seven years after the sale of land.



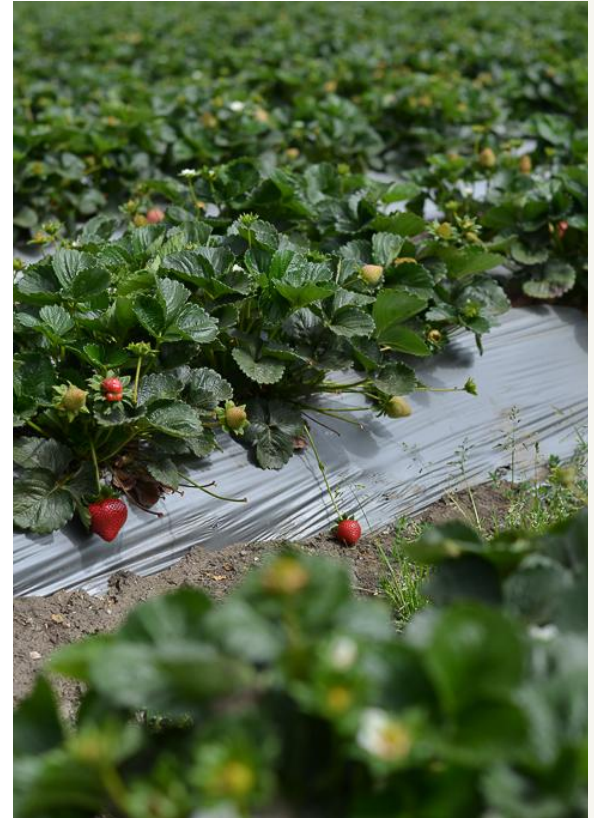
Planning and Budgeting



Bookkeeping

You will need to select a bookkeeping system and decide what level of assistance you want from a bookkeeper

- Many bookkeepers bundle the cost of the bookkeeping program with their monthly fee
- Be sure that you own your own data
- Bookkeeping costs vary by the number of transactions per month
 - Plan on at least \$150/month



Other Non-financial Records

You will need to plan for how you will set up and maintain non-financial records:

- IT systems
 - Where will online files be kept?
 - What are the backup systems?
 - What data security systems will you need?
- Physical systems
 - Where will files be kept?
 - What is the plan to retain documents and to destroy them after an appropriate period?
- General office support
 - Will you do it all?
 - Will you hire someone to help?





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Questions?





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Thank you!

