

PT.1

Options for Tax Preparation

You have several options for preparing your income tax returns.

Prepare it yourself. You can prepare your own tax returns by filing in the IRS forms using a pen or pencil or a fillable pdf. This is not a good option because tax returns are made up of an elaborate series of forms and numbers calculated on one form are reported on another, and there is a specific order in which the forms must be presented. If you are self-employed and have business deductions related to vehicles and other assets, or if you have real estate used in your business and for your residence, you will not be able to complete the forms without the assistance of tax preparation software or a tax professional (who is for sure using tax preparation software!).

Get free help at a Volunteer Income Tax Assistance (VITA) clinic. Most VITA clinics do not serve people with self-employment income. (There are some exceptions.)

Using online tax preparation software like Turbo Tax or H&R Block. If you have a fairly simple business and can not find a tax preparer who you want to work with, this may be a good option. If you choose this option you should prepare carefully. Before you begin you should read resources like these and the IRS Publication 225 so you will understand the questions the software asks.

- Before you begin to use the tax preparation software you will need to have summaries of all of your business transactions using the standard categories required by the tax return. The best source of this information is from a double-entry bookkeeping system. Other sources are more likely to be incomplete and inaccurate.
- We recommend that you use the California FarmLink Farm Tax Organizer to help you get all of your tax information together before you start using online tax preparation software.
- You should have an idea of some of the important things you expect to see on your tax return - for example a Schedule F reporting Farm/Ranch activity and a schedule showing farm assets and depreciation. That way if you finish answering the questions and you review your return and do not see things you expect to see you at least know the draft return is wrong and you need to go back and figure out how to get results closer to your expectations.

Use an Enrolled Agent (EA) including a tax preparation service like H&R Block or Jackson Hewitt. This can be a good economical option and a good option if you are not comfortable using tax preparation software yourself or if you are unable to find or afford a CPA. Many EAs also provide bookkeeping services if you do not keep your records in a way that allows you to summarize your income and expense and asset-related transactions into standard categories.

We recommend that you use the *California FarmLink Farm Tax Organizer* to help you get all of your tax information together before you take it to an EA or other tax preparation service. The *Organizer* is designed in part to help guide tax preparers who are not familiar with farm and ranch business.

- Some EAs are really good, others only meet the most basic competency requirements. The EA license is given by the IRS to people who pass a basic test. Some may be experts in small business or agricultural businesses but most do not want to work on any business that is not a very simple Schedule C.
- Many farmers and ranchers report that EAs incorrectly tell them to use Schedule C rather than Schedule F, and many report that EAs incorrectly tell them that because their farm or ranch loses money they are a hobby and can not file as a business.
- An EA with expansive agriculture or small business experience can be more competent than a CPA who does not have many years of small business experience or who does not have any experience with farm/ranch tax returns.

Use a Certified Public Accountant. This is the best option if your records are in good order and:

- You have a partnership or an LLC with more than one owner
- You and your spouse farm together and both of you want to pay into Social Security and Medicare
- The year you buy a house or a property where you will farm or ranch
- Any year you have substantial asset purchases or sales
- You have or plan to have orchards or vineyards
- You have value-added activities such as making wine and cheese
- You want to decide if you should file taxes as an S-corporation
- The first year after you marry or divorce
- You want to explore your best options for saving for retirement or college
- You want advice on purchasing or financing a significant new asset
- You want help with bringing on a new business partner or selling your business
- You are creating an estate plan

Many CPAs also provide excellent bookkeeping services, but you will pay top dollar to have your financial records put into standard order (double entry bookkeeping) by a CPA's bookkeeper.

It may be difficult to find a CPA who is a good fit for your business. Some CPAs have friendly, casual offices and are happy to work with small businesses, but other offices are quite formal and not very small-business friendly. CPAs are in short supply and most have more business than they can handle - but if you are going to take the time to hire a CPA and pay the higher fees they charge be sure to find someone who is willing to take the time to ask you questions, understand your full business and personal situation and give you actual advice. If you do not have these detailed conversations with your CPA you are not getting the real value out of paying the higher fee.

- It is very difficult to obtain and maintain a CPA license. CPAs are regulated by their state board of accountancy. They are required to have at least a four year degree and pass a rigorous three-day examination.
- Many very expert CPAs get a lot wrong when it comes to farm/ranch taxes, and some will discourage you from becoming their client because your tax situation is relatively complex but they know you can not necessarily pay the same high fees other clients pay.
- When looking for a CPA, don't be shy about asking if they have farm or ranch experience and asking them to consult IRS Pub 225 and RuralTax.org if they have questions.

This resource is derived from materials developed by the University of Arkansas School of Law Agricultural Tax Training as part of the Agricultural Financial, Tax and Asset Protection (AgFTAP) partnership with the University of Arkansas Southern Risk Management Education Center and others.