

THE TOP 5 WAYS CHRISTMAS TREE GROWERS SAVE TAXES

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About Me

- Born and raised in Toledo, OH
- Graduated from Miami University (OH) with degrees in Accounting and Finance
- **Certified Public Accountant**
- **Former IRS agent** in Cincinnati, OH
- Owned and operated **Miami Valley Tree Farm** in Cedarville, OH from 2015 - 2018
- Graduated in May 2021 from **Wake Forest School of Law** and will begin practicing as a **tax attorney in Charlotte**
- Author of **tax articles** in *Limbs & Needles*, *Journal of Taxation*, *Christmas Trees Magazine*, & *Great Lakes Christmas Tree Journal*
- Provides **tax, accounting, and consulting services** to Christmas tree growers and forest landowners at AndrewBosserman.com





With Blue Spruce seedlings - 2018



With tree spade - 2018



Hiking in Pisgah National Forest - 2020

DISCLAIMER


- The information presented is for informational purposes only and is not intended to provide specific tax or legal advice. Each individual situation is different and consultation with your own personal tax professional is strongly recommended before acting on any of the information contained in this presentation.

**“THE HARDEST
THING TO
UNDERSTAND IN
THE WORLD IS THE
INCOME TAX.”**

Albert Einstein

WHAT TO DO WITH TAX SAVINGS?

It could be life-changing!

- 
- **Expand farm** (acquire more land, plant more seedlings)
 - **Save for retirement**
 - **Pay off debt**
 - Fund children/grandchildren's **education**
 - Buy **new farm equipment**
 - **Advertise** and reach more potential customers
 - Take more time away from the farm by **hiring another employee**
 - **Hire an accountant** to do taxes and/or bookkeeping
 - **Travel** more for fun!

1

**ELECT CAPITAL GAIN
TREATMENT FOR SALES
OF CUT CHRISTMAS
TREES**

ORDINARY INCOME VS CAPITAL GAIN INCOME

Ordinary Income	Long-Term Capital Gain Income
Most often wages, interest, and self-employment income	Profit from the sale of an investment held more than one year
All income other than capital gain income	Most often from the sales of stocks, bonds, or real estate
Taxed at ordinary income rates (highest rates)	Taxed at preferential rates
May be subject to employment taxes	Not subject to employment taxes
	Sales of cut Christmas trees can qualify

WHY A CAPITAL GAIN ELECTION IS POWERFUL

Tax Rate Comparison & Avoiding Self-Employment Tax

2021 Taxable Income (Married Filing Joint)	Ordinary Income Tax Rates	Long-Term Capital Gains Rates*
\$628,301+	37%	20%
\$418,851 - \$628,300	35%	20%
\$329,851 - \$418,850	32%	15%
\$172,751 - \$329,850	24%	15%
\$81,051 - \$172,750	22%	15%
\$19,901 - \$81,050	12%	0%
\$0 - \$19,900	10%	0%

* Combined chart for illustrative purposes only. Capital gains brackets vary slightly.

Note: Self-Employment Tax

- An **additional 15.3%** on top of the above rates
 - Social Security & Medicare tax
- **Only assessed on ordinary, earned income** (not capital gain income)

QUALIFYING FOR CAPITAL GAIN TREATMENT

Internal Revenue Code §631

General Rule

- Business income is taxed at **ordinary rates** and also subject to **self-employment tax**

Timber Exception

- Tax law permits sales of “**timber**” to be taxed at **capital gain rates**, even in a business
- Christmas trees are considered “timber” if they meet **four requirements**

WHEN ARE CHRISTMAS TREES TIMBER?

Four Requirements

1

Evergreen
Trees

2

More Than 6
Years Old

3

Severed at
the Roots

4

Sold for
Ornamental
Purposes

WHAT SALES QUALIFY FOR CAPITAL GAINS?

Qualify

- **Cut Christmas trees more than 6 years old that you raised or had the right to cut for more than 1 year**
 - Most average-sized Christmas trees sold will qualify since more than 6 years old
 - **Age of the seedling or transplant is included in the calculation**
 - *Ex: A 2-2 transplant that has been in the ground for 3 years is 7 years old*

Do not Qualify

- Young trees (6 years old or less)
- **Potted trees**
- **Balled and burlapped trees**
- **Pre-cut trees purchased from another grower** (unless pursuant to a special arrangement)
- Wreaths
- Non-evergreen trees sold
- **Merchandise**
- **Fees to shake and bale trees**

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PLAN FOR THE FUTURE TO MINIMIZE ESTATE TAXES

TRANSITIONING OWNERSHIP OF YOUR FARM

Four Main Ways

1

Sell

2

Gift

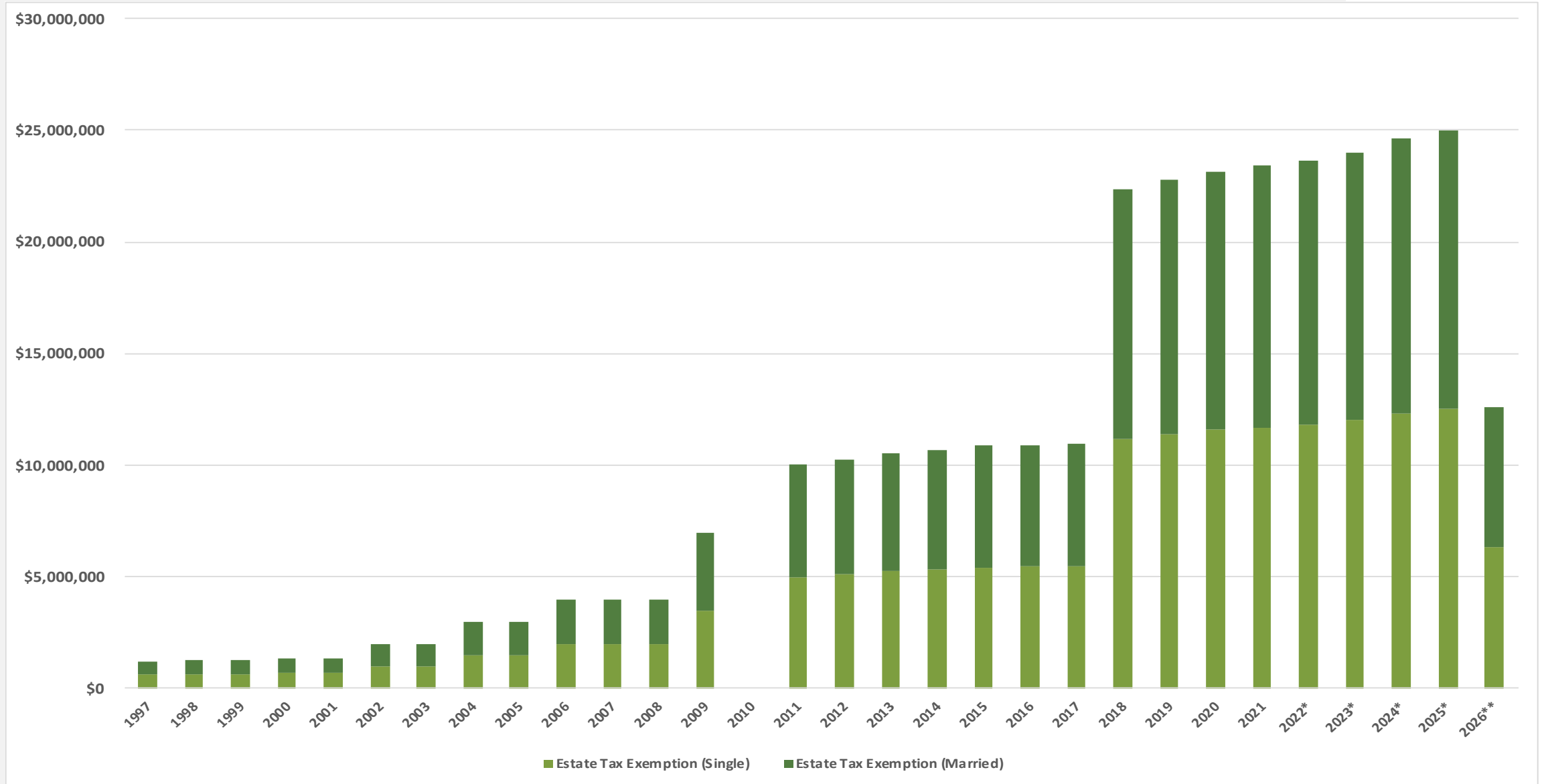
3

Leave as an
Inheritance

4

Abandon

FEDERAL ESTATE TAX EXEMPTION SINCE 1997



* Estimated exemption based on standard inflation adjustments; ** Estimated exemption based on reversion to 2017 amounts

SUCCESSION PLANNING & ESTATE TAX TAKEAWAYS

Determine How You Are Going to Transition Your Farm

- **Tax differences** result based on transition method
- **Leaving as an inheritance often results in lower taxes** due to step-up basis

Everyone Should Have an Estate Plan

- Generally, consists of at least a combination of: a will, a living trust, a living will, and a health care power of attorney
- If you are over the exemption amount or think you will likely be subject to the estate tax in the future, **consult with tax professionals** to determine ways to minimize your estate taxes

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TAKE ADVANTAGE OF ACCELERATED DEPRECIATION

ACCELERATED DEPRECIATION TAX SAVINGS

Example

- Purchase a \$28,000 tractor in 2021
 - Assumed a 32% tax rate
- Would **save \$1,773 just by claiming accelerated depreciation**
- Time value of money (timing difference) = a **\$28,000 tax deduction today is worth about \$1,773 more than 8 deductions spread over 8 years**
- Can use lump sum to save, invest in the farm, or spend on other expenses

Year	Traditional Tax Depreciation	Accelerated Depreciation
2021	\$4,001	\$28,000
2022	\$6,857	\$-
2023	\$4,897	\$-
2024	\$3,497	\$-
2025	\$2,501	\$-
2026	\$2,498	\$-
2027	\$2,500	\$-
2028	\$1,249	\$-

WAYS TO ACCELERATE DEPRECIATION

Three Methods

De Minimis Safe Harbor Election

- Fully deduct any asset purchase up to \$2,500
- Deducted as an immediate expense rather than adding to a depreciation schedule
 - Intended to simplify recordkeeping
- Not automatic
 - **Special statement must be attached to tax return to claim election**

Bonus Depreciation

- **Currently at 100%**
 - Immediately deduct full cost of asset
- **Will begin to “phase-out” in 2023**
 - 80% in 2023
 - 60% in 2024
 - 40% in 2025
 - 20% in 2026
 - 0% in 2027
- No net income or overall purchase limitation
 - **May still deduct bonus depreciation with a loss**

Section 179

- Immediate deduction of up to \$1.05 million of qualifying assets
- **More restrictions than bonus depreciation**
 - **Must have net income** to cover deduction
 - **Total equipment purchases** may not exceed \$2.62 million

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**CHOOSE THE BEST
BUSINESS ENTITY**

TWO MAIN TYPES OF ENTITIES

Taxable	Non-Taxable
Entity itself pays tax	Entity does not pay tax; profit and loss “passes through” to owners
Subject to double-taxation	No double-taxation
C-corporations , some trusts, some LLCs	S-corporations, partnerships, many LLCs , some trusts
Result in lower taxes if owners can defer taking money out of the corporation	Result in lower taxes in many situations

CONSIDERATIONS WHEN CHOOSING AN ENTITY

- **How many owners** will there be?
- **Who** are the owners going to be?
- Do the owners need to **take money out of the company regularly**?
- What are the owners' **future plans**?
 - Plan to sell Christmas tree farm or leave to heirs?
- How **business-savvy** are the owners?
- Will the business be **electing capital gain** treatment under IRC § 631?

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MAINTAIN ACCURATE BOOKS & RECORDS

BENEFITS OF ORGANIZED RECORDKEEPING



- **Necessary to elect capital gain treatment**
- **Efficient tax reporting**
- **Accurate farm profit and loss for future planning**
- **Precise financial statement for banks or potential purchasers**
- **Freeing-up time** to work on farming tasks
- **Less stress during an IRS audit**
 - Many assessments for additional tax are due to taxpayers not being able to substantiate expenses

HOW TO ELECT CAPITAL GAIN TREATMENT

Must prove trees sold meet the four “timber” requirements

Recordkeeping

- Point-of-Sale System
 - **Record qualifying sales separately from non-qualifying sales**
- Bookkeeping System
 - **Separate qualifying sales from non-qualifying sales**
 - **Capitalize cost of seedlings** and other planting costs

Tree Count

- **Count all trees on farm once per year**
- Number of trees by **height and species is best**
- **Required by IRS** since Christmas trees are “inventory”
- Can take count by drone

Tax Return

- Capital gain income must be separated from ordinary income
- Some **additional tax forms must be filed**
- Make sure to properly **elect capital gain treatment on Form T** (for choose-and-cut growers)

OTHER BOOKKEEPING BEST PRACTICES

1

Establish a **Regular Bookkeeping Schedule**

- At least monthly - enter income and expenses, pay bills, reconcile bank statement, etc.

2

Organize Receipts and Documents

- Consider cloud storage options, such as Dropbox or Evernote

3

Clean Up the Chart of Accounts

- Get rid of unnecessary accounts
- Rename accounts with useful titles

4

Maintain a Proper Mileage Log

- Log trips, as well as take a yearly odometer reading



SUMMARY

Top 5 Ways Christmas Tree Growers Save Taxes

- 1) Elect **Capital Gain Treatment** for Sales of Cut Christmas Trees
- 2) Plan for the Future to **Minimize Estate Taxes**
- 3) Take Advantage of **Accelerated Depreciation**
- 4) Choose the Best **Business Entity**
- 5) Maintain **Accurate Books & Records**