

RECORDKEEPING FOR CHRISTMAS TREE GROWERS

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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 IRS AUDIT PROCESS

HOW A TAX RETURN IS SELECTED FOR AUDIT

- **File tax return** with IRS (efile or paper)
- Tax return entered in the IRS' computer system and run through their **secret computer algorithm**
 - Likely compares your tax return to prior years and other similarly-situated taxpayers
- A **high score means high probability of errors** on the return
- Tax returns with high scores get **selected for a closer look**
- IRS employee reviews return and **flags suspicious-looking line items**
- Tax return goes to **office or field agent** for audit process



STATUTE OF LIMITATIONS

Federal Income Tax Return

3

- Three years from the **later of the date it was due or filed**
- Exceptions exist for **fraud or substantial understatement**

IRS AUDIT PROCESS

- IRS agent **mails a letter notifying you** that your tax return has been selected for audit and to schedule an appointment
- Appointment will likely be held either **at your farm or at accountant's office**
 - **May have accountant or attorney represent you**
- IRS likes to have a **tour of the farm**
- **Initial interview** to go over all aspects of your tax return
- Will also have to provide **books and records for agent to review**
- After agent finishes reviewing records, **issues report**
- Can either **owe tax, be due a refund, or "no change"**
- Can **appeal if disagree with agent's report**



**PROPER BOOKKEEPING &
RECORDKEEPING IS
CRUCIAL!**

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

BOOKKEEPING SYSTEMS

Two potential options



- **Best choice for new growers**
- **Free**
 - Separate charges for payroll or payment processing
- **Basic Reporting Tools**
 - Sufficient for new and small growers
- **Easy Integration**
 - Ability to connect with most banks and credit card companies



- **Best choice for established growers with large operations**
- **Expensive**
 - Plans cost either \$50/month or \$80/month
- **Robust Reporting Tools**
- **Easy Integration**
 - Integrates with most financial institutions and 3rd-party apps

RECORDKEEPING FOR CAPITAL GAINS

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**

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



HOW LONG TO KEEP RECORDS?

3

- Statute of limitations for a Federal tax return is 3 years from the later of the date due or actually filed
- Exceptions for substantial understatement or fraud

∞

- **Keep tax returns and W-2s forever**

7

- **All other documentation ~ 7 years**
- Longer if documentation will pertain to **future income or deduction**