Agricultural Sales Tax Exemption in Oklahoma

Brenda Neufeld, EA

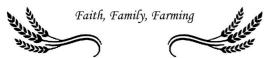
• Farm girl from North Dakota



- Met a farmer while at college in Kansas and fell in love
- Moved to Fairview in NW Oklahoma in 1986 and have farmed happily ever after!

• B.A. in Accounting and Business Administration





Prepared farm tax returns since 1984 and in 2012, I opened my own practice I'm an Enrolled Agent, licensed to practice before the IRS

Accountant & Advisor to our Family Farm Partnership owned by my husband, Scott and our son, Caleb.

We are in full time production agriculture and raise wheat, sesame, beef cattle and ALFALFA Hay!



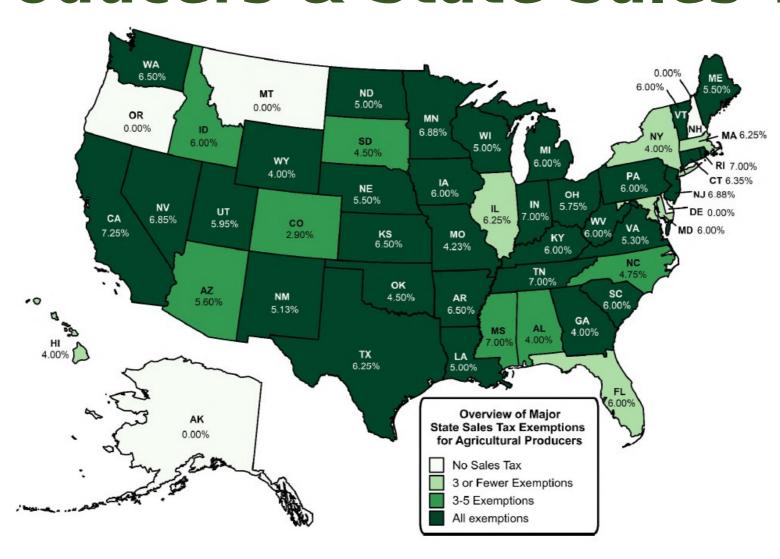
Oklahoma Agriculture Leadership Program – Class XIII



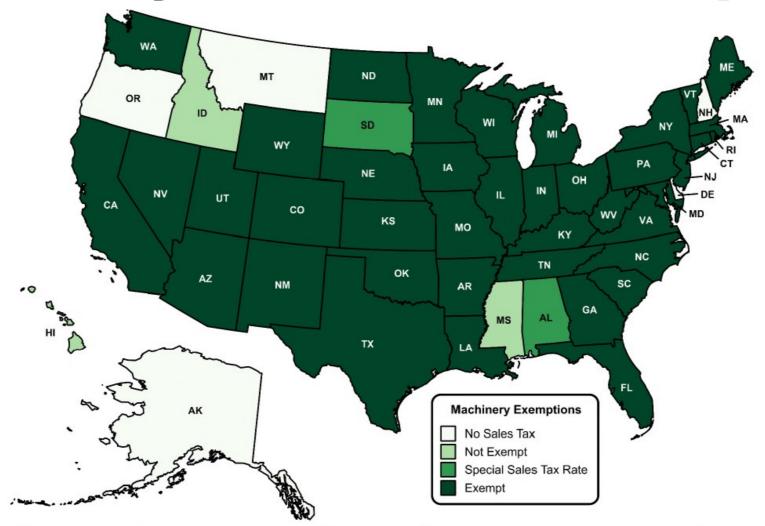
7 Years on the Oklahoma State Committee

Agricultural Sales Tax Exemption in Oklahoma

Exemptions for Agricultural Producers & State Sales Tax



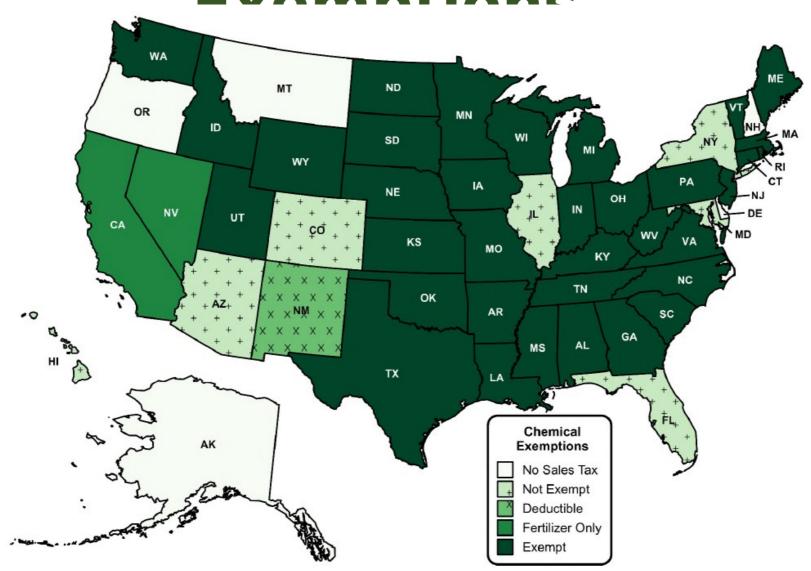
Machinery Sales Tax Exemptions



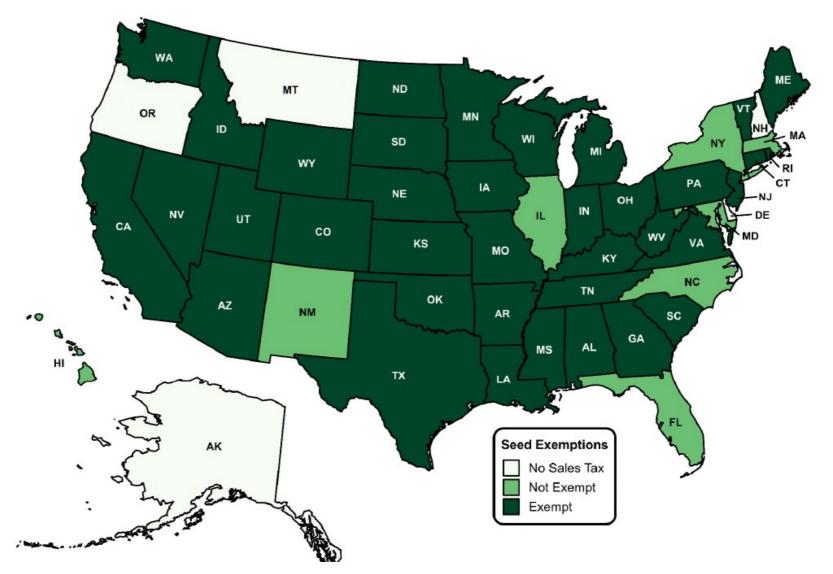
Note: Agricultural producers in Alabama purchase qualifying machinery at a reduced rate of 1.5%. While producers in South Dakota are also subject to a special sales tax rate for machinery, the current rate (4.5%) is equal to the general sales tax rate of the state.

Chemical & Fertilizer Sales Tax

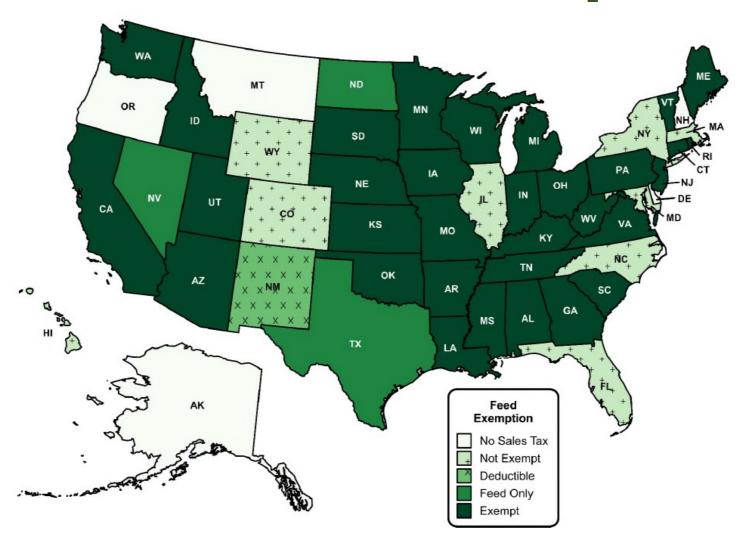




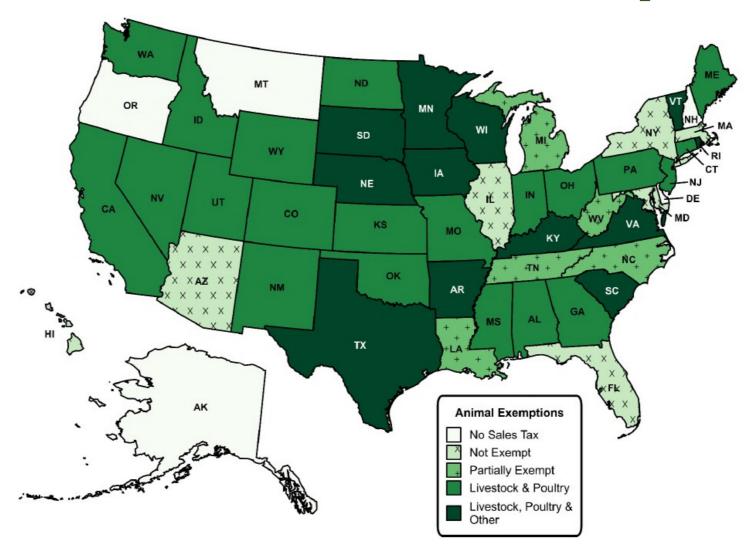
Seed Sales Tax Exemptions



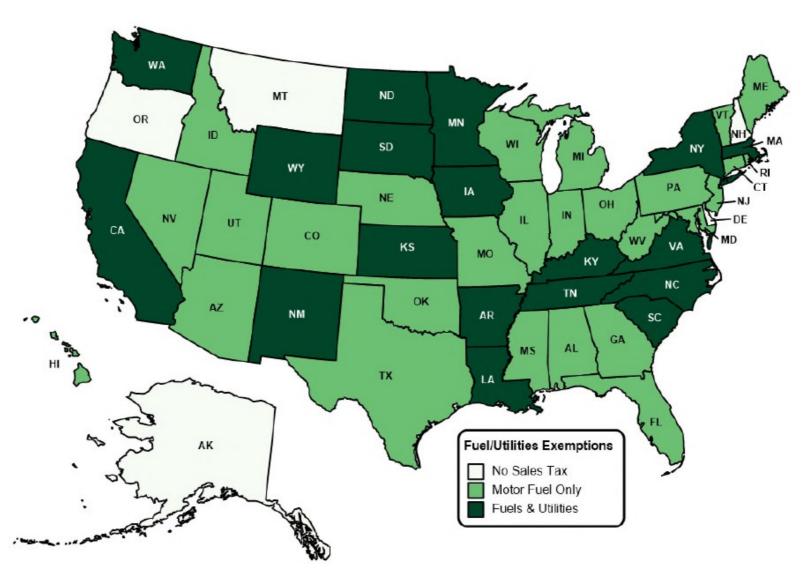
Feed Sales Tax Exemptions



Animal Sales Tax Exemptions



Fuel & Utility Sales Tax Examplians



9 States Without An Income Tax

States without an income tax often make up for the lack of these revenues in other ways, such as:



WASHINGTON

- High gasoline taxes
- High state and local sales tax: 8.92%

SOUTH DAKOTA

- Low sales tax: 4.5%

NEVADA

 Imposes a gross receipts tax

WYOMING

- Low property tax: 0.58%
- Low sales tax: 4%

ALASKA

- No statewide sales tax but localities imposed sales taxes: 1.76%

TEXAS

- High property tax: 1.81%
- Exempts nonprescription drugs from sales taxes

FLORIDA

 Imposes a corporate income tax: 5.5%

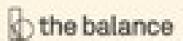
TENNESSEE

- High sales taxes
- Highest beer tax

NEW HAMPSHIRE

Tax on interest and dividend income





These Sales Tax Exemptions are VITAL to Oklahoma Agriculture Producers!

- We provide food security to our nation
- We are price takers not price makers
 - Sell on the commodity market
 - Elevator or Sale Barn sets the price not the producer
- We cannot pass additional costs on we absorb it in our operations
 - Additional 10% on our highest input costs: Feed, Fert, Chem, Seed & Equip
- We allow manufacturers to purchase inputs sales tax exempt, this is really no different

HOUSTON WE HAVE A PROBLEM

ABUSE!



What about entity structure?

Which Path is Right for You?

When it comes to structuring your business, independents have many options.

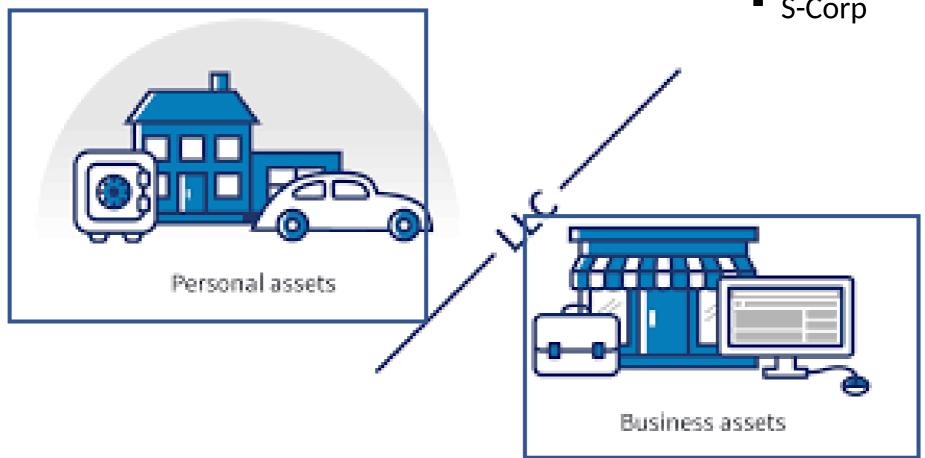




What does an LLC do?

Limited **LIABILITY** Company

- Sole Proprietor
- Partnership
- S-Corp



Ways of Reporting Farm Income for Income Taxes

- Schedule F Active Farm Management
 - Sell Commodities
 - Pay Operating Expenses
 - Pay Self-Employment Taxes on Net Income
- Form 4835 Crop Share Rental Agreement
 - Sell Your Share of Commodities
 - Pay a Share of Operating Expenses
 - No Self-Employment Taxes Classified as Rental Income
- Schedule E Cash Rent Agreement
 - Rental Income based on a Set Price Per Acre
 - Minimal Operating Expenses if Any
 - Pays the Property Taxes

Applies to ALL Entity Types!

How do we get compliance with laws?



Highway Speed Limits



Dyed Diesel Fuel



Sales Tax Exemption

Fear of a Penalty / Probability of Getting Caught

How do we get compliance with laws?



Production Agriculture vs Hobby Farmer



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Business vs Personal Use



Who should be allowed to use the sales tax exemption?

• For-Profit Business - Not personal or noncommercial use

- Defined as Production Agriculture
 - Files a Schedule F or Form 4835
 - FFA or 4-H Students / Vo-Ag Teachers
 - ➤ New Producers with a business plan good for 1 year

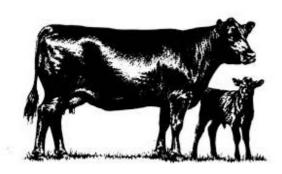
Minimum dollar amount of gross income for renewal

\$5,000 of Gross Income?



40 Acres x 30 Bushel per Acre x \$5 per Bushel = \$6,000

80 Acres x 30 Bushel per Acre x \$5 per Bushel = \$12,000 1/3 Share = \$4,000



5 Calves x \$1000 a head = \$5,000

Who should enforce compliance?

- OK Tax Commission
 - OK is a "piggy back state" Start with federal adjusted gross income number from your Federal Form 1040 so no detailed information – your Schedule F or Form 4835 never comes to them.

- County Assessor
 - Big City No idea if they are really in production agriculture or not
 - Small Town Doesn't want to tell their friends & neighbors that they have a

hobby and do not qualify

They need a solid measuring stick to use! \$\$ Amount \$\$

SCHEDULE F (Form 1040)

Department of the Treasury

Profit or Loss From Farming

Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065.

Attachment Sequence No. 14

OMB No. 1545-0074

Go to www.irs.gov/ScheduleF for instructions and the latest information. Internal Revenue Service (99) Name of proprietor Social security number (SSN) B Enter code from Part IV C Accounting method: A Principal crop or activity D Employer ID number (EIN) (see instr.) Cash Accrual E Did you "materially participate" in the operation of this business during 2020? If "No," see instructions for limit on passive losses Yes Part | Farm Income - Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.) Cost or other basis of livestock or other items reported on line 1a Cooperative distributions (Form(s) 1099-PATR) . Taxable amount Agricultural program payments (see instructions) . 4a CCC loans forfeited 5b 5c Taxable amount . . . Crop insurance proceeds and federal crop disaster payments (see instructions): Amount received in 2020 Amount deferred from 2019 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the Part II Farm Expenses - Cash and Accrual Method. Do not include personal or living expenses. See instruc-23 Pension and profit-sharing plans. Car and truck expenses (see instructions) Also attach Form 4562 10 Rent or lease (see instructions): 11 24a Chemicals a Vehicles, machinery, equipment . Conservation expenses (see instructions) 12 Other (land, animals, etc.) 24b 25 Custom hire (machine work) . . . 25 Repairs and maintenance . 26 26 Seeds and plants . Depreciation and section 179 expense 27 Storage and warehousing 27 28 28 Employee benefit programs other than 15 29 29 16 30 30 17 31 Fertilizers and lime 31 Veterinary, breeding, and medicine . 18 Freight and trucking 32 Other expenses (specify): Gasoline, fuel, and oil 19 Insurance (other than health) 20 32b 32c Interest (see instructions): 21a 32d Mortgage (paid to banks, etc.) . . 32e 21b Labor hired (less employment credits) 22 32f 33 If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36. Reserved for future use. Check the box that describes your investment in this activity and see instructions for where to report your loss: a All investment is at risk. b Some investment is not at risk

Department of the Treasury

Farm Rental Income and Expenses

(Crop and Livestock Shares (Not Cash) Received by Landowner (or Sub-Lessor)) (Income not subject to self-employment tax)

► Attach to Form 1040, Form 1040-SR, or Form 1040-NR.

Attachment

20 Sequence No. 37

OMB No. 1545-0074

Internal Revenue Service (99) ► Go to www.irs.gov/Form4835 for the latest information. Name(s) shown on tax return Your social security number Employer ID number (EIN), if any Did you actively participate in the operation of this farm during 2020? See instructions Gross Farm Rental Income - Based on Production. Include amounts converted to cash or the equivalent Income from production of livestock, produce, grains, and other crops 2a Cooperative distributions (Form(s) 1099-PATR) . . 2a 2b Taxable amount 2b Agricultural program payments (see instructions) . . 3a 3b Taxable amount 3b Commodity Credit Corporation (CCC) loans (see instructions): 4a CCC loans forfeited 4b Crop insurance proceeds and federal crop disaster payments (see instructions): 5b Taxable amount 5b a Amount received in 2020 5a If election to defect to 2021 is attached, check here ▶ □ 5d 5d Amount deferred from 2019 her income, including fed val and state gasoline or fuel tax credit or refund (see instructions) Gross farm rental income. dd amounts in the right column for lines 1 through 6. Enter the total here Expenses-Farm Rental Property. Do not include personal or living expenses. 21 Pension and profit-sharing and truck expenses Schedule F (Form 1040) instructions), plans 21 Also attach Form 4562 Rent or lease: 9 Vehicles, machinery, and equipment (see instructions) Conservation expenses (see instructions) 10 22a Custom hire (machine work) . 11 b Cther (land, animals, etc.) 22b Depreciation and sect on 179 expense Repairs and maintenance 23 deduction not claimed elsewhere . . 12 24 Seeds and plants Employee benefit programs other than Storage and warehousing 25 on line 21 (see Schedule F (Form 1040) 26 Supplies 27 Taxes 14 Utilities. 28 15 Veterinary, breeding, and 15 Fertilizers and lime . medicine 16 Freight and trucking . . . 16 17 Gasoline, fuel, and oil 17 Other expenses (specify): Insurance (other than health) 30a 30b Interest (see instructions): 30c Mortgage (paid to banks, etc.) . . . Other 30d 30e Labor hired (less employment credits) (see Schedule F (Form 1040) 30f 30a Total expenses. Add lines 8 through 30g. See instructions 31 Net farm rental income or (loss). Subtract line 31 from line 7. If the result is income, enter it here and on Schedule E (Form 1040), line 40. If the result is a loss, you must go to line 34. See instructions. 32 33 If line 32 is a loss, check the box that describes your investment in this activity. 34a All investment is at risk 34b Some investment is not c You may have to complete Form 8582 to determine your deductible loss, regardless of which box you checked. If you checked box 34b, you must complete Form 6198 before going to Form 8582. In either case, enter the deductible loss here and on Schedule E (Form 1040), line 40. See instructions.

For Paperwork Reduction Act Notice, see your tax return instructions.





- Deductibility of expenses is not the same as buying it sales tax exempt
 - You can deduct percentages of business use for income taxes
 - You should pay sales tax on these items because they are not used **EXCLUSIVELY** for agriculture
 - Computers
 - ATVs
 - Guns
- Clearly defined who should have sales tax exemption card and for what when they get the card – sign a form that they will use it appropriately – clearly defined responsibility!
- Randomly spot check for abuse. Penalty that prevents abuse.

In Conclusion!

- Sales Tax Exemption is VITAL to OK Production Agriculture!
 - Available to those who need it
 - Not easy access for those who shouldn't have it



- EXCLUSIVELY related to production agriculture!
- Make it enforceable
 - Reduce judgement calls something that can be verified
 - Some compliance checking





