

Working with a Tax Professional

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Introduction

Frequently a farm owner will engage a tax professional to ensure their tax returns are filed correctly. In the case that you are currently needing to find a tax professional, there are resources both from [Rural Tax](#) and the [IRS](#) to help navigate steps to take in finding competent professional help. This article will share steps a farmer/rancher can take to get the best value from that service and ensure a strong working relationship with their tax professional.

Things to Consider

Engagement Letter

Generally, when you agree to work with a practitioner, an engagement letter or document is provided which explains what documents, access, and resources they need from you. An intake form you sign with the preparer each year provides the timing for when all documents and records are required to be delivered. If you have never worked with someone, you are changing preparers, or perhaps you would like to do a better job, this may be a good primer for you.

Documents

Fundamentally, the issue is accurately and efficiently keeping records of transactions occurring with the farm business and family each year. Your preparer is likely handling your business and personal returns simultaneously; these can impact each other for tax purposes. The preparer will likely request a list of information to collect such as IDs, bank accounts, investment accounts, W-2s, 1098s, 1099s, K-1s, prior-year tax returns, and the accounting records for any business you are currently operating, farm or otherwise. It is important to note that unless you share the information with the preparer, they will not have it on hand to prepare your return(s). Consequently, this can lead to errors and require amending returns if new or previously unknown information comes to light.

Separate Accounts

For the farm, having a separate business bank account where all farm financial transactions (cash and non-cash) are recorded is the first step to having an accurate records system. Knowing all transactions are captured in one place means there is a running tally of what is occurring during the year. The next step is classifying the transactions into a ledger where they can be organized by date, amount, and transaction type. Typically, this is done through a chart of accounts which can come through a preparer, or the recordkeeping system being used. This lets you know for instance that there has been \$8,000 spent on fertilizer for the year as there was a purchase of \$4,000 in February and \$4,000 spent in March.

Recordkeeping

The IRS specifically states that it does not require a particular system but “you can choose any recordkeeping system suited to your business that clearly shows your income and expenses” ([IRS Publication 583](#)). Whether it is a written account book, simple spreadsheet, or formalized accounting software, if you are using it consistently it is a good system. Preparers may request or make recommendations on what type of accounting system to use. On the backside there should be physical or digital copies of sales and expense receipts that have been recorded in the system. This ensures there is verification in case any questions arise from you, the preparer, or third party(s) such as the IRS.

Upcoming Activities

There may be business activities that are significant but have not actually caused a financial transaction yet. Examples include equipment trades, ownership changes, signed contracts or even just plans for the next 12 months. These can be important items to share because it alerts the preparer of possible future issues and to make sure things are currently reported correctly. An equipment purchase with delayed payments may put a depreciable asset on the books even though nothing has impacted the bank account yet. If it seems important, it probably is, and sharing it proactively allows for better planning and correct reporting on the tax return.

Organization and Expectations

Typically, a preparer will charge for services based on the amount of time or expertise that is required to complete the return(s). From a practical standpoint, the cleaner the accounting records, the less time the preparer will have to

spend and lower the bill you will receive for their services. Regardless, a preparer will spend some time researching, making calculations, and filling out forms but the amount of prep work on their part can be significantly reduced. For a preparer, the clients that are easy to work with and make the tax return(s) smoother are going to receive better outcomes and better service.

As mentioned above, when working with a preparer, set times or deadlines will be agreed upon as to when they meet with you, receive documents, resolve issues or require additional information. Setting periodic appointments with the preparer (not just come tax time) can keep one another informed and ensure open communication. Meeting with the preparer before year-end allows time for adjustments and tax planning if the farm needs to do so. A public resource that may be helpful is the IRS Online Tax Calendar. It is an active running calendar that provides reminders of when things are due, payment dates, and other important information. This calendar can be used to send timely messages to the farmer or rancher's email inbox.

Conclusion

Working with a tax professional can prove invaluable to a farming operation. The tax professional can lessen the stress and obligations a farm owner may have and free up time and ability to focus on other necessary tasks. Working cooperatively throughout the year can provide good outcomes for both.

IRS Publications

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Additional Topics

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

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