

Can the Research & Development Tax Credit Be Applied to Your Farm?



Former Secretary
of Agriculture
Mike Johanns

alliantgroup

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Interview with Secretary Mike Johanns, former U.S. Secretary of Agriculture, Governor and U.S. Senator for Nebraska; alliantgroup Chairman of Agriculture

Just how innovative of a farmer or rancher are you? If you can answer yes to any of the following questions regarding your farm operation, you might consider learning more about the little-known, underused Research & Development (R&D) tax credit.

- Have you experimented with new or different fertilizers?
- Have you planted cover crops?
- Have you developed new feeds/feeding techniques for livestock?
- Have you implemented new ways to protect crops from disease?
- Have you improved harvesting practices?

These are a few examples available to you that reward for innovative efforts, but there are many more possibilities. In years when cash flows are constricted by lower commodity prices, you should seek techniques and practices to keep additional dollars in your pocket. The R&D tax credit may be the tool that does just that.

What is the R&D tax credit? Dating back to the early 1980s, the R&D tax credit was created in response to an economic slowdown during a time when the U.S. had lost its competitive mojo. Near the end of the Cold War, Congress implemented this tax credit as a mechanism to increase American companies' innovation through research and experimentation. For years, it has predominantly been

used by manufacturing companies.

Made permanent in late 2015, this credit rewards businesses with innovation that is only required to be "new to you" – not "new to the world." The credit has largely been ignored by the ag industry, according to Mike Johanns, former U.S. Secretary of Agriculture. Johanns is a strategic advisory board member of alliantgroup, a tax firm that specializes in the R&D tax credit for the agriculture industry. alliantgroup is one of several large, national tax specialty firms spotlighting the R&D tax credit across the entire agriculture industry.

Along with becoming a permanent piece of tax legislation, there are two other key changes to make the tax credit more taxpayer-friendly. These include allowing the credit to offset alternative minimum tax, and allowing smaller start-up businesses that may not pay federal income tax to offset this credit against payroll taxes.

The beauty of a tax credit, compared with a tax deduction, is that while tax deductions reduce a taxpayer's taxable income, tax credits reduce dollar-for-dollar taxes owed. More to come on this.

How farmers and ranchers benefit

As a producer, you make myriad decisions each day that may seem routine in nature and not innovative. As Johanns says, "It doesn't hurt to ask."

Contact your CPA and inquire whether the R&D tax credit

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could be applied to your farm. In the event an operation is currently reporting a farm loss and no income taxes are being paid, the R&D credit may still be advantageous if any of the prior three years reported taxable income (as these tax years could be amended). Or, the credit could be used to offset payroll taxes paid or carried forward up to 20 years to offset future income.

If it is determined that the tax credit is applicable to your operation, your CPA should work with an in-house tax specialist (who understands the intricacies of the R&D tax credit) or an outside tax specialty firm.

Most firms provide free consultative services to help identify your operation's innovative practices and can determine whether the operation meets the R&D tax credit requirements by performing some simple testing. Discuss the costs of compiling and calculating the information to make sure they don't outweigh the financial benefits. At the end of the day, the taxpayer has the burden of supporting the tax credit taken.

Don't wait to find out if you are missing out. Contact your accountant and start asking questions today. You might find an innovative way to save on taxes this year and for years to come.



Mike Johanns was the U.S. Secretary of Agriculture from 2005-2007 as well as the Governor of Nebraska from 1999-2005 and the state's U.S. Senator from 2009-2015. As alliantgroup's Chairman of Agriculture, Johanns brings more than 30 years of experience at virtually every level of government and a strong background in both agriculture and economic development. As the Secretary of Agriculture, he managed 18 different agencies, opened or expanded access to 40 international markets and was responsible for multiple agricultural breakthroughs as a negotiator for the Doha Development Round.