



Tax law is complicated and ever changing. The items discussed in this newsletter are for your general information and not intended to serve as tax advice. You are urged to contact your tax professional to discuss if a particular tax strategy is appropriate for your individual situation. GreenStone Farm Credit Services has a full staff of experienced tax professionals available year round to assist you with your tax planning needs.

Housing Assistance Tax Act of 2008

On July 30, 2008 the President signed into law the Housing Assistance Tax Act of 2008. The new tax act is primarily targeted toward home ownership and affordable housing.

First-Time Homebuyer Tax Credit:

The housing act gives first-time homebuyers nationwide a temporary refundable tax credit. The credit is effective for homes purchased on or after April 9, 2008 and before July 1, 2009. The credit is equal to 10% of the home's purchase price with a maximum credit of \$7,500.

To qualify for the credit, a first-time homebuyer will be defined as a taxpayer and/or spouse having no ownership interest in a principal residence during the three-year period before the new home was purchased. The credit also will be phased out depending on your adjusted gross income shown on your income tax return. In addition, if you buy your home in 2009, you can elect to take the credit on your 2008 income tax return.

Unlike most credits, the first-time homebuyer credit must be repaid in equal installments over a 15 year period. If you buy your home in 2008, the repayment period starts in year 2010. If you sell the principal residence before the credit is fully repaid, you as the seller will be taxed in the year of the sale on the lesser of the gain from the sale of your home or the unrecaptured balance of the credit.

Property Tax Deduction for Non-Itemizers:

Under the housing act, non-itemizers get a limited deduction for state and local real property taxes by increasing their standard deduction by the lesser of:

- 1 – The amount of real property taxes paid during the year, OR
- 2 - \$500 (\$1,000 for a married couple filing jointly)

The temporary deduction is only available for 2008. The deduction is added to the taxpayer's standard deduction and is not an above-the-line deduction for adjusted gross income.

The Food, Conservation and Energy Act of 2008

The Food, Conservation and Energy Act of 2008, more commonly known as the farm bill, was enacted into law effective May 22, 2008. Various bills were enacted into law under the farm bill.

The Heartland, Habitat, Harvest and Horticultural Act of 2008 This act provides some relief for farmers as outlined below.

Conservation Reserve Payments (CRP):

CRP payments made to retired or disabled farmers are excluded from self-employment income. These payments will be treated as rental payments for federal tax purposes effective retroactively for payments made January 1, 2008 and forward.

Self-Employment Tax:

Generally speaking if your farm net income/loss is less than \$1,600, you could choose to utilize the optional method of calculating self-employment tax. By utilizing the optional method, you as the farmer would be able to earn one credit of Social Security Benefit coverage. Under the farm bill, you have the option to secure four credits of Social Security benefit coverage each year. For 2008, the optional self-employment tax income is scheduled to be \$4,200.

Heroes Earnings Assistance and Relief Tax Bill of 2008 Targeted to members of the US Armed Forces and their families, this bill clarifies the tax treatment of state and local benefits paid to volunteer fire fighters and emergency medical responders.

Economic Stimulus Act of 2008

After long negotiations, the Economic Stimulus Act of 2008 passed into law on February 7, 2008. This act was designed to “jump start” our slipping economy by sending out rebates to taxpayers and offering business incentives.

Economic Stimulus Payments:

The new law allows for a refundable credit against tax to various taxpayers. The amount of the credit would be the greater of:

1 – Net income tax liability, not to exceed \$600 (\$1,200 for joint filers) or

2 - \$300 if the taxpayer has either

a – At least \$3,000 of any combination of earned income or

b – Net income tax liability of at least \$1 and gross income greater than the sum of the applicable standard deduction and personal exemption amounts

In addition to the basic rebate dollar amount, the law provided for an additional \$300 per qualifying child. Qualifying children by definition followed the additional child tax credit rules.

Do not be discouraged if you did not receive the full amount of the rebate during the summer of 2008. You will have another chance on your 2008 return filed in 2009. Make sure to tell your preparer how much you received already – or turn in your rebate check paperwork. If you were to have received a smaller rebate check based upon 2008 return information rather than on the 2007 return, you will not be required to give back the difference.

The amount you received from the US Treasury is not reportable as income – federally or by the States of Wisconsin and Michigan.

Business Incentives:

The new law has also provides some very lucrative business tax incentives. Those valuable incentives are enhanced Code Section 179 expensing and bonus depreciation.

Code Section 179 Expensing:

The new law increases the amount of IRC §179 expensing to \$250,000 and increases the threshold for reducing the deduction to \$800,000. It applies to property purchased and placed in service effective January 1, 2008. Fiscal year businesses must remember the new law and limits apply to tax years beginning in 2008. “Qualifying” property must be tangible personal property which is used in your business.

The decision to accelerate depreciation is one that should be made with the help of your tax professional as part of your annual tax planning. As with all tax planning decisions, the long term as well as the current tax liability must be considered.

Temporary Bonus Depreciation:

Bonus depreciation has been utilized post 9-11 already. The law provides qualifying taxpayers to reduce qualifying assets by 50% of their purchase cost. Property that is eligible to claim the bonus depreciation must be (1) eligible for MACRS depreciation with a 20 year life of less, (2) off-the-shelf computer software, or (3) qualified leasehold property. The property must be purchased and placed in service during 2008. Note: If you had a signed agreement with a builder during 2007 for a new building, such as a freestall barn, this property would not qualify for the bonus depreciation.

Like-Kind Exchanges

As tax preparers we generally receive a lot of questions on how to lower your tax liability. One way is called a like-kind exchange under IRC §1031. Basically the code allows a taxpayer to defer gains on the sale of one property with the purchase of other property within a specified time period.

By definition, like-kind property means property of the same nature/character, not necessarily of the same grade or quality. As an example, improved real estate can be exchanged for unimproved real estate. Exchanges can be business for business, business for investment, investment for business or investment for investment. Property held for personal use, business inventories and securities do not qualify.

The general requirements, which all need to be met for a like-kind exchange to be treated as a tax-deferred transaction, are:

1. Both the property given up and received must be held by the taxpayer for business or investment purposes.
2. Property must not be held for resale to customers, such as inventory
3. There must be an exchange of like-kind property.
4. Exchanges of intangible personal property depend on the nature/character of the rights involved. The goodwill of any business will not qualify under like-kind rules.
5. The property to be received in a nonsimultaneous exchange must be identified in a written agreement within 45 days after the transferred property is given up.

6. The property in the nonsimultaneous exchange must be received on or before the earlier of (1) 180 days after the transfer of the property given up or (2) the due date, including extensions, for the tax return year in which the transfer of the property given up occurs.

Property that is not like-kind, including cash, is called boot. The receipt of boot will cause a realized gain on an exchange to be recognized. Gain will be realized if the fair market value of the property received exceeds the tax basis of the property given up. The amount of the gain to recognize is the lesser of the boot received or the realized gain.

Properties that are subject to liabilities may give yield to boot as well. Boot will be realized on this transaction when the amounts of liabilities you are relieved of are greater than liabilities you assume on the newly acquired property.

Each like-kind exchange is different. If you are contemplating one, please contact your tax advisor before you sign the paperwork. Improperly executed paperwork will make the entire transaction taxable.

Capital Gains Tax

Capital gain laws are one of the areas of tax law that seem to be misunderstood. The capital gains tax rates range from 5% to 28% depending upon the type of property sold and the number of months and/or years you held the asset.

The 28% maximum rate applies to the sale of collectibles held more than one year and from the sale of Section 1202 stock held for more than 5 years.

The 25% maximum rate applies to unrecaptured Section 1250 gain on sales of property held more than one year. The sale of depreciable real estate generally falls into this category. Real estate sales can be taxed at more than one rate depending upon the amount of gain realized on the sale.

The last rates (15% and 5%) apply to sales of assets held more than one year. The reason for the different rates depends upon your ordinary income bracket. If your ordinary income tax bracket is 10% or 15%, then you would pay 5% capital gains tax rate.

Planning Opportunity:

Effective for years 2008 through 2010, the 5% capital gains rate will drop to 0%. This reduced rate applies to those taxpayers who are in the 15% ordinary income tax bracket. The lower rate is also in effect for the alternative minimum tax calculation.

In 2011, the tax rates on ordinary income and capital gains are scheduled to return to their pre-2001 rates. The rates in effect at that time range from 10% to 28% depending upon type of property sold, holding period of property sold and your ordinary income tax rates.

Contact your income tax preparer to determine if you qualify for the lower capital gains rate.

2008 Mileage Rates

Since gasoline prices have been steadily increasing during the year, the Internal Revenue Service announced an increase in the optional standard rates to calculate automobile mileage expenses. This caused a split year for keeping track of your mileage.

The following table shows the rates in effect for the calendar year 2008. Rates are shown in cents per mile.

Purpose	Rates 01/01/08- 6/30/08	Rates 07/01/08- 12/31/08
Business	50.5	58.5
Medical	19.0	27.0
Moving	19.0	27.0
Charitable	14.0	14.0

Payroll Issues

The current minimum wage for non-agricultural employers is \$6.55 per hour effective July 24, 2008. This wage is set to increase on July 24, 2009 to \$7.25 per hour.

Employers that filed forms W-2 containing Social Security numbers for workers whose names do not match the names on government records will be receiving notices. Under the notice you will be given 90 days to clear up the discrepancy or fire those employees affected. The Department of Homeland Security will enforce fines on the employer unless you can show you took reasonable steps to verify the identities of those employees in question.

Now may be a great time to enroll in electronic funds transfer for payment of your payroll obligations. It's cost is free and may alleviate you from some penalties you have been receiving. Contact your tax preparer for an employer tax guide and supplemental guide to electronic filing options for payroll.

Wisconsin Only Issues

Our Wisconsin legislators have been quite busy the past year. They have made substantial changes for the 2009 filing season. The following items are in effect on your 2008 income tax return unless otherwise noted:

- Social Security benefits will no longer be taxable for Wisconsin income tax purposes
- 66.7% Medical Insurance subtraction if you had no employer and were not self employed
- The State has adopted the Internal Revenue Code through December 31, 2006, with some exceptions (Farmers are able to take advantage of the increased Section 179 expensing up to \$108,000 with qualifying purchases of \$430,000 before there is a dollar for dollar reduction in the amount of Section 179 expense deduction taken)
- Elimination of Form WT-6 (Withholding Tax Deposit Report) for the 2008 calendar year

Please contact your tax preparer for more information and learn how these provisions may affect you.

Michigan Only Issues

The State of Michigan has enacted a new tax on business income and gross receipts. The new tax is effective for years beginning on or after January 1, 2008.

The new tax derives its tax base from federal taxable income with addition and/or subtraction adjustments. Those adjustments added to federal taxable income are (1) interest/dividend from other state's obligations, (2) taxes measured by net income, and (3) net operating loss carrybacks and carryovers. Those adjustments subtracted from federal taxable income are: (1)

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And when it comes to tax time, we have the expertise and experience in farm taxation to make sure you take advantage of all the tax breaks and tax planning strategies available. We do not disappear after April 15th. Qualified preparers are available year round to answer questions, do tax planning, discuss major expansions and liquidations as well as help with correspondence from the IRS and audits.

So whether it is credit, bookkeeping, taxes and tax planning, retirement, succession planning, expansion, crop or life insurance and more, look to GreenStone Farm Credit Services to be your FINANCIAL SERVICES PROVIDER!

dividends/royalties from persons other than US persons and foreign operating entities, (2) losses attributable to another entity subject to the business income tax, (3) interest income from US Treasury obligations, (4) net earnings from self-employment or partner or a limited liability company member and (5) interest paid to a related person for use of an intangible asset.

Please contact your tax preparer for more information and how this new tax may affect you.

This notice is required by IRS Circular 230, which regulates written communications about federal tax matters between tax advisors and their clients. To the extent the preceding information and or any attachment is a written tax advice communication, it is not a full "covered opinion." Accordingly, this advice is not intended and cannot be used for the purpose of avoiding penalties that may be imposed by the IRS. Such assurances can be granted only by securing a covered opinion letter. Should you wish to explore the option of receiving a covered opinion letter relating to a tax advice matter, please contact your local office.



Adrian, MI 517-263-9798	Bay City, MI 989-686-5100	Caro, MI 989-673-6128	Clintonville, WI 715-823-2128
Coleman, WI 920-897-4047	De Pere, WI 920-336-5701	East Lansing, MI 517-318-4100	Escanaba, MI 906-786-4460
Grand Rapids, MI 616-647-0030	Mt. Pleasant, MI 517-318-4100	Sturgeon Bay, WI 920-743-8150	Alpena, MI 989-354-4343
Schoolcraft, MI 269-679-5296	Bad Axe, MI 989-269-7232	Lapeer, MI 810-664-5951	Saginaw, MI 989-781-4251
Sandusky, MI 810-648-2600	Allegan, MI 269-673-5541	Berrien Springs, MI 269-471-9329	Charlotte, MI 517-543-1360
Hart, MI 231-873-7102	Hastings, MI 269-945-9415	Ionia, MI 616-527-1930	Alma, MI 989-463-3146
Cadillac, MI 231-775-1361	Corunna, MI 989-743-5606	Lakeview, MI 989-352-7203	St. Johns, MI 989-224-9321
Traverse City, MI 231-946-5710	Ann Arbor, MI 734-769-2411	Concord, MI 800-968-8600	Hillsdale, MI 517-437-3336
Howell, MI 517-546-2840	Mason, MI 517-676-1086	Monroe, MI 734-243-6711	Appleton, WI 920-739-3186
Manitowoc, WI 920-682-5792			

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We would be happy to be their "financial services provider".

GreenStone FCS reserves the right to make case-by-case decisions on the distribution of gift cards for referrals.

A new customer is one whom has no other affiliation with GreenStone FCS.