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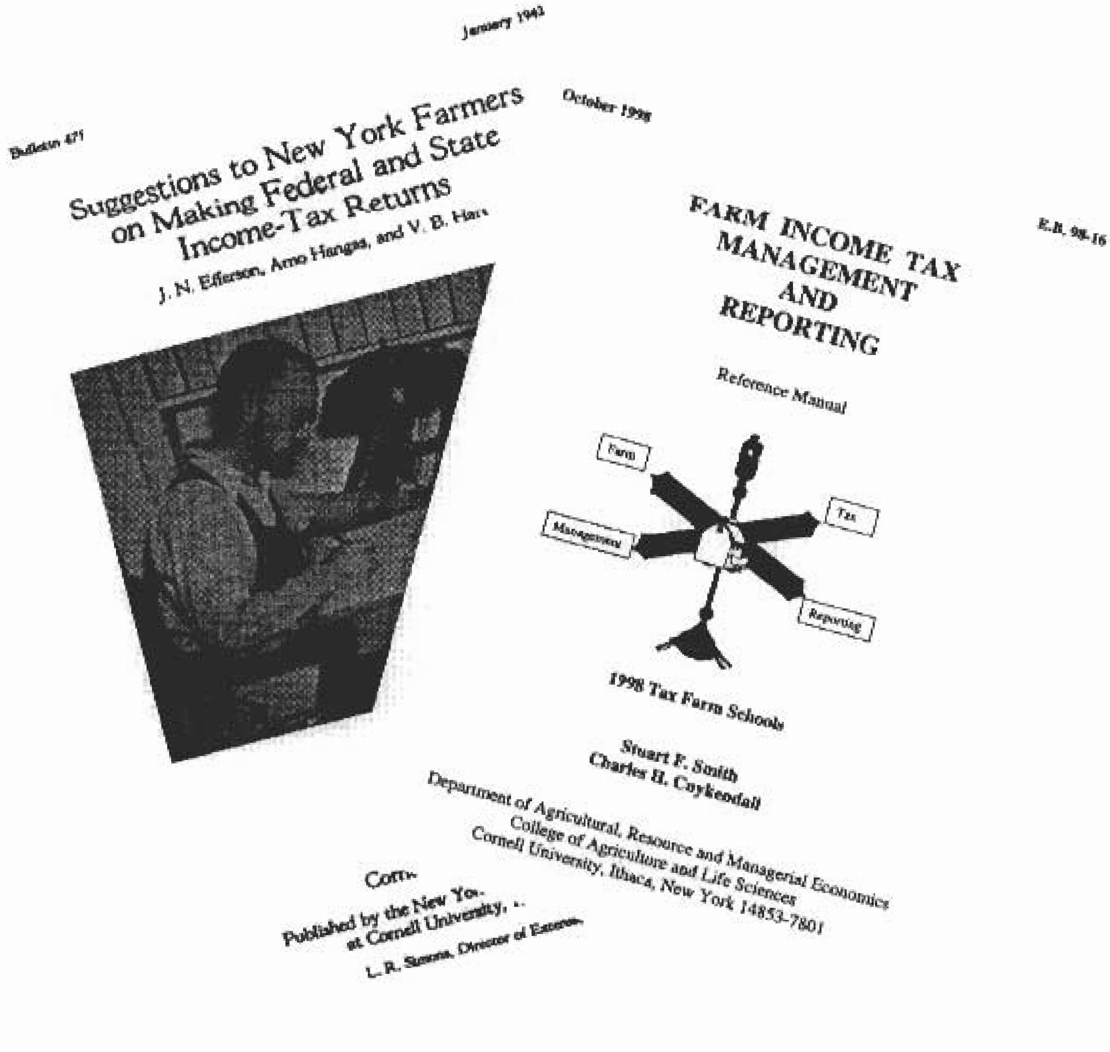
HISTORY OF THE CORNELL FARM TAX SCHOOLS



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HISTORY OF THE CORNELL FARM TAX SCHOOLS*

The First U.S. Income Tax Laws

The Income tax was first imposed on citizens of the United States on net income received or accrued from March 1 to December 31, 1913. This first income tax law was provided by an Act of Congress, approved October 3, 1913. The tax rate started at 1 percent on taxable income not exceeding $50,000 and progressed to six percent on taxable income exceeding $500,000. Tax rates doubled in the first four years, but most farmers and small business owners were not subject to income taxation prior to 1918.

The Revenue Act of 1918, passed February 24, 1919, put all taxpayers, including farmers, under the same basic rules. The new law tripled the regular or normal tax rate to 6 percent on net income up to $4,000 and 12 percent on net income exceeding $4,000. It repealed the old surtax and imposed a new progressive surtax increasing from 1 percent on $5,000 to $6,000 of net income to 48 percent of net income exceeding $100,000. New heavy penalties ranging from a 25 percent to a 50 percent increase in taxes and fines from $1,000 to $100,000 were imposed for negligence and fraudulent dealings. The new tax law was based on "the fundamental principle that only net income should be taxed without impairing the capital assets invested in the business."

The first Schedule F was used in 1919 and consisted of three pages for receipts and expenses and one page of instructions. The cash basis farmer was provided 72 lines for recording income and 42 lines for expenses. Today's Schedule F is two pages long with only 12 lines for income and 41 lines for farm expenses. But, filling out Schedule F has not been made easier. There are now 6 _ pages of Schedule F instructions and IRS estimates that it takes the average farmer more than 6 hours to complete farm income records, read the instructions, prepare Schedule F and send it in. In 1919 the average farmer had never prepared an income tax return, had no comprehensive record of farm receipts and expenses and prepared the tax return in much less than 6 hours.

All of the changes imposed by the Revenue Act of 1918 required major revisions in tax forms and instructions and increased the number to be distributed. The lateness of the 1918 legislation, February 24, 1919 must have caused a tremendous problem for the IRS as well as taxpayers that had to file by March 15. Today we are critical of Congress for passing tax legislation in November and December. Can you imagine dealing with major new tax legislation passed only 20 days prior to the filing deadline?

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* This bulletin was compiled and written by Stuart F. Smith, Senior Extension Associate, retired, Department of Agriculture, Resource, and Managerial Economics, Cornell University.

TO BE FILLED IN BY COLLECTOR.

List No. ....

.... District of ....

Date received ....

Form 1040.

INCOME TAX.

THE PENALTY
FOR FAILURE TO HAVE THIS RETURN IN THE HANDS OF THE COLLECTOR OF INTERNAL REVENUE ON OR BEFORE MARCH 1 IS $20 TO $1,000.
(SEE INSTRUCTIONS ON PAGE 4.)

TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

File No. ....

Assessment List ....

Page .... Line ....

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.

(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191__

(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) .... of ....
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of .... State of ....
(Fill in pages 2 and 3 before making entries below.)

1. Gross Income (see page 2, line 12)		$
2. General Deductions (see page 3, line 7)		$
3. Net Income		$
Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.		
4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11)	$	
5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A)		
6. Specific exemption of $3,000 or $4,000, as the case may be. (See Instructions 3 and 19)		
Total deductions and exemptions. (Items 4, 5, and 6)		$
7. Taxable Income on which the normal tax of 1 per cent is to be calculated. (See Instruction 3).		$

8. When the net income shown above on line 3 exceeds $20,000, the additional tax thereon must be calculated as per schedule below:

	Income.	Tax.
1 per cent on amount over $20,000 and not exceeding $50,000	$	$
2 " " 50,000 " " 75,000		
3 " " 75,000 " " 100,000		
4 " " 100,000 " " 250,000		
5 " " 250,000 " " 500,000		
6 " " 500,000		
Total additional or super tax		$
Total normal tax (1 per cent of amount entered on line 7)		$
Total tax liability		$

Front page of first Federal Income Tax Form 1040 printed in 1913.

Early Publications and Lecture Notes

The first Cornell Extension Bulletin written to help farmers with income tax reporting was published in January 1942. It was Bulletin 475, "Suggestions to New York Dairy Farmers on Making Federal and State Income Tax Returns", by J. N. Efferson, Arno Hangas and V. B. Hart. The three authors acknowledged help and advice from M. S. Kendrick, Professor of Public Finance at Cornell and the use of material previously prepared and presented by Professor P. S. Williamson.

Professor M. S. (Slade) Kendrick was well familiar with farm tax issues and had been studying and writing about the New York State System of taxation since 1926. Slade Kendrick became a co-author of the Farm Income Tax Bulletin with V. B. Hart in 1943 and continued as co-author through 1954. Dr. Kendrick was still using an office on the fourth floor of Warren Hall when I was doing graduate work in 1965 and 1966.

"Material previously prepared and presented by Professor P. S. Williamson" probably refers to lecture notes and handout materials. I have copies of Farm Management I lecture four and five notes made by W.I. Myers as a Cornell student. Topics include Computing Net Farm Income by the Inventory Method, Personal Exemptions, Federal Rates and Return Periods and New York State Income Tax. Professor Williamson may have prepared and presented these lectures, although he is best remembered as the founder of the Cornell Cost Accounting Program. The 1920 Farm Management I lecture notes already identify the Inventory Method as the preferred system of preparing income tax returns. The Professor said:

> *"In most cases the best method of computing net farm income is by the inventory method. By this method the farm income is computed from the sales plus any gain or minus any decrease in inventory. In making returns by the inventory method an annual inventor and a record of farm receipts and expenses is necessary. The chief advantage of this method lies in the fact that it equalizes income over a series of years and reports as accurately as possible the actual farm income of the year."*

This position favoring the use of farm inventories in determining net farm income is certainly consistent with teaching the most accurate method of accounting for farm costs and returns. Although farmers were allowed to use the cash method of accounting in 1920, it was some time later that Cornell farm tax "experts" began to recommend it as the preferred method of farm income tax reporting.

The Farm Management I lecture notes kept by W. I. Meyers, who after graduation became a faculty member, Chairman of the Department of Agricultural Economics, Director of the Farm Credit Administration in Washington, D.C. and Dean of Cornell's College of Agriculture, contain some unique rules for farmers filing in the early tax years. To calculate the gain on the sale of a farm purchased before March 1, 1913, the taxpayer had to first determine the current investment or what we now call "basis". Fair market value as of March 1, 1913, less depreciation claimed plus capital improvements equaled current investment. So, farmers who purchased or inherited farms at very low values prior to 1913 received a free step up in basis to 1913 values. The same rule applied to livestock born on the farm before March 1, 1913.

The final examination for Farm Management I given on February 3, 1920, contained the following questions on income taxes:

> A. *What two methods of computing net farm income for income tax purposes are allowed? Which method is usually better? Why?*
>
> B. *How would the following items be handled in computing net farm income for income tax purposes: repairs on farm operator's house, repairs on tenant house, value of wife's labor on farm business, value of minor son's labor on farm business, family living expenses, interest paid on mortgage, eggs exchanged for groceries, depreciation on machinery, board of labor, loss on tobacco crop damaged by hail?*

Including question (A.) about cash vs. accrual accounting in the final exam shows how much emphasis the Professor placed on the importance of using inventories in farm accounting. Question (B.) deals with some very common farm issues of that era. The answer reveals specific rules for farmers; some of the rules have survived 80 years of code changes and revisions. The cost of repairs made to the operator's house could not be included as farm expenses; repairs on a tenant house were includable. Neither wages paid to, nor the value of work of the farm operator's wife could be included as a farm expense. Interest paid on farm debt, depreciation on farm machinery and the cash cost of boarding farm employees were deductible farm expenses. Personal and family living expenses were not deductible. Exchanging farm produce for groceries and other merchandise was a common practice at the turn of the 20th century and beyond. The value or price of the goods received in the exchange was to be included as farm income.

I used to ride with my grandfather Fred Friend when he delivered fresh brown eggs to several grocery stores in Laconia, New Hampshire. The trip to town in grandfather's old station wagon took only ten or fifteen minutes, but the delivery and exchange of eggs at each store was a lengthy process. I don't remember how often the eggs were traded for groceries or if grandfather reported barter income, but I remember waiting for him in that old rattletrap station wagon for what seemed like hours and sometimes he did come out with groceries.

Crop losses could not be claimed as a casualty loss in 1919 for the same reason they are not deductible now. The value of the damaged crop is never entered as gross income. It's interesting that the loss on a tobacco crop was used in an exam given in New York State. Perhaps the Professor wanted his students to recognize that this rule applied to any crop raised for sale on any farm in the U.S.A.

Included with notes collected by W.I. Meyers were two of the earliest income tax publications for farmers. One is *Income Tax Primer For Farmers* (preliminary edition), prepared by the IRS and published in 1919.

TREASURY DEPARTMENT
UNITED STATES INTERNAL REVENUE

INCOME TAX PRIMER
FOR
FARMERS

PREPARED BY THE BUREAU OF INTERNAL REVENUE
FOR THE INFORMATION AND ASSISTANCE
OF TAXPAYERS

(PRELIMINARY EDITION)

WASHINGTON
GOVERNMENT PRINTING OFFICE
1919

This twenty-four page publication was revised and published again in 1920 and probably was the forerunner of the *Farmer's Tax Guide*.

The authors of *Income Tax Primer For Farmers* used a question and answer format to cover a variety of topics including: filing status, personal exemptions and deductions, tax rates, exempt income, reporting farm receipts and expenses, losses, depreciation, credits, payments and refunds. Following are entries from the 1919 primer that I find most interesting:

> *"I sold a pair of horses in 1918 for $500 that I purchased in 1915 for $300. Must I return (include) in gross income the full amount of $500 received?"*
> *"No, the profit realized upon a sale, in this case $200, must be included in income. The case would be different if the livestock had been raised on the farm. In such case there is no capital investment and the full amount received must be included as income."*

In 1919, there was no preferred capital gain treatment on the sale of assets used in the business and no prior depreciation to complicate the calculation of taxable gain on the sale of assets. Here is another question and answer from the 1919 primer:

> *"Would a personal return made by an agent, for and in my behalf, be accepted?"*
> *"If, by reason of illness, absence, or non-residence, a tax payer is unable personally to make his return, he may appoint an agent to act for him and the return executed by the agent will be accepted if he makes affidavit that he has sufficient knowledge to make a complete and accurate return for his principal. Such agent assumes responsibility for making the return properly and the penalties provided for delinquent, erroneous, false or fraudulent return are applicable to him."*

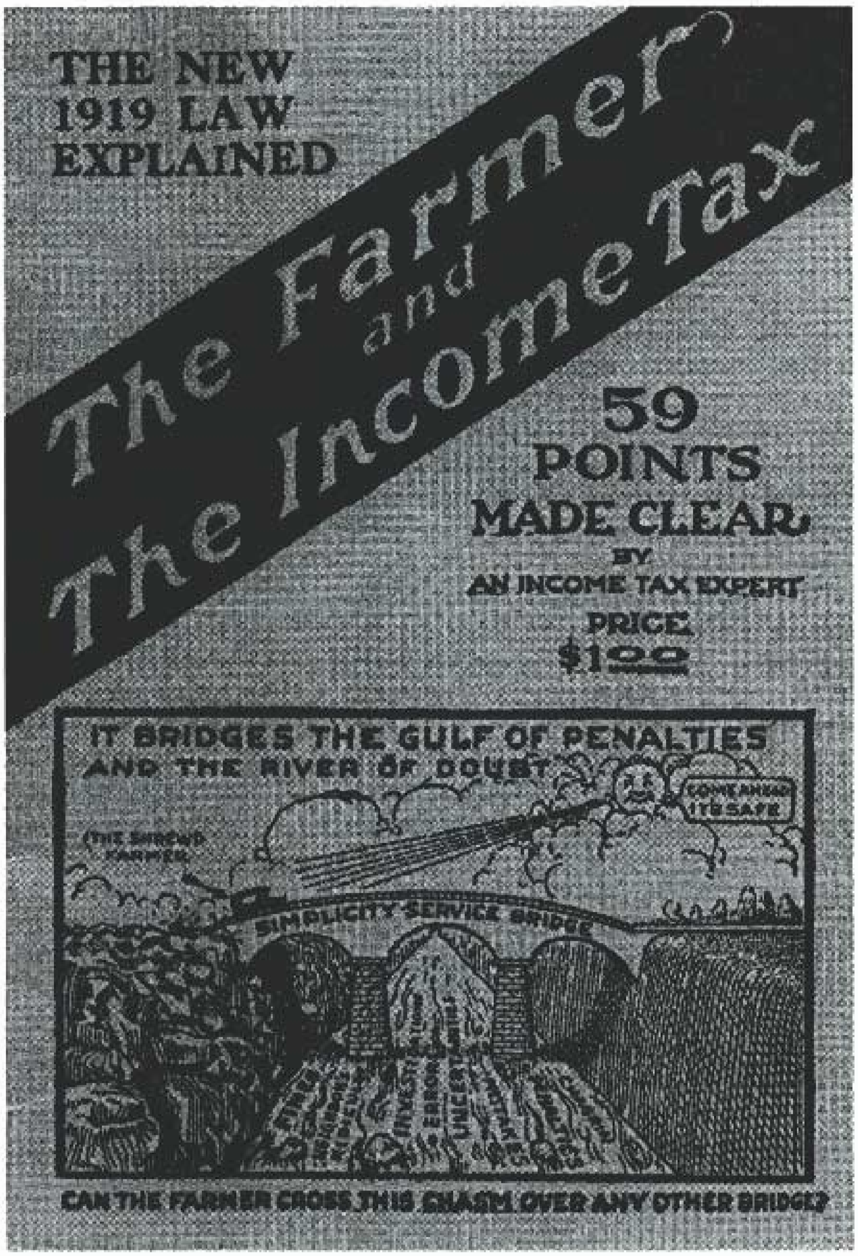
The following is the affidavit that was on the back of the 1919 individual income tax return:

> *"I swear (or affirm) that this return, to the best of my knowledge and belief, is a true and complete statement of all taxable gains, profits and income received by or accrued to me (or the person for whom this return is made) during the year 1919 and that all deductions entered or claimed herein are allowable under the law."*

The agent (accountant) filing the return had to state the reason for making the return, give a sworn statement that the return was correct and get an IRS agent, notary or a justice of the peace to administer the oath. There were very few independent accountants or practitioners earning an income from filing tax returns in the 1920's.

Farm income tax education programs started in college classrooms with the education of future farm and agricultural leaders and were eventually extended to farmers and farm tax practitioners through the Extension Service.

The other early farm income tax publication found with W.I. Myers Farm Management I notes is *The Farmer and The Income Tax, (The New 1919 Law Explained)* published in 1919 by C. E. Erickson and Company, Des Moines, Iowa. The changes imposed by the Revenue Act of 1918 and the impact they had on farmers are explained in this publication. The Revenue Act of 1918 was not the first income tax law. Federal income taxes started in 1913 and were changed several times before 1918. Two different laws were in force in 1917 and confused taxpayers had to calculate their taxes under both.



Here is a brief objective statement with interesting historical significance from *The Farmer and The Income Tax:*

> *"This booklet has been compiled for the purpose of giving the farmer a practical working idea of the principles and rules which govern the computation of his net income. Every farmer should write to the Collector of Revenue of the Federal District, in which he resides or makes requests of the County Agricultural Agent or his banker for a "Schedule of Farm Income and Expenses". This new form provides a work sheet of two pages on which net income should be worked out before the return itself is prepared."*

I have little information about J. N. Efferson and Arno Hangas who co-authored Cornell Bulletin 475 with V. B. (Van) Hart in 1942. There is nothing in the bulletin about these authors and Efferson and Hangas did not help Van Hart with this annual farm income tax publication after 1942.

The Beginning of Cornell's Farm Tax Program

Professor Van Hart was the lead author of Cornell's annual farm income tax bulletin for thirteen years and the founder of Cornell's farm income tax extension program. He was the brother-in-law of Cornell's Agricultural College Dean Ladd, and a veteran of World War I where, he flew observation blimps for the U.S. Army. Hart joined the Department of Agricultural Economics at Cornell around 1919 accepting full time extension program responsibilities. In addition to his farm income tax education program, he helped write and publish the first Cornell Farm Management Manual and was liaison with the New York Bankers' Association when the Bankers' School of Agriculture was established.

It was after World War II, probably in 1947 or 1948 that the regional farm income tax schools really got started. Professor L. C. Cunningham was Van Hart's co-author of the Cornell Farm Income Tax Bulletin at that time and we think he helped Hart with some of the early farm tax schools. The farm tax program did not begin with a full slate of regional schools. Van Hart's first schools were organized by a couple of agricultural bankers and were attended by a small group of farmers at rural banks.

The following paragraph, taken from Bulletin 475, summarizes Van Hart's approach to teaching farm income tax reporting. It is a sound, common sense philosophy that continues to be valid today.

> *"The making of a personal income tax return is to a large extent an individual matter. General rules may be presented concerning the usual items of farm receipts and expenses. No such guides, however, will tell a farmer exactly what should be done with some of the unusual items in an individual farm*

business. Decisions concerning those items must be based on the judgement of the individual concerned and on that of the income tax officials. Moreover, the laws covering income taxes may be changed from year to year, and decisions of the courts and new interpretations of existing laws may effect changes in the treatment of certain items."

The issue of cash vs. accrual basis reporting is also discussed in Bulletin 475. The authors devote 2 _ pages of questions and answers about the topic and their recommendations are quite different from those made by the Professor teaching Farm Management I in 1920.
Here is Van Hart's advice:

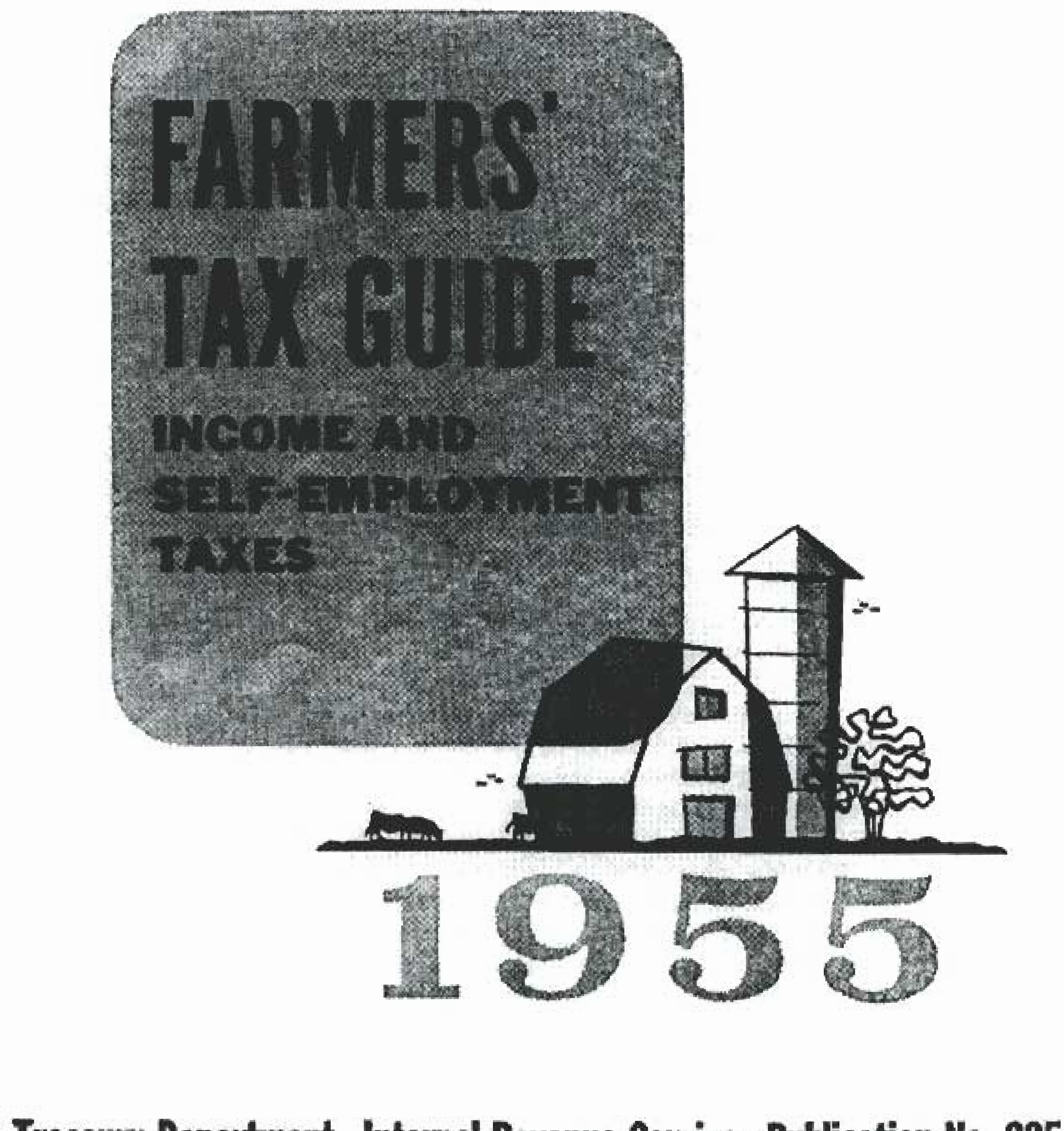
"In reporting for the first time, which basis should a farmer use? Many farmers do not keep enough inventory records of feeds, supplies, livestock and equipment, or detailed records of accounts receivable and accounts payable so that the return can be made on the accrual basis. For such farmers, the only basis that can be used is the cash basis. Farmers who have a relatively uniform cash farm income year after year will find it easier to file the return on the cash basis than on the more complicated accrual basis. Farmers who have been keeping enough records and who have a type of business in which cash crops may be stored; or who produce crops, or operate livestock enterprises requiring more than one year for realization of income, may find it to their advantage to file the return on the accrual basis to prevent wide fluctuations in income from year to year."

The same basic advice is given in the answer to: "Which basis for reporting should a farmer plan to use over a long period of years?"

More than twenty years after the accrual basis was first taught as the best method of farm tax reporting in the Cornell classroom, Van Hart and associates recognized and recommended the cash basis for its simplicity and practical application. Some things do change.

Here is another interesting item from Bulletin 475. Earned Income Credit (EIC) was available to farmers in 1941! I think we started teaching about EIC in the mid 1980's and I thought it was not important to farm taxpayers before then. A closer look at the 1941 tax regulations reveals a restriction for farmers; but most would earn some EIC. The EIC was 10 percent of earned income up to $3,000. Earned income included payments for personal services not done in connection with the farm business plus not more than 20 percent of the net farm profit from Schedule F. For net incomes of more than $3,000 EIC could not be more than $1,400 or less than $300.

Professor Hart was one of the founding members of the National Extension Advisory Committee. The committee was formed in the early 1950's to encourage, help and advise IRS on the publication and distribution of *The Farmer's Tax Guide*. Many of the ideas and examples for the early *Farmer's Tax Guides* came from the Cornell Farm Income Tax Bulletin written by V. B. Hart and Robert S. Smith.



Cover of one of the early Farmers Tax Guides.

The earliest *Farmer's Tax Guide* in our Cornell files is a 1955 edition. The forward includes a recognition of the representatives of the Extension Services of the State Land Grant Colleges for their help in the preparation of the booklet. A key contribution was the comprehensive example of farm receipts and expenses used to illustrate proper farm record keeping and tax form preparation in the final chapter of the publication. Recognition of Extension's contributions and a comprehensive farm example has been included in each successive year's *Farmer's Tax Guide*.

A Team of Van Hart and Robert Smith is Formed

Robert S. Smith was appointed Associate Professor of Agricultural Economics in 1954 and Professor of Farm Management in 1958. He worked with Van Hart on the preparation and presentation of the Farm Income Tax School from 1952 until Professor Hart retired in 1959. From January 1956 to July 1959 V. B. Hart and R. S. Smith authored and published a series of informational sheets on farm taxes called "Farm Tax Facts". Number 14 in the series was published on January 12, 1959 and consisted of ten tax tips. I found tip number four of particular interest because it illustrated Van Hart's ability to reduce a complicated tax-filing requirement to a simple concept that farmers could relate to and remember. Here it is:

> *"The only sales of livestock that are reported on the farm form Schedule F are those held primarily for sale—for example, feeder cattle, bob calves and young pigs. All sales of livestock held for draft, dairy or breeding purposes go on Schedule D. If they qualify as sales of capital assets, put them in the Long-term Capital Gains and Losses "barn" in the middle of the page. If they don't qualify, put them in the Property Other than capital assets "open shed" at the bottom of Schedule D."*

Bob Smith continued to write and publish "Farm Tax Facts" after Van Hart's retirement.

The last one I found was an announcement of the 1964 Regional Farm Income Tax Schools dated November 11, 1964. Bob's last paragraph on this fact sheet is a reminder that some things have changed little in forty years of farm tax school preparation. Bob wrote:

> *"Bulk printing of the new "Farmer's Tax Guide" has been delayed again this year. It is hoped that a first shipment will be available for the tax conferences."*

Recently I talked with Bob about the experiences he had working with Van Hart. Here are some of the things he shared with me:

FARM TAX FACTS

No. 1 January 20, 1956

Federal Farm Income and Self-Employment Social Security Taxes for Farm Partners*

A partnership, as such, does not pay any Federal income or Social Security taxes, but must file an information return on Form 1065. This Form 1065 is simply to show what the income of the partnership was and how it was divided between the partners.

The net farm profit of the partnership is calculated in the same way as that of an individual. The farm form Schedule F is used for this purpose. The individual partners do not need to file additional copies of Schedule F.

The net farm profit of the partnership, as calculated on Schedule F, is carried over to line 1 on page 1 of Form 1065. If the partnership, as such, had any of the items of income or deductions listed on page 1 of Form 1065, which had not been included in the calculation of net farm profit on Schedule F, they are entered in the appropriate place on that page and added or subtracted from the net farm profit to arrive at the item of "Ordinary income - -"(line 22 of page 1 of Form 1065).

On page 2 of Form 1065 is a place for reporting partnership capital gains and losses and other gains and losses from sale of property that an individual would ordinarily report on "Schedule D."

On page 4 of Form 1065 is a place for calculating the partnership earnings from self-employment. Ordinarily, this figure would be calculated the same for the partnership as it would for the individual.

*Prepared for tax consultants by V. B. Hart and R. S. Smith, Department of Agricultural Economics, New York State College of Agriculture, Cornell University, Ithaca, New York.

The first issue of Farm Tax Facts prepared by Van Hart and Bob Smith in 1956.

"One of the first tax schools Van Hart held was at the Dairyman League Headquarters on Park Avenue in New York City. He took the train, the Black diamond, to the City. He also took the train to tax schools in downtown Buffalo, Albany and Watertown. When we began doing the schools together, I would meet him the next morning in Watertown, with a state car and we would drive up to our tax school in Canton. Van drove a car like a team of horses so I did the driving."

I have met several people who attended Van Hart's tax schools in the early 1950's. Several remember his instruction on depreciation. He always stressed: *"Don't depreciate dirt!"* Bob Smith remembers Van Hart using an illustration of a dam to make another point about depreciation: *"Depreciation not claimed is like water over the dam."*

Robert S. Smith was born in Gilford, New Hampshire, June 15, 1920. He was next to the youngest son of Samuel and Winifred Page Smith. He had two older brothers and six older sisters. The ten children were all raised at High Maples, a small dairy, fruit and maple products farm located less than two miles northeast of the Laconia, NH city line. Robert loved to help his father in the woods. He trained a young pair of steers to yoke and he could milk a cow before he was five years old. His oldest brother, Royal, who was my father, was sixteen years older than Robert. Royal was the first to leave home when he entered the University of New Hampshire in 1926.

Twelve years later it was Robert's turn to leave home to go to college. The choice was Cornell University more than three hundred miles away. It was a difficult decision. Both of his brothers had graduated from the University of New Hampshire. He would be the first sibling to leave the state to go to school and his parents were not in favor.

Royal Smith (my father) was County Agricultural Agent at the time and recognized the educational opportunities available at the leading Land Grant University in the northeast. Royal encouraged Robert to attend Cornell and was very proud of his younger brother's decision and later achievements. Bob earned his BS Degree from Cornell in 1942 and was hired as Assistant County Agricultural Agent in Livingston County. In 1944 he moved to Lewis County as County Agricultural Agent. From 1945 through 1946 Bob was a Field Artillery Officer in the U.S. Army. In 1947 he returned to his native state and served as County Agricultural Agent in Laconia, New Hampshire, Belknap County for three years. In 1950, Bob went back to graduate school at Cornell and earned his Ph.D. in 1952. When Bob began working on the Extension farm tax program in 1952, there were fewer than 200 people attending each year. In 1976 attendance at nine regional tax schools grew to 1,140. What began in 1948 as a school to help farmers prepare their income tax returns had progressed into a school for tax preparers. Seventy percent of the people attending in 1976 were tax practitioners, accountants, attorneys or bookkeepers involved in income tax preparation. Bob Smith was the individual primarily responsible for the growth and success of the program from the mid 1950's to the mid 1970's.

Earl Wilde, retired Cooperative Extension Agent, says the first tax school he attended in the early 1950's was held at the Hotel in Sherburn, New York and it was so cold that the attendees were nearly frozen. At that time Cornell farm tax schools were only held "Upstate". When Earl moved to Sullivan County, he convinced Bob Smith to bring the program to Liberty for a couple of years. From Liberty, it moved to the Extension Center in Middletown at the Orange County Fair Grounds. There were no registration fees in those days and everyone was on their own at lunchtime. The old Middletown Extension Center was a cold and drafty place with rickety tables and wooden chairs.

In his 1958 plan of work, Bob described the importance of a viable tax management program.

> *"Tax obligations of farmers have increased markedly in recent years. Federal and State income taxes, State unincorporated business tax, tax reporting on wages paid employees, social security tax withholding and reporting, estate and gift tax responsibilities and gasoline tax refunds are the more common tax obligations of farmers. The management of any business requires careful tax planning. Farm family financial planning today dictates an informed eye be kept on tax responsibilities."*

In the late 1950's Bob replaced Van Hart as Cornell's member of the National Farmer's Tax Guide Advisory Committee and served for fifteen years. Verle Houghaboom, Extension Economist from the University of Vermont, a member of the Committee at that time said this about Bob's effort:

> *"Bob Smith has served as an active, imaginative and vocally constructive member of this committee. Without doubt, he is recognized by the Technical Publications Branch of the IRS as well as by his Extension colleagues in the Northeast as the dean of Extension's educational effort in farm income tax management."*

Bob's advice and council on farm tax issues were respected by more than his Extension colleagues and the publication branch at IRS. Sometime during the 1960's a farm attorney telephoned Bob and asked him to come to the farm of his client in Otsego County. The farm family raised purebred dairy cattle and was well known in Upstate New York. Bob went to the farm and learned the farm tax records had been audited by IRS because the farm had claimed a net operating loss each year since 1926! The attorney was afraid the farm losses would be disallowed and a penalty would be assessed. What could be done to minimize the cost of this bad situation? Bob explained the alternatives and quickly dismissed the option to show two years of profit out of five. Their only chance was to convince IRS that the farmer was trying to make a profit during the net operating loss years in question. Bob provided a list and explanation of the factors IRS usually considers in determining the existence of a profit motive and told the defendants to use them to support their case. When the farmer and his attorney had their audit conference in Utica, they told the IRS examiner that they had received help and counsel from Bob Smith. IRS let them off without a tax assessment or penalty!

Professor C. A. (Art) Bratton taught with Bob Smith at the farm income tax schools several times between 1959 and 1971. Others who partnered with Bob or substituted for him included Gil Smith, Bill Barry, George Casler, B. F. (Bud) Stanton, Van Travis, George Monroe, Norman Coe, and two or more post graduate students.

My first exposure to the Cornell tax program was attending one of the last tax schools Van Hart participated in. It was held at the old Roycroft Inn in East Aurora, New York in December 1958. Congress passed income tax legislation in 1958 that made the first substantive changes to the tax code of 1954. The most important change affecting farmers was the implementation of the 20 percent additional first-year depreciation. The tax-option or S-corporation became an election for the first time in 1958 and the period over which net-operating losses could be carried back was extended from 2 to 3 years.

The 1960's

Bill Barry and George Casler conducted the Farm Income Tax Schools in 1960. They held seven one-day schools in seven regional locations around the State. Most were located at Extension Farm and Home Centers, but one was held at the Menands Market in Albany, New York and another at the Silver City Inn on Route 5 in Sherrill, New York.

Federal income tax rules and regulations changed little in the 1960's, so Barry and Casler were able to include a considerable amount of review and farm tax management in the schools. Topics ranged from reporting receipts and expenses to the sale of a farm.

The 1960 Federal and State Farm Income Taxes Instructor's Manual consisted of 31 pages and was prepared by Bob Smith before his sabbatical leave to Israel. The format was similar to that used by Van Hart. There were 48 tax questions and answers in the first 18 pages followed by 12 pages of tax management suggestions and references. The *Farmer's Tax Guide* was 63 pages long and the sample farm return of James and Jane Brown was the first of 15 chapters. The 1960 federal tax form and instruction pamphlet (Package X) contained all the forms and instructions needed to prepare a 1960 federal income tax return on only 16 pages.

In the letter announcing the 1960 Farm Tax Schools, Bill Barry wrote: *"No registration fee and no advance registration required, but it would be appreciated if you would inform your County Agricultural Agent that you expect to attend."*

The tax code, materials and meeting arrangements were much simpler 40 years ago. Bob Smith and George Casler teamed up to conduct the 1961 Farm Tax Schools. A new school was held in Canton and all seven schools were held between November 30 and December 12. The question and answer format was used again in the first 18 pages of the teaching manual followed by three pages on farm records and income tax. This section contained specific instructions on how to change the expense headings on Schedule F to conform to the classification expenses of the Cornell Farm Account Book.

There was a question about determining tax basis in farm family transfers included in the 1961 teaching manual. After using an example to answer the question, Bob Smith added the following precautionary advice: *"In any family transfer, the transaction is subject to severe scrutiny by IRS and may be subject to an unfavorable ruling as not an 'arms-length transaction'. Reviewing officers in the audit division of IRS have tremendous power in making the decision. WATCH OUT! Nothing is guaranteed to stand up with IRS, in a family deal."*

When Uncle Bob made a statement like that everyone would give him their undivided attention. If they were headed for the coffeepot or thumbing through Package X, they would stop and listen. The only thing practitioners would rate higher were his stories, and I'm not printing them!

In 1961 Allen Shapley, a new member of Cornell's Department of Agricultural Economics assisted Bob Smith with the Farm Tax Schools. In his letter to County Agricultural Agents announcing the seven regional tax schools Bob wrote:

> *"I would appreciate any publicity you can give to the meeting closest to you. The meeting is designed primarily for lawyers, accountants, and other tax advisors and for county agents. As usual, I hope that as a general rule you will not invite farmers. You may wish to extend special invitations to one or two farmers with big businesses or special tax problems."*

So the Extension program that began by providing income tax reporting and management suggestions directly to farmers had transformed to educating tax practitioners and advisors working with farm families. This did not mean that the average farmer received no tax information from Extension. County Agents were encouraged to hold local tax schools for farmers and use the *Farmers Tax Guide* and Bob's teaching manual for sources of the latest tax information.

Investment Tax Credit was new in 1962, there were new depreciation guidelines (few affected farmers) and the use of salvage values became optional. The

Cornell Extension Mailing Room (distribution center) received 30,000 *Farmer's Tax Guides* in 1962 and more than 27,000 were sent out to County Agents, Agricultural Teachers, Bankers and Farm Credit.

1968 was another year for substitutes. Professor Bob Smith was on sabbatical leave in Iran. In his absence the Farm Income Tax Schools were planned and conducted by Professor Art Bratton and Cooperative Extension Specialist Gilbert C. Smith. Gil Smith was the grape specialist for the Finger Lakes region at the time and had delivered farm management programs to the farmers of Yates County for many years as their County Agent.

There were nine regional Farm Income Tax Meetings scheduled for 1968 starting on Tuesday, December 3rd and concluding on Thursday, December 19th. There were four consecutive meetings the first week and three during the third and final week. All meetings began at 10:00 A.M. and ended about 3:00 P.M. Attendance averaged 51 per school and varied from 28 at Binghamton to 81 at Batavia. Total attendance was 456.

Gil Smith and Art Bratton recorded notes and suggestions from their 1968 tax school experiences. Here are some of them:

> *"The schedule of 9 meetings worked out quite well. Omission of the Ellicottville meeting resulted in a few comments and letters about the distance to travel to Batavia, but no serious complaints."*
> *"The host agents did a fine job. Arrangements in general were good. Serving lunch at the meeting place has merit. The Albany facilities at the Menands Market were least desirable (no tables) and lunchroom service was slow."*
> *"Reaction to the printed student portfolios was good, but the larger Farmer's Tax Guide wouldn't fit into the packets."* (This was the first year printed student portfolios or folders were used and the year that IRS printed the first 9"x11"horizontal *Farmer's Tax Guide*).
>
> *"Professor Bratton was unable to take part in the last three meetings because of illness. Stuart Smith took his place on short notice and did a good job. With some changes in the program, these meetings also went well. It would have been more difficult if these had been the first rather than the last meetings. This is why it is desirable to have two (instructors) prepared to teach in these schools."*
> *"The 1969 edition of the "Farmer's Tax Guide" was printed in Depew, New York. The bulk shipment arrived on November 25 before we had been able to secure a copy from any other source and before IRS had any in Washington."*
> *"Our requested supply of Package X did not arrive until December 10. We would not have had any for the first week's meetings if Mrs. Connor at the Syracuse IRS office had not supplied them for us."*

"Dr. Stanton suggested the possibility of an enrollment fee to cover some of the costs of materials, printing, etc. We discussed this with several Extension Agents and they felt that
this could be done if necessary, without any marked effect on attendance."

I came to Cornell as a member of the Department of Agricultural Economics in September 1968 after serving as a Cooperative Extension Agent in Warsaw, New York (Wyoming County) for 10 years. I grew up on a dairy and fruit farm in Belmont, New Hampshire, about two miles south of Laconia. I received my BS Degree from the University of New Hampshire in 1958 and my MS Degree from Cornell University in 1966 where I majored in Farm Management.

When Gil Smith drafted me in 1968 to substitute for Art Bratton at the last three tax schools, I was surprised and ill prepared. I had conducted a few farm income tax meetings for farmers in Wyoming County, but had never talked to tax practitioners, accountants and farm attorneys about a topic that they probably knew more about than I. What a challenge! But, I had faced challenges before and most had become opportunities that I was able to grow and learn from. I liked extension teaching and I couldn't say no to good people like Art Bratton and Gil Smith.

My initiation as regional tax school instructor took place at the New Berlin Fire Hall on December 17, 1968. From there Gil and I went to the Ham-That-Am-Ham Restaurant in Chittenango and to the University Treadway Inn in Canton. Although I lacked confidence and knowledge of in-depth tax issues, working with Gil Smith was an enjoyable experience. Gil was kind, caring and covered all of the difficult topics. Working with Gil produced another bonus, a visit to the home of Mrs. and Mr. Bernard Potter, Gil's sister and brother-in-law. When I met the Potters, I should have started a list of all the wonderful people I came to know on my Extension travels.

In 1969 Bob Smith was back from Sabbatical and the experienced team of Professors Smith and Bratton conducted nine regional Farm Tax Schools between December 3rd and December 19th. Four of the nine daylong schools were held during the second week in December. The two dedicated Extension workers traveled to Binghamton, Middletown, Albany, New Berlin and back home to Ithaca over a five-day period.

A New Team Is Formed

In 1970 I was again asked to help out with the Tax School Program. For some reason Bob Smith prepared the teaching manual without a co-author and had not been able to recruit a teaching partner for the schools. I had come to Cornell to help Art Bratton and other farm management faculty with the Farm Records Summary and Analysis Program and to work with Cliff Loomis and others on farm management workshops for farmers and Extension field staff. December was a quiet month for farm records work and I jumped at the opportunity to do the Farm Tax Schools with Uncle Bob. This was a chance to learn from an outstanding tax authority and teacher, and to travel around the State with a man who would share a multitude of great stories and experiences about the people he knew and worked with. Total attendance at the 1970 Tax Schools was 644, up 23 percent from 1969 and higher than any previous year.

The Tax Reform Act of 1969 did not affect taxpayers until 1970. Six of the changes included in that legislation had great importance to farmers and were discussed at the 1970 Schools. They were:

-Recapture of depreciation on dairy and breeding livestock
-An extended holding period for livestock
-A new limitation on farm losses
-Changes in hobby farming rules
-Repeal of Investment Tax Credit
-Liberalization of income averaging

The 1970 Teaching Manual consisted of 43 pages and covered 20 different topics including tax saving in trading farm property, tax considerations in incorporation of the farm business, farm employees and income taxes, tax suggestions for part-time farmers and income tax reporting for Christmas tree growers. Thirty years later these continue to be important tax issues for farmers and topics of great interest to practitioners attending the Farm Tax Schools.

Apparently the new man on the 1970 Tax School teaching team of Smith and Smith worked out okay. We didn't ask attendees to evaluate the Tax Schools back in those days, but Bob Smith was highly respected by our clientele and had the ability to coach and encourage inexperienced partners so they appeared to know what they were talking about. I was asked to accept an expanded role in planning and preparing the 1971 program. Early in the planning process Bob asked me to give some thought to the prior year's schedule and school locations and make suggestions for the 1971 Tax School program. I suggested dates for nine schools and contributed the following comments:

-Three schools per week are enough (four is maximum) and one long trip per month is enough.
-We should schedule our longest trips for late November and early December.
-School locations and facilities that have been most satisfactory are Batavia, Binghamton, Canandaigua, and Canton.
-Let's move the Middletown (poor meeting room and lunch difficult), Albany (hard to get into Menands), New Berlin (difficult facility to use), Bath (meeting set-up a disaster) and Chittenango (too crowded) meeting.

Now I think it was very presumptuous of the "new man" to suggest such a major change in Tax School locations after just one year on the circuit. Some of these schools had become tradition that was going to be hard to break.

Bob was not opposed to changing school locations if the local Extension Agents were involved in the process. Here is his response to my suggestions: "In general, your suggested dates are excellent. Would you be willing to organize the tax school schedule in line with your suggestions? Personal calls to involve agents is the best procedure, I believe."

Allowing the county and regional cooperative extension agents to be involved in program planning and establishing regular communication with them are sound extension principles that I tried to use throughout my career. Applying the good extension practices I learned from Bob Smith, Art Bratton, Cliff Loomis and Jean Ketcham (my County Agent in Wyoming County), and a few others, I was able to maintain a strong and productive relationship with the Extension Field Staff.

Only some of the changes I wanted to make in the 1971-tax school schedule were implemented. We went back to the Fair Grounds in Middletown and to another church hall in Bath. We moved the Albany meeting to Voorheesville, the New Berlin meeting to the Deer Path Inn, the Chittenango meeting to Cazenovia College and scheduled an additional school at Cornell for December 22nd. I had mixed feelings about leaving the Ham-that-Am-Ham Restaurant in Chittenango. Their food had been great and for some, the meal was the highlight of the tax school. The Cazenovia location was changed to Syracuse after one year and the school at Cornell was eliminated due to poor attendance and parking problems.

The Revenue Act of 1971 had not been passed when we began the 1971 Tax Schools, but both the House and Senate had included a provision to reinstate investment tax credit in their versions of the Tax Bill. Therefore, the first statement under Income Tax Changes of Major Importance to Farmers was: "Investment Credit is back!" We were not sure what month the credit would begin, but we knew it would be a 7 percent direct reduction against tax liability, a tremendous tax saver for many farmers.

The introduction of Form 4797 was another major change for 1971. Ten pages in the Teaching Manual were devoted to the sale of farm assets and how to report them on Form 4797. But, that was not enough to show and convince all practitioners how to use the new form. That challenge continued for many years and some were still reporting cattle sales on Schedule D twenty-five years later.

The Asset Depreciation Range System (ADRS) also began in 1971, but it was optional. We suggested that most farmers would not benefit materially by electing ADRS. By continuing to select depreciable lives suitable to their own businesses most farmers would recover capitalized costs as fast or faster than was provided under ADRS.

Attendance increased again in 1971 to 701, up 9 percent from 1970. Batavia was the largest meeting with 109 people attending and Binghamton was the smallest with 54 people attending. Attendance averaged 79 people.

The 1972 Farm Tax School Program featured a review of investment tax credit, another lesson on using Form 4797, reporting net operating losses and a warning about IRS closing some year-end tax management opportunities for cash basis farm taxpayers. Nine regional schools were held with total attendance increasing to 745.

1973 brought few changes in farm tax reporting procedures. The Farm Tax School Program focused on old tax reporting problems and tax management opportunities. Materials included a new publication, A.E. Ext.73-20 "Taxmanship In Buying or Selling A Farm" by R. N. Weigle (University of Wisconsin) and Robert S. Smith. Attendance at the nine regional schools reached to a new record high of 858. The largest increase occurred at Syracuse where it increased from 76 to 130 attendees. Batavia continued to be the largest school with 138 attendees.

Bob Smith and I continued to plan and conduct the Cornell Farm Income Tax Schools through 1976. We began collecting a $1.00 enrollment fee to cover the cost of our tax packet in 1973 or 1974. The money was to be used to purchase publications and tax reference materials.

One snowy, slippery evening Uncle Bob dipped into the tax school treasury to get me out of a ditch. We were returning in separate State cars from the tax school in New Berlin. He had come from Albany and I had driven over from Ithaca for our one-day program. Our return route was over the hills of Chenango and Madison Counties. I lost it going down Moeler Hill into DeRuyter and wound up in the ditch about 1_ miles east of town. Bob was traveling ahead of me, but realized I was missing by the time he got to DeRuyter. He turned around, came back and picked me up out of the ditch. We went down the road to the Wood Farm where David Wood (Saratoga County Extension Agent) was born and raised. The Woods told us who operated a tow truck, we made a telephone call and my car was out of the ditch 15 minutes later. Bob paid the excavation bill out of the day's tax school revenues and we proceeded home without further incident.

Bob and I usually traveled together while we were conducting the Farm Tax Schools and we often stopped for dinner at great eating places. When in Batavia, it was either Mancuso's or the Landmark (Red Osier) Inn in Stafford. Bob loved the half shell oysters at Mancuso's and the Landmark is famous for its prime rib, especially the Call Cut. When we went to Kingston, we always had an excellent steak at the Top Of The Hill. My favorite eatery was the Wallace Hotel in West Eaton. It didn't look very inviting from the outside, but the food was excellent and very reasonable. We always stopped there when returning from Albany.

Another Tax School trip tradition was the cheese stop. In the 70's we always stopped at the Dairymen's League Plant in Adams to buy our cheddar cheese supply for the holidays. The first time we stopped and Bob bought a ten-pound block of extra sharp cheddar, I was flabbergasted. How could one family consume that much cheese? It was not long before I was buying that much or more. In the 80's we switched sources to the Cuba Cheese Plant in Cuba, NY.

In 1975 Carl Pearce (Chautauqua County Agricultural Agent at the time) helped me prepare the Farm Income Tax Teaching Manual while Bob Smith was away. Bob returned in time to do the tax schools that featured information on the increase in federal investment credit to 10 percent, a $30 tax credit for each personal exemption and a new earned income tax credit.

Stuart Smith Goes To Washington

Bob Smith asked me to take his place on the National Extension Farm Income Tax Advisory Committee in 1975. No formal invitation or appointment was required to serve on the committee that met each year in Washington, D.C. to advise IRS on the publication of the *Farmer's Tax Guide*. I felt it was a great honor that Bob asked me to go and I accepted the challenge of filling some very big shoes.

Sometime in mid-April I flew to Washington and took a cab to the old Washington Hotel where most of the committee members were staying. The Washington Hotel was on the decline, but was close to the White House and within walking distance of the mall. I roomed with Verle Houghaboom (Vermont) and soon found out that the Washington Hotel was within walking distance of any place he needed to go. I figured I could keep pace with Verle, even in my meeting shoes. I had blisters by the end of the first day.

I roomed with Verle each year until he retired in the mid-eighties. After the first year I made sure I wore or brought my walking shoes. We always walked from the hotel to the South Building in the morning, where we met with Buehl Lanpher and other National Extension Program Leaders. In the first two or three years the editor of the *Farmers' Tax Guide* would come to the South Building to meet with us, but we learned that we could communicate more successfully with the IRS if we met in their shop. It was a ten-minute walk across the mall and two blocks to the Treasury Building. It took much longer to get in the place, because of security measures, than it did to get there.

At the end of the first day's business Verle Houghaboom led the young and the bold to the waterfront for dinner. There were three good seafood restaurants there at the time, Hogates was my favorite. I think it is there today and still serves its famous rum-buns. If you would like seafood the next time you are in D.C., I recommend Hogates. But don't try to walk there from the mall unless you have a guide or map. The walk from the waterfront back to the Washington Hotel was about two miles and was long enough to complete my first day in our Nation's Capital.

Cecil Maynard (Oklahoma) was our Committee Chair and took charge of organizing everything including leaving the hotel at 7:15 A.M., eating breakfast at the cafeteria and arriving at the South Building at 8:30 A.M. There were several excellent extension tax experts on the committee in the mid 70's, but it was Cecil Maynard and Verle Houghaboom who made the greatest impression on me. They were the leaders and mentors who showed me the ropes in Washington, D.C.

During my 20 plus years on the National Extension Income Tax Committee, we met with several editors of the *Farmers' Tax Guide* and provided them suggestions for improving the publication. All were appreciative of our interest and work toward improving it. Once we began meeting with the IRS at the Treasury Building, we had the opportunity to meet and communicate with all the writers working on the publication, as well as, people from forms, distribution and other divisions. I think some of the writers were very apprehensive when they first met with our committee. They must have wondered who these "University People" were and what they were doing reviewing an IRS publication. But, after a few annual sessions most of the writers accepted our input and looked forward to our meetings. They adopted many of our suggestions and incorporated them into the text of the *Farmers' Tax Guide*.

One of our most memorable meetings included a lively discussion of the future of Schedule F. IRS announced that there was a good chance that Schedule F would be eliminated and all farmers would use Schedule C. Art Altman made the declaration and presented the rationale for doing it. Art had met with us in prior years and had worked his way up to the top of the IRS publications division. He was a friendly, personable man, but did not hesitate to say what he thought. IRS wanted all small businesses to use the same tax form to simplify processing returns. In addition they had interviewed a few farmers at livestock markets and were told Schedule F was too complicated and difficult to fill out.

The senior members of our advisory committee were shocked at the prospect of loosing Schedule F. It would not be eliminated without a fight. We pointed out that Schedule F was used by bankers, farm credit agencies and farm advisors to help farmers with business and credit management. We argued that the specific instructions and categories provided for farmers on Schedule F made it easier for them to file complete and accurate tax returns. We said the use of Schedule C would result in more omissions and errors by farm taxpayers. IRS promised to consider our position before making a final decision on the future of Schedule F. I don't know if

IRS made a final decision concerning Schedule F, but we still have it and it is more than 10 years after they threatened to eliminate it.

I co-chaired the National Extension Income Tax Advisory Committee for two or three years and greatly appreciate the help and support received from members of the committee, the editor of the *Farmers' Tax Guide* and Buehl Lampher's secretary, Esther Nolke. I am pleased that I was able to make a small contribution to the productive work of a national committee that set its roots with Van Hart and grew with Bob Smith.

When I attended my last meeting in May 1998 the members of the committee gave me a very appropriate and practical gift. When one travels to the Nation's Capital in April and May it is wise to take a raincoat or umbrella. I carried my 16-inch Cornell red and white umbrella for years and it protected me from more than one sudden shower in Washington, D.C. Then in 1997 while walking from the South Building to Hogate's, a powerful gust of wind turned my trusty old umbrella inside out. Old umbrellas aren't much good after that kind of experience, especially small ones. My retirement gift was a brand new 16-inch Cornell red and white umbrella and it was presented to me at Hogate's!

An Era Ends

1976 was Bob Smith's last year with the Cornell Farm Tax School. The Tax Reform Act of 1976 made sweeping changes in tax reporting and many were important to farmers. I was fortunate to have Bob with me to explain the new agricultural tax shelter provisions and revisions in the federal minimum tax.

For a number of years one of the tasks performed to prepare for the tax schools was conducting a search of the national tax service newsletters to collect relevant material to share at our meetings. I can remember spending many hours in the Johnson School Library looking for interesting cases and rulings. Bob had the ability to remember and use recent rulings and regulations affecting farm taxpayers at the most appropriate time in our program.

CPA's and practitioners were very interested in court and IRS decisions and began asking for sightings. We began printing them in our teaching manual in 1976. Here are three that were important to farmers then and are still relevant today:

> *"Definition of a farmer: The wife's non-farm income was over 35 percent of gross income on a joint return. Thus the taxpayers failed to qualify as "farmers" and were subject to quarterly estimates and penalties." Rev.Rul.74-356, 1974-33 I.R.B. 38.*

"<u>Advance payments for Feed</u>: A cash method farmer may deduct in the year of payment amounts paid for feed (to be used) in the following year provided – (1) the expenditure is a purchase rather than a deposit, (2) the prepayment is made for a business purpose and not for tax avoidance and (3) the deduction will not result in a material distortion of income." Rev. Rul. 75-152, 1975-17 I.R.B. 15.

"<u>Profit Motive found for farmer</u>: After IRS had ruled no profit motive and allowed no losses, the tax court found for the farmer. The taxpayer, a cattle rancher, convinced the court that: (1) he devoted "all" his time to ranching, (2) he performed arduous physical labor, (3) he made improvements to the property, (4) he increased the size of the ranch and herd by almost 50 percent, (5) he kept extensive records." Thomas E. Barber, T.C. Memo. 1976-85.

Our teaching manual had grown to 40 pages and the 1976 tax school agenda was packed with information. There was no time to provide special recognition to the man who was retiring and that was the way he preferred it.

Professor Robert S. Smith received an appropriate and well-deserved tribute from his Cornell Colleagues in 1977. He was nominated to receive a distinguished National AAEA Extension award. In support of Bob's nomination, Professor C.A. Bratton wrote:

"As his expertise in the area of tax management and estate planning became known, many of the families with larger farm businesses sought Professor Smith's counsel. This had a twofold effect in that it assisted families with their knowledge of the subject and enabled him to continually add to his observations and understanding of this involved area of financial management."

Working with and helping farm families, students and his extension clientele to make well informed decisions with the best advice and information he could provide was his goal. Although the goal had been achieved when he retired, Bob Smith continued to council with farm families long after his retirement from Cornell.

Before retiring in 1977 Bob Smith recommended that the Cornell Farm Management Faculty evaluate the farm tax program and decide if and how it should be conducted in the future. Professor G. L. Casler, Professor B. F. Stanton and I were appointed to a sub-committee to identify, evaluate and recommend alternative extension farm tax programs to the faculty. Here are the alternatives identified by our sub-committee:

1. Continue the present farm tax school format with nine one-day regional schools.

2. Similar to option 1, but offer one or more two-day advanced tax seminars, plan to decrease number of one-day schools and initiate a formal fee schedule.
3. Switch entirely to two-day advanced tax conferences using the Illinois Farm Tax Manual and more toward IRS instructors.
4. Continue to prepare tax materials, but discontinue regional farm tax schools. Prepare and send out tax facts letters prepare teaching manual for extension agents and hold one statewide tax seminar each year.

The last paragraph of the sub-committee report stated: "The sub-committee recommends alternative number 2 in the short run, with continued evaluation and investigation of regional and IRS help for the future. G. L. Casler has agreed to provide the additional faculty resource required (short run)."

A New Partnership is Formed

On June 21, 1977 the farm management faculty met and accepted the sub-committee's recommendation. The Cornell Farm Tax Program was beginning a new era. We were extremely fortunate to find an instructor with George's talent, dedication and experience. George Casler had taught at the Farm Tax Schools for two years in the 1960's and had a true appreciation for farm level tax issues and management problems. George grew up on a Litchfield, New York dairy farm in Herkimer County. He received his BS degree from Cornell in 1950, worked on the Roy Sears farm in Cortland County after graduation and operated his own dairy farm in Seneca County from 1952 to 1958. After a serious back injury forced George into early retirement from farming, he entered graduate school at Cornell, received his M S degree in 1959 and worked for the Department of Agricultural Economics as a farm management extension associate for three more years. In 1962, George went to Purdue University to continue his graduate studies and was granted a Ph.D. in Agricultural Economics in 1966. He returned to Cornell and became a member of the Farm Management Faculty.

There was another new tax bill in 1977, so George and I had plenty of material to cover in our first year working together. It was called "The Tax Reduction and Simplification Act of 1977", one of the first of many tax bill titles that we got lots of mileage out of. There was a new jobs tax credit, a new flat standard deduction and extensions of the general tax credit and the earned income credit in the 1977-tax act. We also speculated on what new tax legislation was ahead and wrote:

> "President Carter has labeled his (tax) proposals as the most sweeping changes since the tax code of 1954. He is trying to make good on his campaign promises to simplify tax laws so that the average U. S. taxpayer can understand them – a near impossible task."
> "Changes that have been getting the most attention include:

~ Reduction of individual tax rates from 14 to 70 percent, down to 12 to 50 percent.
~ Elimination of special treatment for capital gains and losses.
~ Partial elimination of double taxation of corporate dividends.
~ Further narrowing the opportunity to use cash basis reporting."

Our 1977 Farm Income Tax Manual contained new tax court cases and IRS rulings. The most remarkable court decision was the Gamble Case. Gamble was a race horse breeder. In 1969 he bought a mare in foal for $60,000 and allocated one half the price to the unborn foal and insured it for $20,000. When the foal was 16 months old Gamble sold it and deducted $30,000 as its basis. IRS declared the foal had no basis since it was a raised animal. The Tax Court ruled in Gamble's favor, allowed him to use $20,000 as the cost basis of the foal and also allowed him to report the sale as capital gains. L. E. Gumble, 68 T.C. No. 69 (August 30, 1977).

One can understand why relative tax court cases and IRS rulings were popular at our farm tax schools. Accountants and tax practitioners were always looking for new opportunities to save tax dollars for their clients. For years the tax court has been very active with farm "hobby loss" cases. Many of the courts have decided in favor of the taxpayer and against IRS. Here is one of our audience's favorites. I call it "Joe Frazier 'K.O.'s' IRS". The following account of how Frazier beat IRS comes from The Research Institute of America, 2/21/85 newsletter.

Joe Frazier grew up on a ten-acre farm in South Carolina. At 15, he left the farm for New York and a career in boxing. In '71 Joe earned $2 million from a single fight with Muhammed Ali. The same year he bought Brewton Plantation, which was located about 15 miles from where Joe grew up.

Brewton Plantation was a 365-acre farm, of which 165 acres were tillable and 200 acres were swamp. Joe paid $175, 000 for the property. He said that he bought it so that his mother and other members of his family could become more prosperous by farming a larger parcel of land.

During the period '71-'76, farm operations on the Brewton property were overseen by a full-time salaried manager. Financial records were maintained for the farm by Joe's bookkeeper. Joe's mother also assisted in most aspects of the farm operation.

Initially, the Fraziers tried to operate the property as a truck farm, raising tomatoes, cucumbers and other vegetables. Because of the poor quality of the soil and the hired manager's lack of sophistication in marketing this type of produce, the venture failed.

Joe then turned for advice to his neighbor Simon Jinks who was an experienced and successful farmer. On Simon's advice, Joe bought 50 or 60 head of beef cattle. Most of the cattle died after drinking water on the property, which turned out to have been infested by a rare parasite.

In one last try to make the land yield a profit, Joe tried to establish a duck preserve for use by hunters. To do this he needed to flood a portion of the property. Apparently on the advice of state and university agricultural representatives he attempted to dig a canal to bring in the needed water. When this proved excessively expensive, he abandoned his plan to create a duck preserve, as well as any other effort to make the farm a profitable commercial enterprise.

During the period '71-'76, the years in which these efforts were made, the Brewton property generated consistent losses totaling $234,000. During those years

total gross income from the property amounted to only $9,000. At the same time Joe continued his boxing career, earning about $5 million.

IRS contended that Joe's true incentive was to provide his mother a home, not to make a profit, and denied him the losses.

The Tax Court held that Joe had operated the Brewton Plantation with the intent of making a profit and, hence the losses were deductible.

He had operated the farm in a relatively business-like manner, hiring persons he knew had farmed all their adult lives to run the farm, and a bookkeeper to keep complete and accurate financial records.

A significant portion of Joe's losses could be explained, said the Tax Court, by a series of unfortunate events beyond his control. Losses attributable to such events weren't an indication that Joe lacked a profit motive. (Joe Frazier, TC Memo 1985-61)

It was not always possible to supplement the dull and difficult parts of the Farm Tax School program with current court cases or IRS rulings. At times it was necessary to spice up the presentation with tidbits and stories. A few were based on actual situations. Here is an IRS ruling that I enhanced to make it interesting:

"Sheila made an installment sale of residential rental property and intended to use the installment method of reporting on her tax return. But, during the year she suffered two broken legs, her little dog was attacked by the neighbor's cat and her husband ran off with her best friend and former accountant.

Harry, Sheila's new accountant, didn't know there was a note on the property sold, or that Sheila intended to use the installment method. Harry reported the full gain in the year of sale thereby electing out of the installment method. Sheila was under medication for her second broken leg at the time and filed her return as prepared even though the tax liability seemed high.

As soon as Sheila recovered, she asked Harry to file and amended return and to use the installment method on her sale. Harry told her that an election out of installment reporting can be revoked only with IRS consent. She was very unhappy with Harry but he helped her request a letter ruling from IRS. IRS concluded that the election out was inadvertent and that Sheila's original intent was to use the installment method of reporting her gain. Sheila relied on Harry's expertise and his actions were largely responsible for the error. IRS allowed Sheila to use the installment method on an amended return. Sheila was so relieved by the favorable ruling that she forgave Harry for his oversight, they got married and lived comfortably on her installment income."

Some of our material was pure fiction, but somewhat related to the material being presented. Here is an announcement on the deductibility of business meals that I used more than once over the years. It was most effective during President Carter's administration. I liked to read the bogus regulation just before lunch after a serious tax issue had been discussed. I tried to present it as a legitimate regulation, but our audiences recognized the fallacy quite quickly.

NEW IRS REGULATIONS ON BUSINESS MEALS

(A) In general, business expenses deductible from gross income include the ordinary and necessary expenditures directly connected with a taxpayer's trade or business.

(B) Business Meals
Except for subsection (b) (1) through (b) (4) only one-half of a business meal is ordinary and necessary. The nondeductible half shall be capitalized and written off pursuant to the section 167 depreciation rules over the useful business life of the consumer of such nondeductible food. Accelerated depreciation will be allowed on food acquired and consumed at fast food restaurants located within 482 meters of taxpayers place of business.

(1) Notwithstanding (b), all vegetables ordered and delivered must be consumed in total in order to qualify for any deduction whatsoever. This subsection is meant to include all beets, lima beans, and brussel sprouts. Compliance with this subsection must be certified by attaching to the taxpayer's tax return Form 7878, Vegetable Consumption Verification Certificate, which must be attested to by the applicable waiter or waitress.

(2) Notwithstanding (b), the cost of acquiring any peanut or peanuts delivered is deductible in full without regard to whether it is consumed during a business meal, and the peanut credit of 10% is allowed against the taxpayers tax liability for the cost of all peanuts acquired and consumed in connection with business meetings or outings.

(3) Notwithstanding (b), except as follows, the cost of alcohol consumed at business meals are nondeductible unless consumed pursuant to medical prescription. The cost of alcoholic beverages ordered and consumed in the District of Columbia, and Plaines, Georgia is deductible. However, the Plaines exception relates only to beer.

There were farm jokes, accountant stories, lawyer jokes and stories about politicians. Those that targeted IRS were very popular, but it was the classics like the water closet story that would bring the house down. Time, space and my best judgement dictate that I should not include those stories in this publication.

George Casler and I began preparing for the 1978 Farm Tax Schools by studying the impact of the fourth Federal Tax Bill in four years. All the sweeping new legislation proposed by President Carter one year ago did not materialize, but significant changes were made. The 60 percent capital gains exclusion started November 1, 1978, corporate tax rates were reduced for 1979, the new alternative minimum tax became effective January 1, 1979 and single purpose livestock and horticultural structures were made eligible for investment credit retroactive to August 15, 1971.

Loren Tauer helped prepare and teach the Farm Tax Schools in 1979 and 1980 while George Casler was on sabbatical leave at Colorado State University. Loren joined the Cornell
Department of Agricultural Economics faculty in July 1979 as Assistant Professor of Farm Management. Loren received his Ph.D. from Iowa State University where he studied and worked under Dr. Neil Harl, nationally known author of books and articles on farm family estate planning, taxation and farm law. Here are some of Loren's recollections about the 1979 farm tax schools:

"The first school that fall was in Batavia, at that time the largest gathering, and it was a daunting experience for a new assistant professor, but the participants were friendly and I enjoyed the day. I also remember how exhausting it was to do three consecutive tax schools over three days. I was a young man then and I wondered how an "older" person was able to survive three days. I learned every short-cut route in New York State. Some I still remember."

Thanks to Loren's teaching expertise and familiarity with farm income tax issues, our 1979 and 1980 Cornell Farm Tax School Programs didn't skip a beat. There was no federal tax legislation passed in 1979 and The Installment Sales Revision Bill of 1980 provided the biggest tax change for 1980.

In 1979, I began attending the Annual Farm Income Tax Planning Spring Meeting at the University of Illinois. Representatives from all states that were using and considering using the Farm Income Tax Workbook prepared at Illinois were invited to attend. The purpose of the meeting was to share tax school reports from each state, to evaluate teaching methods and the workbook, and to identify topics and improvements for next year's workbook. Approximately 28 states were using the Illinois workbook as their income tax teaching manual in 1979. Cornell was using it as a reference manual.

Before participating in the Illinois meeting, I thought our eight regional farm tax schools with over 1200 attendees was a big program. I quickly learned that at least 10 other states were running larger programs than ours. Missouri held 33 one-day schools with 3,129 attending and Illinois held 24 two-day schools for 3,900 people. I also learned that the size and strength of the tax school programs in Illinois and other North Central States were the reasons why their outstanding Farm Income Tax Workbook could be made available to any state. Illinois shared their tax expertise and resources through the workbooks and representatives from the states with smaller programs were always treated equally at the Illinois meeting. Planning, writing, editing, printing and distributing the Illinois Farm Income Tax Workbook was a remarkable cooperative effort orchestrated by a remarkable individual, C. A. (Al) Bock from the University of Illinois. Al Bock continued as the coordinator and key editor of the workbook until his sudden death in 1999.

The 1980's

As the Cornell Farm Income Tax Schools moved into the '80's, attendance continued to grow. The school in Ellicottville was re-established in 1981 and the attendance at nine regional one-day schools reached 1,565. By 1983 total attendance had increased to 1,590 and in 1984 it topped 1,600. Fifteen percent of our audience were public accountants, eight percent were CPAs and 60 percent registered as tax practitioners. Nine percent were clerks and stenographers working for tax firms, only six percent were farm taxpayers. The accountants and practitioners attending our farm tax schools in 1983 reported preparing more than 46,000 non-farm business tax returns, twice as many as farm returns. They also prepared approximately 142,000 individual tax returns.

Batavia had attracted the largest tax school audience for many years and that continued in the '80's. I think we had 300 attendees at the Batavia Fire Hall in 1983 although the official number was 295. It usually snowed just before or sometime during our Batavia meeting, but we never cancelled a tax school there. When it was snowing, some people would leave for home early, but not until after lunch. Lunch was a main attraction, a ham dinner cooked and served by the Batavia Fire Department's auxiliary. They also provided great donuts and unlimited coffee in the morning, and Dick Pease brought Niagara County Apples for the afternoon break. I was told by more than one attendee that they came primarily for the food. The audience was very diverse at Batavia including attorneys, CPAs, farmers, educators, representatives of large accounting firms and independent farm tax practitioners. Former Wyoming County Judge, John Conable came for many years. Ken Noble, patriarch of one of Western New York's outstanding farm families attended regularly in the '70's.

Two major tax bills were passed in the early '80's. The Economic Recovery Tax Act (ERTA) in 1981, and the Tax Equity and Fiscal Responsibility Act of 1982

(TEFRA). ERTA brought reductions in tax rates, indexing the new Accelerated Cost Recovery System and changes in Investment Tax Credit. TEFRA made a portion of unemployment benefits taxable, repealed the most liberal safe-harbor leasing provisions, modified investment tax credit and instituted new penalties and interest changes. It seems like Congress couldn't decide if they should give taxpayers a break by lowering taxes or increase tax revenues by getting tougher. With ERTA and TEFRA, they did some of both.

While reviewing the constructive income rules applied to farmers, I shared this unusual case at our 1982 tax schools:

> *"James Dean (JD) Bridges and 2 friends dug up $400,000 in currency on a ranch in Texas. Somehow IRS found out about it and levied a $175,000 tax assessment. JD and friends hired the best tax attorney in Houston who won the case against IRS. IRS awarded the defendants free room and board for their efforts. How did the hotshot Houston attorney win? He put together evidence to prove that the IRS assessment was improper since JD and friends were not entitled to the money because they didn't find it, they had stolen it! Although they were relieved of the $175,000 assessment and the $400,000 cash, they received an all expense paid 5 year vacation to the Waco penitentiary." U.S. District Court, West. Dist. Texas 82-1*

During the early '80's George Casler and I found that we were using and depending on the Illinois Farm Income Tax Workbook to a greater extent as our primary reference. At the same time the interest and demand for a more in-depth tax conference was growing. We had to decide if we would hold a two-day tax school. We had two key ingredients, a teaching manual (Illinois Workbook) and a potential audience. The availability of time and skilled instructors was in question. A partial solution was to hold an in-depth workshop on a specific area of tax planning and preparation during the summer or fall. In September of 1984, we offered our first Farm and Small Business Partnership Income Tax Workshop in Ithaca. Myron (Mike) Kelsey from Michigan State University wrote the 400-page instruction manual and did all the teaching at the two-day workshop. The program was well received by our tax practitioners even though the case study used was a hog farm.

On October 11, 1985, George Casler and I released the notice of our first Cornell in-depth two-day Income Tax School to be held December 18 and 19 at the Sheraton Inn in Syracuse. We called it our Advanced Farm Tax School. The notice said in part:

> *"The purpose of this Advanced Farm Tax School is to provide more in-depth instruction and discussion on important farm income tax topics than time allows at the regional tax schools. The Advanced School will feature an instruction team composed of IRS personnel as well as Cornell faculty. The*

Illinois Farm Tax Workbook will be used as our instruction manual. The registration fee is $75."

Illinois, Indiana, Michigan and many other states had been using IRS instructors in their two-day schools for years. Many of the tax school coordinators from other states turned over most of the teaching to IRS instructors. There was an excellent level of cooperation with IRS in the mid-western states.

Early in 1985 I contacted the IRS in Buffalo and asked for two instructors for our in-depth tax school. They were interested and were willing to provide one instructor for each day. They claimed that both were experienced teachers with considerable knowledge of tax law and reporting procedures. We assigned the IRS instructors appropriate chapters from the Illinois Workbook and sent them advance copies of the book. IRS instructor number one (I don't remember their names) presented a reasonable program on the first day. Some said he did a remarkable job considering his handicap. He was blind! He had some difficulty remembering where references were in the teaching manual, but he used it to the best of his ability. IRS instructor number two was from the audit division and was not prepared to teach at our tax school. He was preoccupied with a problem he had with his car, wife, the weather or all three. He refused to follow the workbook and knew little about current tax legislation or recent changes.

The evaluation of our first Cornell two-day in-depth income tax school looked like this:

First day – okay, second day, disaster!

There were 170 people attending the two-day program and many felt the workbook alone was worth more than the $75.00 registration fee. In addition to the workbook were two decent lunches, lots of coffee, doughnuts in the morning and good company. No one asked for a refund.

We decided to offer the two-day in-depth school again in 1986, but not with IRS instructors. Paul Peachin, a CPA from Oneonta had been a friend of the Cornell Farm Tax School for many years. In the mid 1980's, he was very active in the NYS Society of CPAs and suggested that Cornell and the Society could work together to sponsor and teach the two-day tax school. George and I felt that this was an opportunity to broaden our audience and find two new instructors who were in the tax preparation business and could give first hand advice to other accountants. Our 1986 in-depth tax school instructors were Paul Peachin, Ed Riker, a Watkins Glen, New York CPA and part-time lecturer at Ithaca College, George Casler and Stuart Smith. The 1986 two-day program was held at the Sheraton Inn in Syracuse on December 18 and 19. I believe this was the first year that we provided continuing professional education credits for enrolled agents. Attendance was 115 in 1986, down nine percent from our first in-depth tax school. Ed Riker taught the Net Operating Loss and Listed Property chapters from the workbook. Paul Peachin taught Alternative

Minimum Tax and Capital Gains and Losses and A Tax Planning Overview of C and S Corporations.

Ed Riker retired after working with us for two years. Paul Peachin put a great deal of time, effort and heart into his program preparation and presentation. He became a key Cornell in-depth Tax School instructor, teaching with us for 10 more years. Paul's favorite topic was "Tax Planning Opportunities with Partnerships vs. Corporations". All chapters in the workbook dealing with Partnerships or Corporations were assigned to Paul, and he accepted them gladly.

We were aware of Ed Riker's pending retirement in 1986 and asked Paul Peachin to recommend another CPA as a Cornell Tax School Instructor. Paul suggested F. John Schifferli from the Rochester accounting firm of Schifferli, Bernardi and Russo. I had some reservations about hiring a CPA from a large city accounting firm to instruct an audience that was primarily tax practitioners working with farmers, small rural business owners and individual taxpayers. George Casler had met John Schifferli and liked him. He knew he had some farm clients and thought he could help attract more people from the larger accounting firms to our program. John joined the Cornell in depth tax school instruction team in 1987 and is now its senior member with 13 years of continuous service.

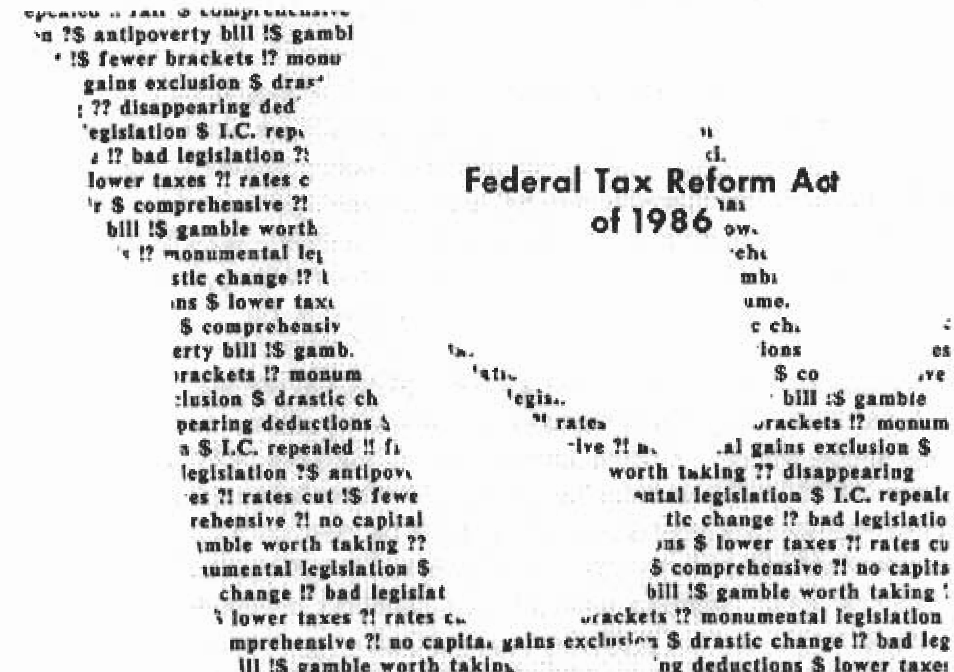
I thoroughly enjoyed working with John Schifferli for 12 years, because he enjoyed being a Cornell Tax School Instructor and he didn't hide it. His dedication and enthusiasm was reflected in his innovative teaching style and in the extra time and effort he invested in helping to improve the program. John loved to establish a dialogue with his audience by walking up and down the aisle and asking questions. When he wanted to end audience participation, he would give the command **"Stop it!"** It usually worked. Not everyone liked John's lectures nor did everyone agree with Paul Peachin, but they both contributed different talents and strengths to our Cornell Tax Team and our clientele grew.

The 1987 Cornell In-Depth Tax School was attended by 225 tax accountants and practitioners while 1,560 attended our nine regional farm tax schools for a record total tax school attendance of 1,785. The one-day farm tax schools at Albany, Batavia and Oneonta all exceeded 200 attendees in 1987. The smallest school was at Kingston with 110 in attendance. Twenty percent of those coming to our regional tax schools in 1987 were first time attendees and the number of accountants preparing non-farm returns continued to increase. In 1987, 71 percent of the business returns prepared by our Farm Tax School clientele were non-farm business returns.

Much of the demand for income tax education during the mid 1980's was driven by major new tax legislation. On October 22, 1986, President Reagan signed into law the most extensive and drastic overhaul of the United States Tax Code in 40 years. It was called the "Federal Tax Reform Act (TRA) of 1986" and was highlighted on the cover of our 1986 Farm Income Tax Management and Reporting Manual.

November 1986 **A.E. Ext. 86-32**

FARM INCOME TAX MANAGEMENT AND REPORTING MANUAL



George L. Casler
Stuart F. Smith

Here are some of the things George Casler and I wrote about the bill:

"The TRA of 1986 contains more than 400 sections under 18 titles or major divisions. Tax simplification, an original and worthy objective, was overpowered by hundreds of exceptions and transitions rules. The phase-ins, phase-outs and other transition rules may cause more complicated accounting and record keeping requirements for taxpayers. The loss of investment tax credit and the capital gains exclusion will have a major impact on many New York farmers and business owners."

There is no question that the repeal of regular investment tax credit was a blow to most farmers and business owners, but losing the 60 percent capital gain exclusion affected many more taxpayers. The 1986 tax bill also eliminated income averaging, the $200 dividend exclusion and placed new restrictions on many other deductions. The good news was that individual tax rates were reduced substantially and personal exemptions, standard deductions, and earned income credit increased.

1987 was another extremely important year for current and accurate income tax education. Many of the changes included in the 1986 legislation were being phased in over a two or three year period and the new Modified Accelerated Cost Recovery System (MACRS) was beginning in 1987. Here is a quote from our 1987-teaching manual:

"The Tax Reform Act of 1986 has been 'cussed' and discussed since becoming law. Some have praised it for providing tax simplification and a more equitable system of taxation. Others have described it as very complex, extremely complicated and a law that has placed additional accounting requirements on thousands of taxpayers and their practitioners. There is some truth in all of these claims and growing evidence to support the latter. The year of talking, planning and preparation is nearly over. The year of application is about to begin."

Major topics at our 1987 Tax Schools included MACRS, the new depreciation system that replaced ACRS, capitalization of pre-productive period expenses, dairy termination program payments, a revised alternative minimum tax (AMT) and changes from two 1987 New York State Tax Laws. Our Farm Income Tax Manual that contained only 50 pages of text as recently as 1981 had grown to 62 pages by 1987. The revisions in AMT were extensive, requiring more calculations and adjustments. The new AMT created a separate but parallel tax system that we thought would cause taxpayers and preparers some of their biggest headaches. A major problem caused by AMT was cleverly identified by Paul Meintz, Esquire, Bloomington, Illinois:

> *"For most taxpayers AMT is much like AIDS. Generally you don't know you have it until it's too late to do anything about it. Using traditional year-end tax management techniques like rapid depreciation and applying unused investment credit won't reduce AMT."*

The Revenue Act of 1987 became law on December 22, 1987 and the third tax bill passed by Congress in three years was signed into law on November 11, 1988, several days after our tax manual had gone to print. Fortunately the major changes included in the 1988 Tax Bill became effective in 1989. Dairy and beef farmers became exempt from uniform capitalization rules, farmers were limited to 150 percent declining balance depreciation and farmers were exempt from paying the diesel fuel tax for off highway use beginning in 1989.

When we began our 1989 tax school program, additional Federal tax legislation had been proposed. Congress was interested in restoring a 30 percent capital gains exclusion, indexing the basis of assets for inflation, repealing the Medicare surtax, requiring farmers to withhold income taxes on employees and restoring income averaging.

The number of recent tax law changes that had already occurred was making it more and more difficult for the small independent tax accountant to remain current and competitive. The problems faced by tax accountants with rural businesses were multiplied by clients in financial distress or bankruptcy and unable to pay their tax obligations. Many part-time practitioners gave up preparing taxes in the late 1980's and many others retired. Attendance at our one-day Farm Tax Schools began declining in 1988. Batavia dropped 27 percent to 190 attendees, the first year Batavia was below 200 since 1980. Oneonta attendance declined 34 percent and Albany was down 12 percent in 1988. Total Farm Tax School attendance fell by 110 people or seven percent, but attendance at our two-day In-Depth Income Tax Workshop was growing. The decision was made to put a greater emphasis on our in-depth schools beginning the following year. In 1989 we held two In-Depth Tax Workshops attended by 382 accountants and seven one-day Farm Tax Schools.

The Cornell farm income tax educational program continually extended out beyond the regional and statewide tax schools conducted by the Cornell faculty and CPA instruction team. I previously had mentioned the tax management help that Bob Smith provided to farm families and farm attorneys. I was asked to speak to many different groups and organizations about income tax reporting and management during my tenure at Cornell. I met with new farmers, retiring farmers, poultry producers, beef cattlemen, horticulturists, timber growers, Christmas tree producers, lawyers and more.

In 1984, I spoke at the National Dairy Goat Association Annual Meeting about Income Tax Management for Small Farmers. I soon learned that goat farmers were similar to most other farmers. They were interested most in learning about expenditures that were tax deductible as well as how to establish a profit motive when farm expenses exceeded receipts.

The farm income tax educational program provided a knowledge base for tax research and undergraduate education at Cornell. It provided information and support to Cooperative Extension field staff conducting tax education programs and helped field staff and farmers recognize the tax implications of management decisions.

An important aspect of the Cornell tax program was the educational work done by our County and Regional Cooperative Extension Staff. Each year 40 to 50

Extension Farm Management Agents or Specialists were attending our tax schools to get prepared to extend tax reporting and management to their farm clientele. In 1987, I conducted a survey to determine the number and size of tax schools held for farmers. The survey results showed 49 income tax schools and 15 other tax meetings held for farmers in 20 New York counties or regions. Total attendance exceeded 1,200. In addition many extension agents answered hundreds of questions about farm tax reporting and management.

The 1990's

Our first Western New York two-day tax school was held in Geneseo in 1990. A notice mailed to Western New York practitioners began as follows:
"Although there will be no Farm Income Tax School in Canandaigua this year, Cornell Cooperative Extension is holding a new regional in-depth tax workshop in Geneseo and one-day farm tax schools at Ellicottville, Batavia and Owego. You are encouraged to attend the school of your choice."

The registration fee was $100 and 75 people attended the Geneseo School. The instruction team of Casler, Peachin, Schifferli and Smith declared the school a success and decided to continue with Western New York in-depth tax schools in future years.

Removing the Canandaigua farm tax school from our schedule upset some of our Western Finger Lakes farm tax preparers and they let us know about it. They complained to their Extension Program Leader who sent me a strong letter suggesting we had done his farmer's a great injustice by eliminating the Canandaigua school. I boiled and steamed over the letter. When I cooled off, I scheduled and held a 4-hour farm tax seminar in Geneva. In 1991, we began the farm tax school in Waterloo for Finger Lakes farm tax practitioners.

We placed emphasis on year-end tax management at our 1990 farm tax schools, for dairy farmers who were experiencing a second consecutive year of relatively high gross income. Milk prices were up approximately 10 percent in 1990 and many dairy farmers were paid for 12 _ months of milk due to a change in the New York law requiring milk dealers to pay farmers twice rather than once per month.

Certainly not all of our nation's farmers were prospering at the turn of the decade and Willie Nelson was helping out by raising billions of dollars with farm aid concerts. Willie's own tax reporting and management was in disarray, however. The IRS said he owed them $16.8 million, but were willing to settle for $6.5 million. With tongue in cheek, we made the following announcement at our 1990 Farm Tax Schools:

"There is a new supplemental Schedule F out this year. It's called Schedule F-WN and is to be used by farmers who want to help Willie Nelson pay his back taxes." No one inquired about how to obtain a copy of Schedule F-WN.

The Social Security tax situation had been an important topic at our farm tax schools for many years. In 1990, the maximum earnings base increased nearly 7 percent to $51,300 and the effective combined tax rate increased 7.65 percent to 15.3 percent. Although the maximum earnings base has been increased for inflation each year since 1990, the FICA tax rate has not changed. Farm tax preparers had been very interested in developments and IRS rulings concerning non-cash payments to farm employees for several years. Social Security tax is paid only on cash payments made to agricultural labor. Some mid-western farmers had been successful in paying employees with livestock and grain to avoid social security taxes. In 1990, a private IRS letter ruling provided new interest in using commodity payments in New York and other dairy states. The letter ruling said the payment of wages with milk was not subject to FICA tax, even though the employee chose the same milk market and milk hauler as the employer. We hastened to point out that a letter ruling decision could only be directly applied to the taxpayer requesting the ruling and cautioned practitioners against recommending this practice.

When George Casler attended the Illinois workbook review and planning meeting in April 1990, he met and talked to Robert Jamison, CPA and Associate Professor of accountancy at the University of Illinois. Bob Jamison was a corporate tax expert who had worked with Al Bock and authored selected chapters in the Illinois workbook for several years. In 1989 he developed a two-day S Corporation school that he was presenting in several states. The reports about the quality and value of the program were excellent. We invited Bob to come here and he presented his first S Corporation School in New York State at the Cortland Inn on June 27 and 28, 1990. Topics ranged from <u>Tax and Business Considerations When Making the S Election</u> to <u>Termination of the S Election</u>. All were expertly presented, carefully explained and thoroughly documented by Bob Jamison. Professor Jamison was invited back to present two more excellent S Corporation Workshops in the 1990's.

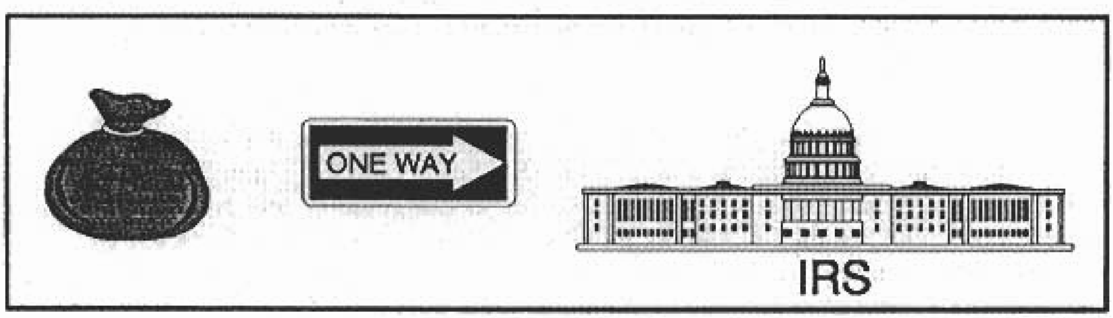
In June of 1991, we brought Michigan State's Mike Kelsey back to Ithaca to present his revised Farm and Small Business Partnership Tax Workshop. Mike's revised workbook featured a case study of a dairy farm business that he said was included to please his New York audience. Our New York farm tax practitioners were definitely pleased with Mike Kelsey's presentation, filled out examples and wonderful reference material. Mike returned to Ithaca for two more workshops during the 1990's.

The Western New York two-day in-depth tax school was moved from Geneseo to the West Henrietta Marriott Inn (Rochester) in 1991. John Schifferli felt that there were many tax accountants in Rochester that could benefit from our in-depth tax school but they would not travel all the way to Geneseo or Syracuse to attend. Attendance at the 1991 Western New York School jumped from 75 to 116, an increase of 41, but attendance at the Syracuse school dropped from 220 to 145. Many of the new attendees at the Rochester school had gone to Syracuse in 1990. We returned to the Marriott near Rochester in 1992 and attendance dropped to 100. Syracuse attendance increased to 185 in 1992. Albany was the smallest in-depth tax school averaging about 60 attendees during the early 1990's and we continually experimented with different formats to attract more accountants from the Capital District. George Casler and I held seven one-day farm tax schools again in 1991 with an average attendance of 99. The one-day schools were held at Canton, Ellicottville, Batavia, Kingston, Oneonta, Owego and Waterloo after our two-day in-depth schools were completed. This schedule was maintained for six additional years.

No Federal Tax Legislation was passed in 1991, but late 1990 legislation eliminated the 33 percent tax bubble, phased out personal exemptions for high-income taxpayers and increased the Medicare tax earnings base to $125,000. New York farm incomes were lower in 1991 as milk prices fell $2.00 per hundredweight. Our 1991 Farm Income Tax Manual contained two pages of tax management strategies to shift deductions to 1992 and shift receipts to 1991. We reviewed the reporting of Net Operating Losses in 1991 and George Casler explained the new regulations for deferred exchanges of like-kind real estate.

The new deferred exchange regulations were quite liberal and provided an opportunity to save big tax dollars on real estate exchanges. This topic attracted much interest and many practitioners believed that IRS would find a way to make it very difficult for taxpayers to qualify for tax deferred exchanges of real estate. To allow broad application of these new regulations would be contrary to a major IRS objective illustrated on the cover of our 1991 Farm Income Tax Reference Manual.

Reference Manual



The absence of major tax legislation again in 1992 allowed more time for the review of important tax issues including conservation easements and development rights, completing the partnership return for farm businesses, reporting net operating losses and paying rent to a spouse to reduce self-employment tax. The opportunity to catch up on past legislation at our tax schools was short lived. The Revenue Act of 1993 provided new complicated rules for the taxation of Social Security benefits, modified earned income tax credit, increased cost recovery elections, extended tax credits, included investment incentives for small firms and increased tax rates. The first nine pages of our Farm Income Tax Manual were devoted to some of the most important provisions of the 1993 Tax Legislation. Our Western New York two-day in-depth tax school was moved from Rochester to Batavia in 1993.

The "Nanny Tax Bill" became law in 1994 and New York State passed legislation approving the Limited Liability Company (LLC) as an alternative entity structure. Our tax schools featured these changes and a review of all of the important 1993 tax legislation. There had been hope and expectation that Congress would pass a major health care bill in 1994, but they did not. The self-employed individual's deduction for 25 percent of health insurance premiums expired, disappointing many farmers, small business owners and practitioners.

Our farm income tax meeting student portfolios always included one or more extra tax related publications. In 1994 all farm tax school attendees received the following publications in addition to our Farm Income Tax Manual, for a registration fee of only $5.00: Income Tax Consequences of Farm Debt Cancellation and Bankruptcy by George L. Casler, Income Tax and Other Considerations When Selling Farm Assets by Stuart F. Smith, Social Security As Part of Retirement Income For Farmers by George L. Casler and Agricultural Retirement Packages by Raymond E. Massey and Gary L Bredensteiner, University of Nebraska-Lincoln.

George Casler retired in 1995; the Cornell Tax Schools of 1994 were his last major Extension program. Another era had come to a close. George and I had worked and traveled together conducting the Cornell Tax Schools for 18 years, a new team record! In those 18 years we held 170 tax schools, prepared over 1,100 pages of tax material, traveled approximately 34,000 miles together in State cars and mini vans, stayed in 150 motel rooms, delivered more than 40 tons of tax materials and instructed nearly 22,000 tax practitioners for more than 1,000 hours. I think the statistics show that George and I were a successful team. He was an excellent writer and did the final editing of our tax manual.

George was willing to teach many of the most difficult tax topics like Alternative Minimum Tax, Limited Liability Companies, Passive Activity Losses and Tax Deferred Retirement Plans. He had the interest and ability to dig into the tax code, figure out what it meant and explain it to our audience so it made sense. George Casler made a major contribution to the success and longevity of The Cornell Farm Income Tax School, Farm Management teaching and research and other Farm

Management Extension programs at Cornell. He received numerous letters and testimonials of appreciation at his 1995 retirement reception. John Schifferli presented George with a N.S.O.F.A./USA Award that reads as follows:

"In recognition of his achieving the ripe old age of retirement…the Society (National Society of Old Fart Accountants) hereby bestows its special service

Maude A. Fricket
Award on
George L. Casler
He is entitled to the following benefits…
-Smoke cigars on the golf course
-Start a gigantic victory garden
-Read Journal of Accountancy in the "John"
-Work on various other secret projects

The award was signed by Maude A. Fricket (Old Fart in Charge), F. John Schifferli (SOFIC) and Paul C. Peachin (OF). I have no idea what George did with it.

In 1995 I persuaded Charlie Cuykendall to help me prepare the Farm Income Tax Manual and teach the farm tax schools. Charles H. Cuykendall was born and raised on a Fleming, New York dairy farm in Cayuga County received a BS degree from Cornell University in 1962, earned his MS degree and Ph.D. from the University of Minnesota in 1966 and 1967. Charlie was a farm management extension specialist at Minnesota from 1967 to 1973. He moved into agricultural banking in 1973, held various banking positions in Minnesota and New York State until leaving the banking industry in 1995. I needed someone who had some teaching experience, could relate to rural tax preparers, knew something about income taxes and was willing to learn more, wanted a part-time job that was full-time from October 1st to the week before Christmas and was willing to travel. Charlie was the person. He jumped in with enthusiasm and a great eye for figures and organizational detail. He learned by studying prior year's tax reference materials and asking questions that continually tested my comprehension and knowledge of important farm tax issues. His enthusiasm and dedication grew during the farm tax school schedule and when we finished, I knew that I had a new farm tax school partner.

Charlie and I followed the established tax school schedule in 1995. We held our three in-depth tax schools in Albany, Batavia and Syracuse and our seven regional farm tax schools across the state. In-depth tax school attendance was strong at Syracuse (225) and Batavia (115) but stagnant at Albany (60). Attendance at our one-day farm tax schools averaged 86 compared to 170 in 1986. Paul Peachin and John Schifferli carried the instruction load at the three in-depth schools and became key partners in planning the program. They believed the future of the Cornell Tax School Program was with the two-day in-depth schools and that they should be expanded even if it meant fewer one-day farm tax schools. My roots were set deep in the farm tax school program and I could not give them up. I felt that our top priority was to provide income tax education that would help farm families receive improved tax reporting and tax management. The farm tax schools were still reaching 600 rural tax practitioners most of whom were not coming to our two-day schools. I decided to maintain the farm tax school program.

New York State was in a budget pinch during the mid 1990's and offered its employees early retirement incentives to reduce current expenses. I could retire in 1996 at age 60 with 38 years of service, receive credit for 40 years and get full retirement benefits. It was an opportunity I wanted to take advantage of, but I could not abandon the farm tax program and Charlie Cuykendall after one tax school season. I decided to take my New York State Retirement and continue to work as a part-time employee for two additional years. My Department Chair allowed me to concentrate my hours of employment during the last quarter of the year so that I could work full-time during the tax school season.

There was no exciting new tax legislation in 1995 and 1996, but there were enough minor changes and continuing tax issues to provide full farm tax school agendas. The tax implication of leasing vs. purchasing farm assets was an issue that had received much interest for several years. Some farmers and small business owners preferred to lease machinery and buildings so that they could deduct the lease payments as operating expenses on their tax returns. If they could then purchase the leased assets for a very low price at the end of the lease, there would be very little cost to recover through depreciation. When there is little depreciation claimed, depreciation recapture problems are minimal.

IRS will allow taxpayers to claim lease payments as operating expenses only if the agreement is a true lease and not a conditional sales contract. There are several tests or rules IRS applies to distinguish between a true lease and a conditional sales contract. The following is the most important rule: If the lease agreement includes a buy option price that is nominal relative to the value of the leased asset at the time the option is exercised, it is probably a sale and not a lease. Clever tax advisors and leasing firms learned how to satisfy IRS regulations and some were able to write agreements that allowed conditional sales to qualify as true leases.

Renting or leasing out farm real estate without paying self-employment taxes on the income was another issue that came to a head in 1995-96. Senior farm owners had been renting land and buildings to the younger generation and to business entities operating the farm without the rent being included in self-employment income. This was acceptable to IRS as long as there was no arrangement for the landowner's material participation in the business. The rule is simple! If the farm owner does not want the rent to be self-employment income, write the lease agreement so there is no sign of material participation by the owner. Then along came the Mizell Case and knocked our simple rule into a cocked hat.

Mizell owned cropland that he rented to his family's partnership under a crop-share lease. The lease agreement was silent on the issue of material participation, but Mizell was one of the partners and IRS used the partnership agreement to establish his material participation in the business. The tax court agreed with the IRS and Mizell was liable for self-employment tax on his rental income. Top farm tax advisors including Dr. Neil Harl believe the tax court was wrong in its Mizell case ruling. Furthermore it is not clear that IRS will attempt to apply this ruling to owners of land rented on a cash basis.

Keeping up-to-date and informing our tax practitioners of these changing and emerging issues were important parts of our farm tax school program. The cooperative relationship we had established and maintained with the National Farm Income Tax Extension Advisory Committee and the Illinois Farm Tax Workbook Committee were instrumental in this effort.

The special and valuable relationship our in-depth school faculty and clientele had enjoyed with Paul Peachin ended in 1996. Paul retired from his CPA firm in 1995, but said he was willing to continue to teach at the Cornell In-depth Tax School as long as he could stay current and continue to contribute. In 1996 he loaded his horses in a trailer and went west for the summer and fall. He prepared for the tax schools by having material sent to him via Fax machine and U.S. mail. He flew back for our November tax schools leaving his horses at his brother's place in Colorado. After the 1996 In-depth Tax Schools were successfully completed Paul decided a retired CPA riding his horse into the sunset somewhere in the foothills of the Rocky Mountains could no longer provide motivational instruction at the Cornell In-depth Tax Schools. Paul retired after 11 years of outstanding service to our program.

Before we could begin preparing for the 1997 tax schools, we needed to find a new instructor for the November In-depth Tax Schools. Practitioners were invited to apply for the position, and interviews were held. We identified some of the most qualified and compatible CPAs and went after them. Joe Bennett was on the top of the list.

Joe Bennett and his wife are the proud proprietors of Bennett and Company, CPAs, Dansville, New York. Joe's mentor and former boss was Charles Downey, a well respected Western New York CPA and a great friend of the Cornell Farm Tax School Program. The name of Charles Downey is also high on my list of people I feel privileged to have known and enjoyed during my work at Cornell. I first met Joe Bennett when Charles brought him to a regional farm tax school in the 1980's. Charles was pleased to have Joe working with him and sold him his very successful accounting firm a few years later. Charles Downey said Joe Bennett would be a good addition to our instruction team.

Both John Schifferli and I called Joe Bennett to encourage him to join the Cornell Tax School Team. Joe said that he was aware of the position and had been thinking about it as a good opportunity. A few days later I received a call from Joe Bennett. He accepted our offer and became the newest member of the Cornell In-depth Tax School Instruction Team.

Now that our instruction team was at full strength and Charlie Cuykendall had gained two years of valuable tax school experience, I thought two more years with the tax school program would be easy. Then came the Taxpayer Relief Act of 1997 that carried a wide variety of important tax changes affecting individuals, families, investors, farmers and other businesses. It was one of the most complex tax laws ever enacted. Major changes effected child tax credit, capital gains, gains on the sale of a home, health insurance deductions, and estate and gift taxes. A wide range of new tax incentives for higher education accounts was added.

We were challenged to determine what to include in our tax school programs and how to teach it. Fortunately many of the new tax provisions were not effective until 1998 which gave us another year to complete the teaching challenge. Our 1997 and 1998 Farm Income Tax Reference Manuals grew to 70 pages, more tables and charts were projected on large screens and a dialogue on Social Security was added. The 1997 and 1998 Cornell Tax School Programs required extra work and effort to plan and prepare, but turned out to be among the best and most rewarding that I was privileged to participate in. This experience did not change my retirement plans, 1998 was my last year.

Story Ends but Program Continues

Completing this story has been a challenge equal to understanding and teaching a new tax law. The early chapters were relatively easy compared to the last. I had fun remembering and writing about the people and circumstances that led to the development and growth of the Cornell Farm Tax Schools. It is more difficult to write an appropriate ending to a story that I was part of for 29 years. Perhaps it is enough to thank all those who contributed to the success of our programs and to all of you who came and listened to what we said. I feel good about the longevity of the program as well as the changes and adjustments made to keep it viable. I am pleased that the Cornell Farm Tax Program has become an integral part of Professor Eddy LaDue's Agricultural and Small Business Finance Program and that Charlie Cuykendall is the leader of the Cornell Tax School instruction team.

OTHER A.R.M.E. EXTENSION BULLETINS

EB No	Title	Fee (if applicable)	Author(s)
2000-14	Income Tax Management and Reporting for Small Businesses and Farms	($15 ea.)	Cuykendall, C., and Bouchard, G.
2000-13	Eastern New York Renter Summary 1999	($12 ea.)	Knoblauch, W.A., Putnam,L.D.
2000-12	New York Small Herd Farms, 65 Cows or Fewer 1999	($12 ea.)	Knoblauch,W., Putnam, LD, Kiraly,M., Oostveen,C., Karszes,J.
2000-11	Intensive Grazing Farms New York 1999	($12 ea.)	Conneman,G., Grace, J., Karszes,J., Marshman,S., Staehr, E., Schosek, S., Putnam,L.D., Casey,B., Degni,J.
2000-10	Contracts and Agreements For Custom Dairy Heifer Growing	($3 ea.)	Karszes,J. and Cady, Roger A.
2000-09	Dairy Farm Business Summary, Central Valleys Region, 1999	($8 ea.)	LaDue, E.L., W.A. Knoblauch, D. Bowne, Z. Kurdieh, C. Oostveen, A.E. Staehr, C.Z. Radick, J. Karszes and L.D. Putnam
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