COOPERATIVE EXTENSION
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The Importance of Keeping Records for Farmer's and Rancher's Taxes

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Most citizens must file taxes by April 15, 2020. However, farmers' and ranchers' taxes must be filed by March 1, 2020. Due to the filing deadline many producers are beginning the process of gathering their important paper work.

In general, the law does not require any specific kinds of records (there are a few exceptions though). A producer can choose any kind of record keeping system they wish to use for their business (ex. Quicken, QuickBooks, Easy Farm, paper ledger, paper journal etc.). The IRS and the Farm Financial Standards Council encourages an accrual accounting method for record keeping, however producers can also use a cash accounting method if they wish.

Record Keeping Systems: What to consider

A record keeping system should include a summary of all business transactions. It is imperative producers also keep supporting documents such as purchases, sales, payroll, invoices and other transactions taking place in the business. The reason why it is so important to keep these documents is that they support the entries listed in journals, ledgers, and tax returns. It is important producers keep these records for three years from when the tax return was filed (it is important to note that some records may need to be kept longer).

Benefits of accurate records

There are added benefits to keeping accurate records. Keeping accurate records allow producers to monitor the progress of their business, and show whether it is improving, which items are profitable, and what may need to change. Records help producers keep track of deductible expenses, as there may be many throughout the year and trying to remember them all might be difficult. Good record keeping makes preparing tax returns easier, and supports items reported on tax returns.

Save time and money by planning ahead

An early tax planning session with an accountant can save a lot of headaches in the long run. By having a tax planning session in December or early January producers can estimate their income expenses and tax due. This gives the producers time to prepay or make other adjustments to their net cash income.

References: https://www.irs.gov/pub/irs-pdf/p225.pdf