



Deferred Taxes

Damona G. Doye
Professor and Extension Economist

Harry G. Haefner
IFMAPS Financial Diagnostic Specialist

Oklahoma Cooperative Extension Fact Sheets
are also available on our website at:
<http://osufacts.okstate.edu>

Financial statements are prepared to provide the user with information which is useful in making decisions. Anyone who makes decisions based on financial statements should understand the significance of deferred taxes and know what regulations and accounting procedures create a deferred tax liability. They should know what effect deferred taxes have on risk, cash flow, and owner equity. Financial statement preparers should know when the deferred taxes must be recognized as due and payable.

This OSU Fact Sheet explains why deferred taxes are included as a liability on the balance sheet and examines the methods recommended by the Farm Financial Standards Council (FFSC) for estimating deferred taxes. Two worksheets are included to assist in calculating deferred taxes. Examples will be used to demonstrate the classification of deferred taxes as current or non-current. It is important to classify deferred taxes correctly as they affect the integrity of the balance sheet and income statement.

Definitions

Deferred Tax Liability: A debt which is controlled by some future act or occurrence that will result in taxes being owed for income which has already been earned but presently is not taxable. Differences in timing between accrual income and cash basis income for tax reporting are responsible for much of the deferred tax liability.

Marginal Tax Rate: The percentage rate at which income taxes are assessed on the last dollar of taxable income. A progressive tax rate schedule sets the lowest rate for taxable income up to a specified level. Taxable income above that level is taxed at a higher rate while the income up to that change-over point remains taxed at the lower rate. This holds true as successive income tax brackets are reached except that some exemptions are also progressively lost as income reaches higher levels.

Average Tax Rate: The mean percentage rate for income taxes which may be calculated by dividing the total amount of tax owed by taxable income. An applicable average tax rate for use in estimating deferred taxes may be determined by referring to IRS and state tax tables.

Taxable Income: Gross income (not including tax exempt income) less adjustments, exemptions, and deductions. Since various tax attributes may be used to reduce gross income to taxable income, it is impossible to establish a common guideline which will fit each situation.

Earned Income: Social Security taxes are collected on earned income only and the amount of earned income subject to this tax is limited. Earned income includes net farm income (IRS definition), wages, salaries, etc. Interest income, capital gains, retirement income, etc. are generally exempt as these do not fit the social security definition of earned income. Historically, the limit on earned income subject to social security taxes has frequently been raised. Refer to IRS publications to determine the current limits.

Calculating Deferred Taxes

Deferred Taxes on Current Assets

Unlike other businesses, farm producers are allowed to report income for tax purposes on a cash basis. That means revenues are reported in the year when received and expenses are reported in the year when paid. Most producers are likely to report income on a cash basis in order to avoid the additional effort and expense of calculating income on an accrual basis. Cash basis reporting also allows income and expenses to be shifted into different years. The tax basis for most current assets (growing crops, raised market livestock and feed, purchased feed, supplies) will be zero, since the costs of producing the current assets is expensed in the year that the cash is paid. Notable exceptions are marketable securities and livestock or commodities purchased for resale. The cost of acquiring these assets is not reported as an expense for tax purposes until the year of sale.

The sales proceeds from current assets in excess of the cost of production is taxable income if sold in the year that the expenses are incurred. The current value in excess of the tax basis of assets on the balance sheet represents taxable income although the tax on this income is deferred until such time that the cash is actually received. A tax worksheet to facilitate tax basis calculations for assets (Table 1) is included in this publication along with a worksheet to calculate deferred taxes (Table 2).

Deferred Taxes on Non-Current Assets

The non-current portion of deferred taxes is similar to the current portion in that a difference often exists between market value (or cost less accumulated depreciation) and the tax basis on non-current assets. The value of land, which is

never depreciated, may have increased over time relative to its cost. In general, the cost of the land is the tax basis and the difference between cost and market is a taxable gain. The tax is deferred until the land is sold.

Depreciable non-current assets may also show a market value increase over cost. A cost recovery system used for tax purposes (e.g. ACRS or MACRS) specifies a recovery period which is often shorter than the economical useful life of non-current assets. Both systems reduce the tax basis to zero over this recovery period. The difference between the market value of an asset at the balance sheet date and the tax basis represents a taxable gain on which tax is deferred until the asset is sold. Examples follow to demonstrate calculation of deferred taxes on non-current assets.

Consider a 10-year-old tractor which was purchased for \$80,000. It has a current market value of \$30,000. The tax basis is zero under ACRS rules (five-year recovery period) or under MACRS rules (seven-year recovery period). If the 10-year old tractor is sold today for \$30,000, the entire amount is taxable as regular income. If the owner is in a 28 percent tax bracket, the amount of tax due would be \$8,400 ($\$30,000 \times .28$). The market value of the asset entered in the Balance Sheet is, in effect, overstated by \$8,400 because the amount which the owner would retain net of taxes is \$21,600. If the tractor is traded for a different one (like-kind exchange) of equal or higher value, the tax would continue to be deferred. The tax basis of the new tractor would be reduced by the value received as "trade-in".

Dairy farmers as well as ranchers frequently raise heifers to replace cows culled from the herd. If the original herd was purchased more than five years previously and all replacements were raised, the tax basis of the cow herd would be at or near zero. In this case, the federal deferred tax on 100 cows valued at \$1,200 each would amount to 28 percent of \$120,000 or \$33,600, based on an estimated average tax rate for this level of income. State and local taxes would be in addition to federal taxes. Expected proceeds from herd liquidation might be grossly overstated if the owner ignores deferred taxes. The owner should also be aware of tax attributes which could reduce the amount of taxes owed, such as a current operating loss, loss carry-forward, or insolvency.

Land which was purchased in 1950 for \$20,000 could now be worth \$100,000. If no major improvements were made to the land, the tax basis would be \$20,000 and the taxable gain if the land is sold for \$100,000 amounts to \$80,000. If the seller's marginal federal tax rate is 28 percent, the taxes due would amount to \$22,400, leaving net cash from the sale of only \$77,600. State income taxes, if applicable, would further reduce the amount realized by the seller.

Why are deferred taxes so important? Because liquidation of assets can result in a significant tax liability, producers and lenders should be aware of the tax consequences before assets are liquidated. Although the owner is responsible for payment of deferred taxes, lenders must recognize that their risk may also be increased because cash available to make payments on other outstanding loans will be diminished.

London Case Farm

A completed tax worksheet for the Londons is labeled Table 3. On February 1, 2004, the Londons owned stock worth \$2,200. The original cost of this stock was \$1,785 and the \$415 difference between the cost and proceeds would

be taxable (Table 4). They also have inventories in raised livestock, purchased livestock, raised feed, purchased feed, and supplies. Only the purchased livestock has a tax basis. The cost of the purchased market livestock of \$88,075 is its tax basis and is subtracted from the market value of the purchased livestock, \$102,796, to find the potential taxable income of \$14,721. The cash invested in growing crops, \$21,085, was expensed so this amount would be taxable if the growing crops were sold with the farm. Accrued expenses (accounts payable, interest, state income tax, and ad valorem taxes) which are deductible for federal tax purposes total \$14,090. Subtracting this amount from the value of the current assets' tax basis of \$65,529 leaves \$51,439 in deferred taxable income on current assets (Table 4). The Londons estimate that the average federal income tax rate will be about 25 percent and the average state income tax rate will be about six percent. In addition, the first \$62,700 of earned income is taxable as self-employment income at 12.4 percent. Earned income is deferred taxable income excluding deferred income on marketable securities. All earned income is taxed at 2.9 percent for medicare. Thus, the Londons estimated current deferred taxes are \$23,753 (Table 4). This is an estimate of taxes the Londons would be required to pay on current assets if they liquidated these assets.

The current deferred tax liability is entered in the current liabilities section of the Balance Sheet on line 37. The change in the liability from the beginning to the end of the year is entered in the Income Statement (line 79) as an adjustment to net income which is used to calculate the change in retained earnings, a Balance Sheet entry.

The Londons have taxable gains on non-current assets of \$125,519 which is subject to federal and state income taxes but not self-employment taxes. This deferred tax is estimated to be 31 percent of that amount, or \$38,911 (Table 4). The amount by which the market value of non-current assets is effectively overstated. The amount is entered in the non-current liabilities section of the Balance Sheet on line 46 and adjusts valuation equity downward (Balance Sheet, line 55). The division of owner equity is discussed in OSU Extension Fact Sheet AGEC-938. The change in non-current deferred taxes attributed to raised breeding livestock, valued using the base-value method are recorded on the Income Statement, line 80.

Problems in Estimating Deferred Taxes

Measuring income which is subject to deferred taxes requires additional expenses for record keeping. For those who are not accustomed to recording market values, cost values and tax basis for assets, the initial attempt may prove to be trying. A professional appraiser could be hired to appraise the assets but this would add a cash expense. Most farmers and lenders are able to estimate the value of assets within a reasonable range. Ascertaining original cost may require extensive record searching or the farmer may have to rely on memory if the amounts have not been recorded in a single document. Tax records should provide original cost, within a reasonable range. Ascertaining original cost may require extensive record searching or the farmer may have to rely on memory if the amounts have not been recorded in a single document. Tax records should provide original cost, purchase date, and tax basis. Once a set of detailed schedules of assets

have been prepared, yearly updates are easier to complete.

The FFSC has suggested that an average tax rate be used to estimate deferred taxes. This is complicated by the progressive tax rate schedule, exemptions based on size of the family, alternative minimum tax rules, limits on long-term capital gains rates, and frequent changes in tax laws. However an estimated rate may be used to get a "ball-park" figure for deferred taxes based on liquidation of all assets. The average tax rate would be less if only part of the assets were liquidated. A person who is anticipating liquidation of a sizeable portion of assets should calculate the taxes using IRS and state tax publications and seek the advice of a tax expert.

The following table gives average tax rates which may be used to estimate deferred federal income taxes based on 2003 tables. Gross income includes taxable current income, farm and non-farm. Applicable state and local tax rates should be added. Social Security and Medicare taxes would also be applied to current asset amounts which represent earned income. An example would be the increase in market value of purchased livestock over their cost.

Gross Taxable Income Up To:	Average Federal Tax (Without Social Security)
\$ 50,000	12.0%
75,000	16.5%
100,000	18.6%
300,000	26.8%
500,000	30%
1,000,000	32.5%
Over 1,000,000	34%

To estimate gross income for use with this table, include current operating receipts less expenses, current assets less tax basis and non-current assets less tax basis. Certain large tax attributes such as previous losses may lower the applicable

gross income amount. If a large amount of the gross income over \$300,000 consists of taxable gains on non-current assets, the percentage rate may be reduced somewhat because the long-term capital gain rate is generally limited to 28 percent.

Deferred taxes for an individual cannot be accurately determined by this method, but the estimated amount may indicate whether it is necessary to have a more accurate assessment made. This is often determined by the immediacy of intended liquidation and by the degree of liquidation intended, complete or partial. Usually, a partial liquidation will result in an average tax rate that is lower than the rate which would apply in a complete liquidation.

Summary

Deferred taxes can easily be overlooked. Persons who prepare financial statements and those who use financial statements to make decisions should be aware of potential tax liabilities which could arise if assets are sold. The net worth (owner equity) of farm owners could be seriously degraded if deferred taxes are overlooked. The risk to agricultural lenders may also be increased by deferred taxes. A simple estimate using the average tax rate as recommended by the FFSC will probably not result in a very accurate calculation of deferred taxes, but will alert the user of financial statements to a need for a more detailed analysis of taxes if a liquidation is planned.

-
- 1 For additional information on the London case, see other fact sheets in the financial statement series: 751, Developing a Cash Flow Plan; 752, Developing a Balance Sheet; and 753, Developing an Income Statement.
 - 2 The costs associated with raising livestock and feed and purchasing feed and supplies is claimed as a tax expense when incurred.
 - 3 Much of this information is found on the London's balance sheet. State income tax accrued is estimated. In 1996, the maximum amount of earned income subject to the social security portion of self employment taxes was \$62,700, the tax rate for the social security portion of self employment was 12.4 percent (15.3 percent adjusted for business expense) and the medicare tax rate was 2.9 percent. Check IRS publications for current information.

Table 1. Tax Worksheet

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Current Assets													
Marketable Securities													
Cash Investment													
Growing Crops													
Subtotal - Growing Crops													
Marketable Livestock													
Subtotal - Marketable Lvstk.													
Stored Crops and Feed													
Subtotal - Stored Crops and Feed													
Total Current Assets													

939-4

Table 1. (continued)

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Non-Current Assets													
Purchased Breeding Livestock													
Subtotal - Purch. Brdg. Lvstk.													
Raised Breeding Livestock													
Subtotal - Raised Brdg. Lvstk.													
Machinery & Equipment													
Subtotal - Mach. & Equip.													

939-5

10/18

Table 1. (continued)

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Farm Vehicles													
Subtotal - Vehicles													
Investment in Cooperatives													
Real Estate (Land)													
Subtotal - Real Estate													

Table 1. (continued)

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Buildings & Improvements													
Subtotal - Bldg. & Imprv.													
Non-farm Assets													
Cash Value of Life Insurance													

939-7

¹ For straight line depreciation, annual depreciation = (Total cost - Salvage value)/(Years of life). When the asset is first purchased, the amount of depreciation taken the first year is the annual depreciation amount multiplied by the proportion of the year remaining. For example, if the accounting year begins January 1 and the asset is purchased March 1, 10/12 of the year remains so the annual depreciation amount is multiplied by 10/12 to arrive at the depreciation amount for that year.

² May also record death losses here.

Table 2. Deferred Tax Worksheet

Current Portion of Deferred Taxes

Value of Marketable Securities	_____	(a)	
Tax Basis of Marketable Securities	_____	(b)	
Taxable Gain, Marketable Securities (a - b)	_____	(c)	
Market Value of Other Current Assets (Inventories, accounts receivable, prepaid expenses, investment in growing crops, non-farm assets)	_____	(d)	
Tax Basis of Other Current Assets	_____	(e)	
Deductible Expenses (Accounts payable, accrued interest, state taxes payable, other)	_____	(f)	
Deferred Taxable Income (c + d - e - f)	_____	(g)	
Average Federal Tax Rate	_____	(h)	
Deferred Federal Income Taxes (g x h)			_____ (i)
Average State Tax Rate	_____	(j)	
Deferred State Taxes (g x j)			_____ (k)
Earned Income (g - c)	_____	(l)	
Taxable Limit, Social Security Portion ¹	_____	(m)	
Enter the smaller amount of (l) or (m)	_____	(n)	
Social Security Tax Rate	_____	(o)	
Deferred Social Security Tax (n x o)			_____ (p)
Medicare Tax Rate	_____	(q)	
Deferred Medicare Tax (l x q)			_____ (r)
TOTAL DEFERRED TAXES, CURRENT (i + k + p + r)			_____
Non-Current Portion of Deferred Taxes			
Market Value of Non-Current Assets ² (Breeding livestock, machinery & vehicles, real estate & improvements, other)	_____	(s)	
Tax Basis of Non-Current Assets	_____	(t)	
Deferred Taxable Income (s - t)	_____	(u)	
Deferred Federal Taxes (h x u)			_____ (v)
Deferred State Taxes (j + u)			_____ (w)

TOTAL DEFERRED TAXES, NON-CURRENT (v + w)

- 1 Earned income includes net farm income (IRS definition), wages, salaries, etc. Interest income, capital gains, retirement income, etc. are generally exempt as these do not fit the social security definition of earned income.
- 2 Excluding investments in cooperatives, cash value of life insurance.

Table 3. Tax Worksheet

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Current Assets													
Marketable Securities													
Wal Mart Stock		40	44.62	1,785						1,785	55.00	2,200	415
Cash Investment													
Growing Crops													
Wheat	506.2		37.05	18,755						0		18,755	18,755
Oats	63		36.98	2,330						0		2,330	2,330
Subtotal - Growing Crops				21,085						0		21,085	21,085
Marketable Livestock													
Steers, 610 lbs. @ 86¢		148	451.52	66,825						66,825	524.60	77,641	10,816
Raised Steers, 660 lbs. @ 86¢		28	---	---						0	567.70	15,893	15,893
Raised Heifers, 630 lbs. @ 82.5¢		19	---	---						0	519.75	9,875	9,875
Steers, 585 lbs. @ 86¢		50	425	21,250						21,250	503.10	25,155	3,905
Subtotal - Marketable Lvstk.				88,075						88,075		128,564	40,489
Stored Crops and Feed													
Prairie Hay		38	---	---						0	40	1,520	1,520
Oats		750	---	---						0	1.80	1,350	1,350
Subtotal - Stored Crops and Feed												2,870	2,870
Total Current Assets												154,719	64,859

Table 3. (continued)

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Non-Current Assets													
Purchased Breeding Livestock													
Bull 7-yr. old	1/99	1	1,000	1,000	5	1,000	SL	0		42	960	960	918
Bull 4-yr. old	11/02	2	1,200	2,400	5	1,900	SL	125	100	1,428	1,200	2,400	972
Subtotal - Purch. Brdg. Lvstk.										1,470		3,360	1,890
Raised Breeding Livestock													
Replacement heifers		9	190	1,710			SL				425	3,825	3,825
Bred heifers		8	380	3,040			SL				600	4,800	4,800
Cows		60	475	28,500			SL				700	42,000	42,000
Subtotal - Raised Brdg. Lvstk.				33,250						0		50,625	50,625
Machinery & Equipment													
Versatile 946	5/02	1	96,000	96,000	15	24,000	SL	8,400	4,800	67,353	73,500	73,500	6,147
Krause 30' disk	5/02	1	12,500	12,500	15	2,000	SL	1,225	700	8,770	9,950	9,950	1,180
N6 Gleaner combine	2/92	1	105,450	105,450	12	20,000	SL	85,450	7,121	0	19,500	19,500	19,500
Kent 45' springtooth	7/95	1	4,800	4,800	20	1,000	SL	1,631	190	0	3,200	3,200	3,200
Sunflower 20' chisel	3/99	1	10,285	10,285	16	3,500	SL	2,086	424	3,150	7,800	7,800	4,650
JD 54x8 drill	4/95	1	24,000	24,000	12	6,000	SL	8,750	1,500	0	15,000	15,000	15,000
NH 855 baler	1/99	1	13,225	13,225	12	5,000	SL	3,484	685	4,051	9,500	9,500	5,449
NH 1112 swather	3/00	1	9,100	9,100	15	2,000	SL	1,854	473	3,907	7,500	7,500	3,593
Subtotal - Mach. & Equip.							SL			87,231		145,950	58,719

939-10

Table 3. (continued)

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Farm Vehicles													
Ford F-600	10/85	1	14,500	14,500	25	3,500	SL	8,067	440	0	5,000	5,000	5,000
GMC C-6500	4/99	1	12,000	12,000	13	4,500	SL	2,788	577	1,000	9,500	9,500	8,500
Dodge Pickup	12/03	1	19,325	19,325	5	5,000	SL	478	2,865	16,426	16,500	16,500	74
Subtotal - Vehicles										17,426		31,000	13,574
Investment in Cooperatives													
Klondike Farmers Coop.		1									18,630	18,630	
Subtotal- Investment in Coops											18,630	18,630	
Real Estate (Land)													
NE 1/4 Sec 21		160	350	56,000						56,000	535	85,600	29,600
NW 1/4 Sec 21		160	370	59,200						59,200	600	96,000	36,800
E 1/2 Sec 16		320	500	160,000						160,000	546	174,720	14,720
NW 1/4 Sec 15		160	725	116,000						116,000	572	91,520	(24,480)
NW 1/4 Sec 36		160	975	156,000						156,000	550	88,000	(68,000)
Subtotal - Real Estate										547,200		535,840	(11,360)
Total Non Current Assets													113,448

939-11

Table 3. (continued)

Asset Description	Month/year purchased	Number (A)	Cost per unit (B)	Total Cost (A x B)	Years of useful life	Salvage value	Depreciation method	Accumulated depreciation (total)	Annual depreciation expense ¹	Tax basis (C)	Market value per unit (D)	Total market value (A x D) ²	Taxable Gain/Loss (A x D) - C
Buildings & Improvements													
Hay Barn	9/86	7,000	15,000	15,000	30	0	SL	8,708	500	4,200	7,000	7,000	
Farm House	6/92	65,000	78,000	78,000	40	30,000	SL	14,000	1,200	78,000	65,000	65,000	
Farm Shop	5/97	15,000	19,760	19,760	40	5,000	SL	2,491	369	12,262	15,000	15,000	
Machine Shed	6/99	25,000	29,800	29,800	40	5,000	SL	2,893	620	21,001	25,000	25,000	
Subtotal - Bldg. & Imprv.										115,463		112,000	(3,263)
Non-farm Assets													
Cash Value of Life Insurance										0		3,740	
Rent house	4/89	1	28,500	28,500	22	20,000	SL	5,731	386	14,466	30,000	30,000	15,534
Total Non-current Farm Assets										768,790		897,405	
Total Non-current Assets										783,256		931,145	

939-12

¹ For straight line depreciation, annual depreciation = (Total cost - Salvage value)/(Years of life). When the asset is first purchased, the amount of depreciation taken the first year is the annual depreciation amount multiplied by the proportion of the year remaining. For example, if the accounting year begins January 1 and the asset is purchased March 1, 10/12 of the year remains so the annual depreciation amount is multiplied by 10/12 to arrive at the depreciation amount for that year.

² May also record death losses here.

Table 4. Deferred Tax Worksheet

Current Portion of Deferred Taxes

Value of Marketable Securities	<u>2,200</u>	(a)	
Tax Basis of Marketable Securities	<u>1,785</u>	(b)	
Taxable Gain, Marketable Securities (a - b)	<u>415</u>	(c)	
 Market Value of Other Current Assets (Inventories, accounts receivable, prepaid expenses, investment in growing crops, non-farm assets)	 <u>152,519</u>	(d)	
 Tax Basis of Other Current Assets	 <u>88,075</u>	(e)	
 Deductible Expenses (Accounts payable, accrued interest, state taxes payable, other)	 <u>14,090</u>	(f)	
 Deferred Taxable Income (c + d - e - f)	 <u>50,769</u>	(g)	
 Average Federal Tax Rate	 <u>.25</u>	(h)	
Deferred Federal Income Taxes (g x h)			<u>12,692</u> (i)
Average State Tax Rate	<u>.06</u>	(j)	
Deferred State Taxes (g x j)			<u>3,046</u> (k)
Earned Income (g - c)	<u>50,354</u>	(l)	
Taxable Limit, Social Security Portion ¹	<u>87,000</u>	(m)	
Enter the smaller amount of (l) or (m)	<u>50,354</u>	(n)	
Social Security Tax Rate	<u>.124</u>	(o)	
Deferred Social Security Tax (n x o)			<u>6,244</u> (p)
Medicare Tax Rate	<u>.029</u>	(q)	
Deferred Medicare Tax (l x q)			<u>1,460</u> (r)
 TOTAL DEFERRED TAXES, CURRENT (i + k + p + r)			 <u>23,442</u>
 Non-Current Portion of Deferred Taxes			
Market Value of Non-Current Assets ² (Breeding livestock, machinery & vehicles, real estate & improvements, other)	<u>766,775</u>	(s)	
Tax Basis of Non-Current Assets	<u>653,327</u>	(t)	
Deferred Taxable Income (s - t)	<u>113,448</u>	(u)	
Deferred Federal Taxes (h x u)			<u>28,362</u> (v)
Deferred State Taxes (j + u)			<u>6,807</u> (w)
 TOTAL DEFERRED TAXES, NON-CURRENT (v + w)			 <u>35,169</u>

¹ Earned income includes net farm income (IRS definition), wages, salaries, etc. Interest income, capital gains, retirement income, etc. are generally exempt as these do not fit the social security definition of earned income.

² Excluding investments in cooperatives, cash value of life insurance.

The Oklahoma Cooperative Extension Service Bringing the University to You!

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

Oklahoma State University, in compliance with Title VI and VII of the Civil Rights Act of 1964, Executive Order 11246 as amended, Title IX of the Education Amendments of 1972, Americans with Disabilities Act of 1990, and other federal laws and regulations, does not discriminate on the basis of race, color, national origin, gender, age, religion, disability, or status as a veteran in any of its policies, practices, or procedures. This includes but is not limited to admissions, employment, financial aid, and educational services.

Issued in furtherance of Cooperative Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Robert E. Whitson, Director of Cooperative Extension Service, Oklahoma State University, Stillwater, Oklahoma. This publication is printed and issued by Oklahoma State University as authorized by the Vice President, Dean, and Director of the Division of Agricultural Sciences and Natural Resources and has been prepared and distributed at a cost of 20 cents per copy. 0305