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Death, Taxes & Birds

By Jerry Jennings
Woodland Hills, CA

It has often been said that death and taxes are unavoidable. However, both can and should be put off for as long as possible. Death can be put off with proper diet and exercise and if we aren't befallen by ill fortune. Likewise, taxes may be put off and minimized with proper planning.

Most of us work very hard for the money we earn and we struggle to get the most use out of what is left over after Uncle Sam takes his share.

There are many areas of estate and tax planning that may benefit the average income earner, but to cover them all would take more pages than the "Watchbird" has. Nevertheless, if we restrict our inquiry to aviculture, our efforts may bear fruit.

Most aviculturists consider their birds a hobby. How often we hear from our fellows, "I'm just a hobbyist." In fact, many of us go out of our way to establish that we are NOT COMMERCIAL. That is all well and good.

It has been the stated goal of organized aviculture that birds be bred in captivity. Hopefully, most avicultural hobbyists will be successful in pursuing that goal. As the successful breeder produces and accumulates young birds, he will desire to dispose of some of these offspring, if for no other reason than lack of housing space. Disposal via sales to others, like it or not, adds a commercial flavor to one's operation and is justly so recognized by local government (especially animal regulations personnel).

Regardless of whether you agree or disagree with the above definition, you may still legally take advantage of the benefits (and burdens) of the tax system without fear of disclosing your aviary and location to local officials.

Taking advantage of your hobby as a tax shelter requires that you treat it as a business. The test is whether or not you run your breeding operation in a businesslike fashion and intend to earn a profit. Criteria for making this determination include such factors as the keeping of records of all sales and expenditures, advertising the product (birds) for sale, etc. The advantages are the opportunities to deduct numerous expenses from your gross receipts such as transportation costs to and from bird meetings, bird shows, bird conventions, bird farms, feed stores, and any other bird related errands. Other deductible expenses include advertising, club dues, bird show entry fees, air freight on birds

received, veterinary bills, telephone calls regarding birds, feed and supplies, interest on bird loans, food and lodging while away on bird business, depreciation on equipment, labor, and even the cost of the birds themselves.

Since you have a tax liability on the bird sales you make, these expenses will reduce the taxable income derived from the birds. In most cases, the expenses will exceed the income so that you have an actual loss on the bird business. It is the loss that may be deducted from your other income (wages and salary) which "shelters" that income from taxes to the extent of your loss on the birds.

Now it may be that you have a positive cash flow from birds at the present time. However, if you deduct all the expenses mentioned, including DEPRECIATION, you may discover you have an actual loss. This works because depreciation is not an "out-of-pocket" expense like feed and supplies. Rather it represents the "using up" of equipment such as aviaries and cages.

When you purchase cages or other equipment, you have a depreciable item(s). Typically, equipment is depreciated over a period of years representing the expected lifespan of the particular item. Ideally, seven years may be used for equipment. If an item costs \$49.00, then we will consume 1/7th or seven dollars per year until the "book value" of the item is zero at the end of seven years using this "straight line" method.

The seven year depreciation schedule has the added advantage of allowing you to take the maximum tax credit of 10% of the equipment cost, which is deductible from the final computation of tax you owe for the year on all income.

Now for the burdens. You must complete Schedule C of your Federal Income Tax Return for each year in which you claim the birds as a business. More importantly, you must earn a profit in two out of every five years (horse breeders have it better—two out of seven). Failure to comply with the latter requirement may result in the IRS disallowing the birds as a business, for it is the presumption that businesses exist for the purpose of earning a profit. Finally, accurate records must be maintained of all sales and expenses in order to substantiate them in the event of an audit.

The best way to appreciate the benefits is to fill out a Schedule C for practice. That will show you the detail involved and tell you whether it is economically worthwhile. Your accountant or attorney will be happy to assist you if necessary, and you will probably be very pleasantly surprised. ●

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