Farm Tax Update

David Marrison, OSU Extension

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The Ohio State University
College of Food, Agricultural, and Environmental Sciences

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Circular 230 Disclosure

The information provided in this presentation is for educational purposes only. This presentation is designed to provide accurate and authoritative information concerning the subject matter covered, but it is communicated with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

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Today's Objective

Provide a Brief Overview of Changes from Federal Tax Reform

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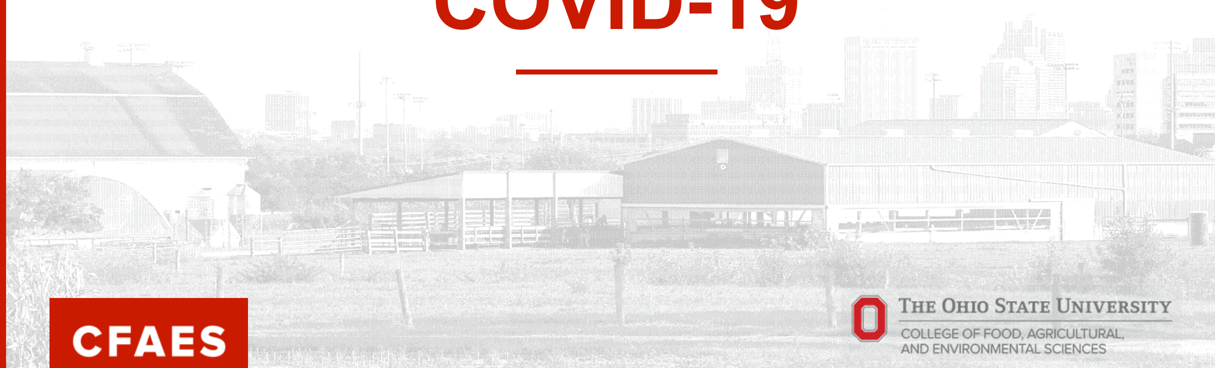
COVID-19



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COVID-19

- Stay Safe and Stop the Spread.
- Tax Deadline has been extended until July 15, 2020.
  - HRA & IRA?
  - Taxpayer Assistance Centers are closed and no face-to-face service throughout the country until further notice
- Ohio Department of Health Resources
  COVID-19 - coronavirus.ohio.gov
- OSU Extension – A Tournament of Education.
  go.osu.edu/agmadness

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Federal Tax Reform

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Tax Cuts and Jobs Act of 2017

Some of the Goals were:

- Create Postcard Sized Tax Form
- Reduce Tax Brackets
- Help Businesses Stay in USA

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Estate Taxes

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Federal Estate Tax

- American Taxpayer Relief Act of 2012 (Fiscal Cliff Legislation) has made estate planning easier.
- Set permanent limit indexed for inflation and includes portability to spouse.
- Was $5,490,000 for 2017 then went to 11.18 in 2019
- Is $11,580,000 for 2020. ($23.16 million for a married couple).
- Annual gift exclusion is $15,000.
- Step up in basis has been continued.
- In 2026, will revert back to 2017 (w/ adjustments).

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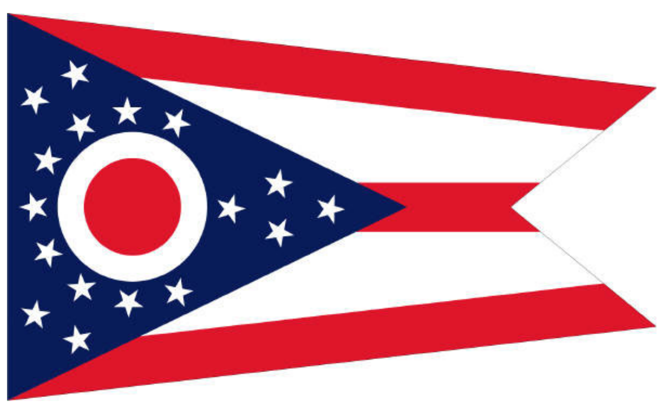
Ohio Estate Tax

- As of January 1, 2013, the Ohio Estate Tax has been repealed.



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New Tax Brackets

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Individual

2017 Tax Brackets		2018 tax brackets	
Rate	Income Bracket	Rate	Income Bracket
10%	$0 - $9,324	10%	$ 0 - $9,524
15%	$9,325 - $37,949	12%	$9,525 - $38,699
25%	$37,950 - $91,899	22%	$38,700 - $82,499
28%	$91,900 - $191,649	24%	$82,500 - $157,599
33%	$191,650 - $416,699	32%	$157,500 - $199,999
35%	$416,700 - $418,399	35%	$200,000 - $499,999
39.60%	$418,400+	37%	$500,000+

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Married Filing Jointly

2017 Tax Brackets		2018 tax brackets	
Rate	Income Bracket	Rate	Income Bracket
10%	$0 - $18,649	10%	$ 0 - $19,049
15%	$18,650 - $75,899	12%	$19,050 - $77,399
25%	$75,900 - $153,099	22%	$77,400 -164,999
28%	$153,100 - $233,349	24%	$165,000 - $314,999
33%	$233,350 - $416,699	32%	$315,000 - $399,999
35%	$416,700 - $470,699	35%	$400,000 - $599,999
39.60%	$470,700+	37%	$600,000+

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2019 Tax Rates

Tax Rate	Single Filers	Married-Jointly Filers
10%	$0 - $9,700	$0 - $19,400
12%	$9,701 - $39,475	$19,401 - $78,950
22%	$39,476 - $84,200	$78,951 - $168,400
24%	$84,201 - $160,725	$168,401 - $321,450
32%	$160,726 - $204,100	$321,451 - $408,200
35%	$204,101 - $510,300	$408,201 - $612,350
37%	$510,301 a nd higher	$612,350 and higher

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New Post Card Tax Form (?)

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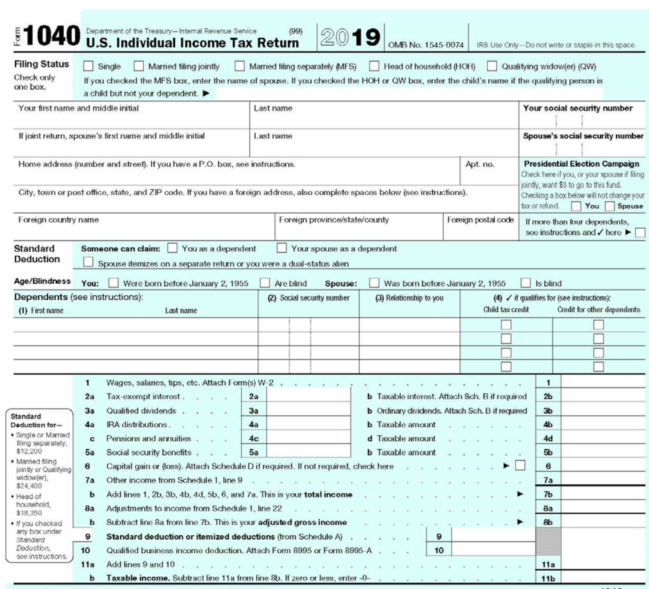
New 1040



Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return 2019 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box. ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial | Last name | **Your social security number**
If joint return, spouse's first name and middle initial | Last name | **Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions. | Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ **You** ☐ **Spouse**
Foreign country name | Foreign province/state/county | Foreign postal code
If more than four dependents, see instructions and ✓ here ▶ ☐

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** ☐ Were born before January 2, 1955 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1955 ☐ Is blind

Dependents (see instructions):

(1) First name Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions): Child tax credit	Credit for other dependents
			☐	☐
			☐	☐
			☐	☐
			☐	☐

Standard Deduction for—
- Single or Married filing separately, $12,200
- Married filing jointly or Qualifying widow(er), $24,400
- Head of household, $18,350
- If you checked any box under *Standard Deduction*, see instructions.

1 Wages, salaries, tips, etc. Attach Form(s) W-2 . . . 1
2a Tax-exempt interest . . . 2a | b Taxable interest. Attach Sch. B if required 2b
3a Qualified dividends . . . 3a | b Ordinary dividends. Attach Sch. B if required 3b
4a IRA distributions . . . 4a | b Taxable amount . . . 4b
c Pensions and annuities . . . 4c | d Taxable amount . . . 4d
5a Social security benefits . . . 5a | b Taxable amount . . . 5b
6 Capital gain or (loss). Attach Schedule D if required. If not required, check here . . . ▶ ☐ 6
7a Other income from Schedule 1, line 9 . . . 7a
b Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** . . . ▶ 7b
8a Adjustments to income from Schedule 1, line 22 . . . 8a
b Subtract line 8a from line 7b. This is your **adjusted gross income** . . . ▶ 8b
9 **Standard deduction or itemized deductions** (from Schedule A) . . . 9
10 Qualified business income deduction. Attach Form 8995 or Form 8995-A . . . 10
11a Add lines 9 and 10 . . . 11a
b **Taxable income.** Subtract line 11a from line 8b. If zero or less, enter -0- . . . 11b

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

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New 1040

Form 1040 (2019) Page **2**

- 12a **Tax** (see inst.) Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐ — 12a
- b Add Schedule 2, line 3, and line 12a and enter the total ▶ 12b
- 13a Child tax credit or credit for other dependents — 13a
- b Add Schedule 3, line 7, and line 13a and enter the total ▶ 13b
- 14 Subtract line 13b from line 12b. If zero or less, enter -0- — 14
- 15 Other taxes, including self-employment tax, from Schedule 2, line 10 — 15
- 16 Add lines 14 and 15. This is your **total tax** ▶ 16
- 17 Federal income tax withheld from Forms W-2 and 1099 — 17
- 18 Other payments and refundable credits:
  - a Earned income credit (EIC) — 18a
  - b Additional child tax credit. Attach Schedule 8812 — 18b
  - c American opportunity credit from Form 8863, line 8 — 18c
  - d Schedule 3, line 14 — 18d
  - e Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶ 18e
- 19 Add lines 17 and 18e. These are your **total payments** ▶ 19

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

Refund

Direct deposit? See instructions.

- 20 If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid** — 20
- 21a Amount of line 20 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐ 21a
- ▶ b Routing number ▶ c Type: ☐ Checking ☐ Savings
- ▶ d Account number
- 22 Amount of line 20 you want **applied to your 2020 estimated tax** ▶ 22

Amount You Owe

- 23 **Amount you owe.** Subtract line 19 from line 16. For details on how to pay, see instructions ▶ 23
- 24 Estimated tax penalty (see instructions) ▶ 24

Third Party Designee (Other than paid preparer)

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ▶		Phone no.		
Firm's address ▶			Firm's EIN ▶	

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2019)

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SCHEDULE 1 (Form 1040 or 1040-SR)
Department of the Treasury Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040 or 1040-SR.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074 **2019** Attachment Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR — Your social security number

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? ☐ Yes ☐ No

Part I Additional Income

- 1 Taxable refunds, credits, or offsets of state and local income taxes — 1
- 2a Alimony received — 2a
- b Date of original divorce or separation agreement (see instructions) ▶
- 3 Business income or (loss). Attach Schedule C — 3
- 4 Other gains or (losses). Attach Form 4797 — 4
- 5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E — 5
- 6 Farm income or (loss). Attach Schedule F — 6
- 7 Unemployment compensation — 7
- 8 Other income. List type and amount ▶ — 8
- 9 Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a — 9

Part II Adjustments to Income

- 10 Educator expenses — 10
- 11 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 — 11
- 12 Health savings account deduction. Attach Form 8889 — 12
- 13 Moving expenses for members of the Armed Forces. Attach Form 3903 — 13
- 14 Deductible part of self-employment tax. Attach Schedule SE — 14
- 15 Self-employed SEP, SIMPLE, and qualified plans — 15
- 16 Self-employed health insurance deduction — 16
- 17 Penalty on early withdrawal of savings — 17
- 18a Alimony paid — 18a
- b Recipient's SSN ▶
- c Date of original divorce or separation agreement (see instructions) ▶
- 19 IRA deduction — 19
- 20 Student loan interest deduction — 20
- 21 Reserved for future use — 21
- 22 Add lines 10 through 21. These are your **adjustments to income.** Enter here and on Form 1040 or 1040-SR, line 8a — 22

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040 or 1040-SR) 2019**

SCHEDULE 2 (Form 1040 or 1040-SR)
Department of the Treasury Internal Revenue Service

Additional Taxes

▶ Attach to Form 1040 or 1040-SR.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074 **2019** Attachment Sequence No. **02**

Name(s) shown on Form 1040 or 1040-SR — Your social security number

Part I Tax

- 1 Alternative minimum tax. Attach Form 6251 — 1
- 2 Excess advance premium tax credit repayment. Attach Form 8962 — 2
- 3 Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b — 3

Part II Other Taxes

- 4 Self-employment tax. Attach Schedule SE — 4
- 5 Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919 — 5
- 6 Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required — 6
- 7a Household employment taxes. Attach Schedule H — 7a
- b Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required — 7b
- 8 Taxes from: a ☐ Form 8959 b ☐ Form 8960
  - c ☐ Instructions; enter code(s) — 8
- 9 Section 965 net tax liability installment from Form 965-A — 9
- 10 Add lines 4 through 8. These are your **total other taxes.** Enter here and on Form 1040 or 1040-SR, line 15 — 10

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71478U **Schedule 2 (Form 1040 or 1040-SR) 2019**

SCHEDULE 3 (Form 1040 or 1040-SR)
Department of the Treasury Internal Revenue Service

Additional Credits and Payments

▶ Attach to Form 1040 or 1040-SR.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074 **2019** Attachment Sequence No. **03**

Name(s) shown on Form 1040 or 1040-SR — Your social security number

Part I Nonrefundable Credits

- 1 Foreign tax credit. Attach Form 1116 if required — 1
- 2 Credit for child and dependent care expenses. Attach Form 2441 — 2
- 3 Education credits from Form 8863, line 19 — 3
- 4 Retirement savings contributions credit. Attach Form 8880 — 4
- 5 Residential energy credit. Attach Form 5695 — 5
- 6 Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐ — 6
- 7 Add lines 1 through 6. Enter here and include on Form 1040 or 1040-SR, line 13b — 7

Part II Other Payments and Refundable Credits

- 8 2019 estimated tax payments and amount applied from 2018 return — 8
- 9 Net premium tax credit. Attach Form 8962 — 9
- 10 Amount paid with request for extension to file (see instructions) — 10
- 11 Excess social security and tier 1 RRTA tax withheld — 11
- 12 Credit for federal tax on fuels. Attach Form 4136 — 12
- 13 Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐ — 13
- 14 Add lines 8 through 13. Enter here and on Form 1040 or 1040-SR, line 18d — 14

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71480G **Schedule 3 (Form 1040 or 1040-SR) 2019**

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Standard Deduction

	2017	2018	2019
Filing Status	Deduction	Deduction	Deduction
Single	$6,350	$12,000	$12,200
Married Filing Jointly	$12,700	$24,000	$24,400
Head of Household	$9,350	$12,000	$18,350
Personal Exemption	$4,050	none	none

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Schedule A Deductions

1. State/Local/Property Tax (SALT)
2. Medical and Dental Expense Deduction
3. Home Mortgage Interest Deduction
4. Personal Casualty & Theft Loss Deduction
5. Charitable Contribution Deductions
6. Misc. Itemized Deductions Subject to 2% Floor

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Federal Estate Tax

- American Taxpayer Relief Act of 2012 (Fiscal Cliff Legislation) has made estate planning easier.
- Set <u>permanent</u> limit indexed for inflation and includes <u>portability</u> to spouse.
- Was $5,490,000 for 2017 then went to 11.18 in 2019
- Is $11,580,000 for 2020. ($23.16 million for a married couple).
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Farm Tax Update

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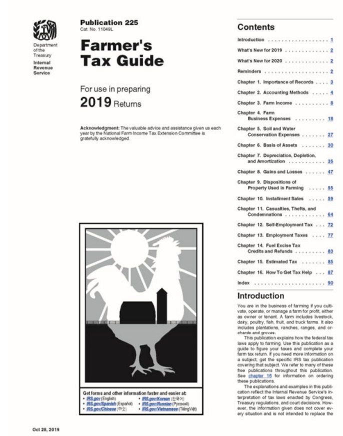
2019 Farmers Tax Guide

Get a copy of the Farmer's Tax Guide at or your local County Extension office or access it on-line at:

http://www.irs.gov/pub/irs-pdf/p225.pdf



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SCHEDULE F
(Form 1040 or 1040-SR)
Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Farming

► Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065.
► Go to *www.irs.gov/ScheduleF* for instructions and the latest information.

OMB No. 1545-0074
2019
Attachment Sequence No. 14

Name of proprietor | **Social security number (SSN)**

A Principal crop or activity | **B Enter code from Part IV** ► | C Accounting method: ☐ Cash ☐ Accrual | **D Employer ID number (EIN)** (see instr.)

E Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on passive losses ☐ Yes ☐ No
F Did you make any payments in 2019 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No
G If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

Part I Farm Income—Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a		
b	Cost or other basis of livestock or other items reported on line 1a	1b		
c	Subtract line 1b from line 1a			1c
2	Sales of livestock, produce, grains, and other products you raised			2
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	3b Taxable amount	3b
4a	Agricultural program payments (see instructions)	4a	4b Taxable amount	4b
5a	Commodity Credit Corporation (CCC) loans reported under election			5a
b	CCC loans forfeited	5b	5c Taxable amount	5c
6	Crop insurance proceeds and federal crop disaster payments (see instructions):			
a	Amount received in 2019	6a	6b Taxable amount	6b
c	If election to defer to 2020 is attached, check here ► ☐		6d Amount deferred from 2018	6d
7	Custom hire (machine work) income			7
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			8
9	**Gross income.** Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions ►			9

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.

10	Car and truck expenses (see instructions). Also attach **Form 4562**	10	23	Pension and profit-sharing plans	23
11	Chemicals	11	24	Rent or lease (see instructions):	
12	Conservation expenses (see instructions)	12	a	Vehicles, machinery, equipment	24a
13	Custom hire (machine work)	13	b	Other (land, animals, etc.)	24b
14	Depreciation and section 179 expense (see instructions)	14	25	Repairs and maintenance	25
15	Employee benefit programs other than on line 23	15	26	Seeds and plants	26
16	Feed	16	27	Storage and warehousing	27
17	Fertilizers and lime	17	28	Supplies	28
18	Freight and trucking	18	29	Taxes	29
19	Gasoline, fuel, and oil	19	30	Utilities	30
20	Insurance (other than health)	20	31	Veterinary, breeding, and medicine	31
21	Interest (see instructions):		32	Other expenses (specify):	
a	Mortgage (paid to banks, etc.)	21a	a		32a
b	Other	21b	b		32b
22	Labor hired (less employment credits)	22	c		32c
			d		32d
			e		32e
			f		32f

33 **Total expenses.** Add lines 10 through 32f. If line 32f is negative, see instructions ► 33
34 **Net farm profit or (loss).** Subtract line 33 from line 9 34
If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.
35 Reserved for future use.
36 Check the box that describes your investment in this activity and see instructions for where to report your loss:
a ☐ All investment is at risk. b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11346H **Schedule F (Form 1040 or 1040-SR) 2019**

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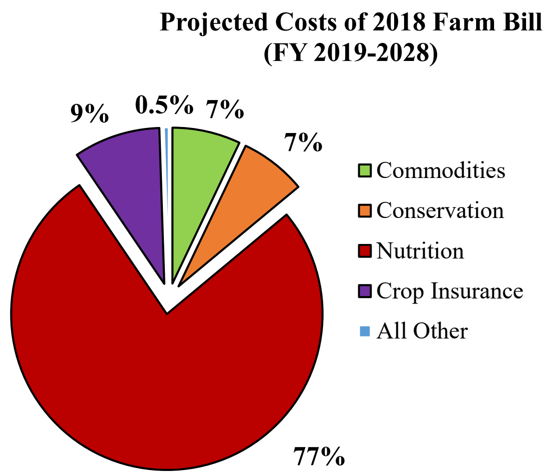
2018 Farm Bill

- Signed December 20, 2018
- Includes commodity, food, & nutrition, and crop insurance provisions
- Remains in place through 2023



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Dairy Margin Coverage Program

- The 2014 Margin Protection Program (MPP) was retooled to become the Dairy Margin Coverage Program (DMC).
- Annual or life of farm bill decision
- Annual fee to participate
- 2019 will generate taxable income.

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Commodity Programs

- Ag Risk Coverage (ARC) and Price Loss Coverage (PLC) are continued with some modifications.
- PLC protects for low prices and ARC protects for low revenue.
- http://go.osu.edu/farmbill2019

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2018 Farm Bill:

Elect a Federal Commodity Program

- Agricultural Risk Coverage- County
  Paid on 85% of Base Acres
- Agricultural Risk Coverage- Individual
  Paid on 65% of Base Acres
- Price Loss Coverage
  Paid on 85% of Base Acres
  - Supplemental Coverage Option
    Paid on COMBO Purchased Planted Acres

Share of Base Acres Enrolled in PLC 2018	Nationally	Ohio
Corn	7%	2%
Soybeans	3%	2%
Wheat	42%	18%

Data Source: USDA-FSA, ARC and PLC Landing Page

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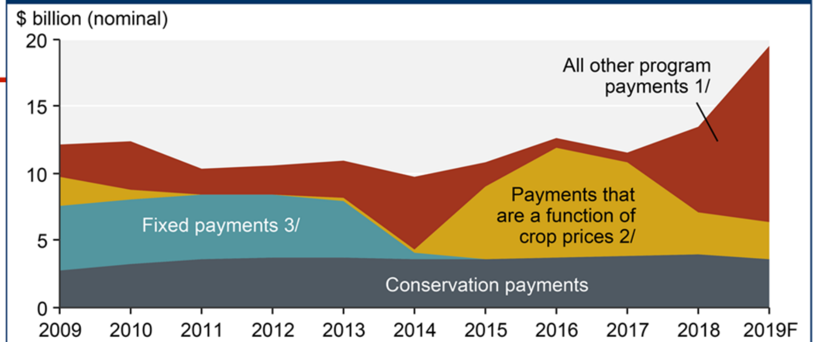
Government farm program payments to farm producers, 2009-19F



Note: F = forecast.
1/ All other payments include supplemental and ad hoc disaster assistance, tobacco transition, Cotton Ginning Cost Share, dairy, and miscellaneous programs (such as the Market Facilitation Program).
2/ Includes Price Loss Coverage (PLC), Agriculture Risk Coverage (ARC), counter-cyclical payments (CCP), Average Crop Revenue Election (ACRE) payments, loan deficiency payments (excluding grazeout payments), marketing loan gains, and certificate exchange gains. CCP and ACRE were not continued in the 2014 Farm Bill. PLC and ARC payments began in 2015.
3/ Includes direct fixed payments portion of Direct and Counter-Cyclical Program (DCP) and Cotton Transition Assistance Program (CTAP) payments (in 2014/15).
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of August 30, 2019.

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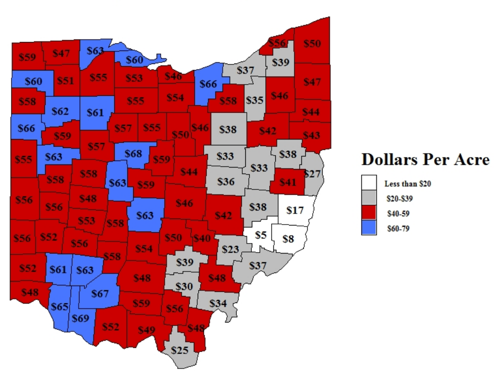
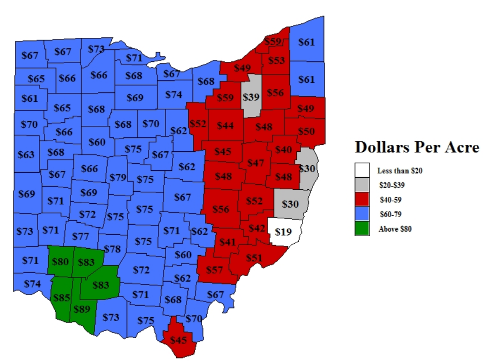
2018 Market Facilitation Payments

2018 Market Facilitation Payments by Acre- Ohio
Adjusted to be comparable to 2019 MFP per Acre Rates*



*calculated by weighting 2018 commodity specific acreage and multiplying by 2018 yield and 2018 MFP payment rate
Lucas County is divided into East and West, but averaged for this analysis

2019 Market Facilitation Payments by Acre- Ohio
Only 50% of the County Rate has been Authorized



Source: USDA Farm Service Agency
Lucas County is divided into East and West, but averaged for this analysis

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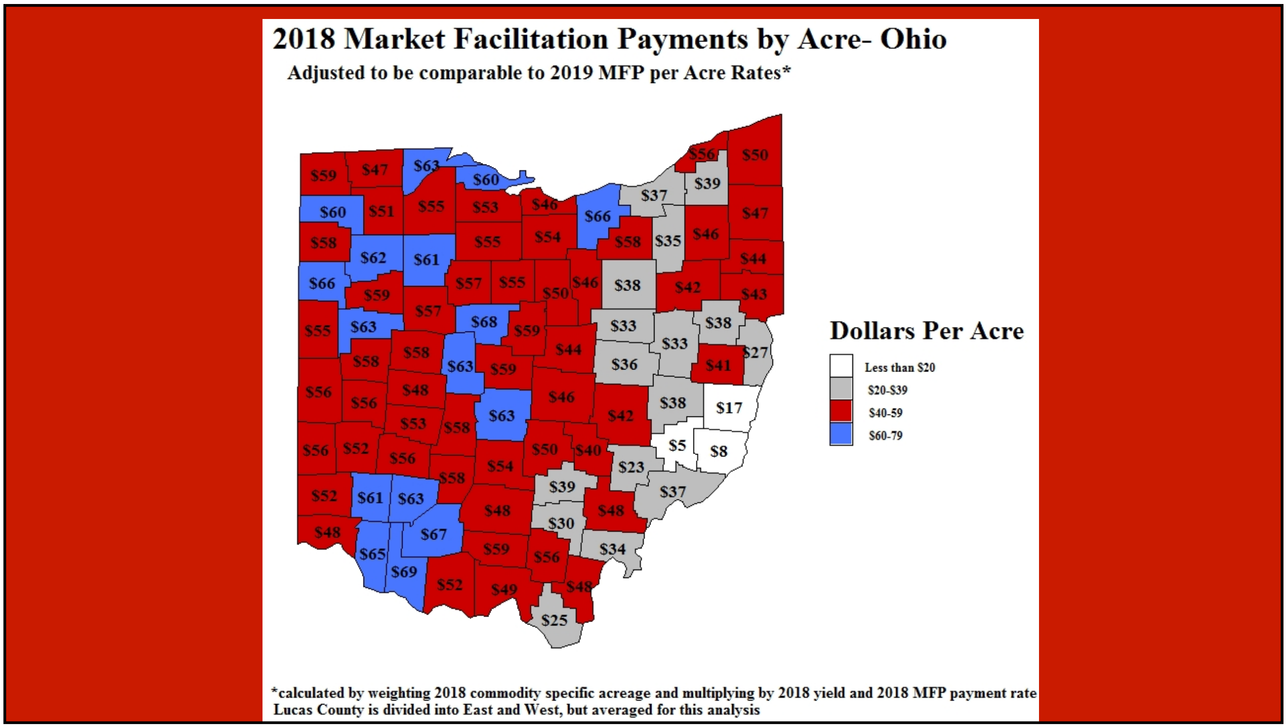
2018 Market Facilitation Payments by Acre- Ohio
Adjusted to be comparable to 2019 MFP per Acre Rates*
Dollars Per Acre
Less than $20
$20-$39
$40-59
$60-79
*calculated by weighting 2018 commodity specific acreage and multiplying by 2018 yield and 2018 MFP payment rate
Lucas County is divided into East and West, but averaged for this analysis

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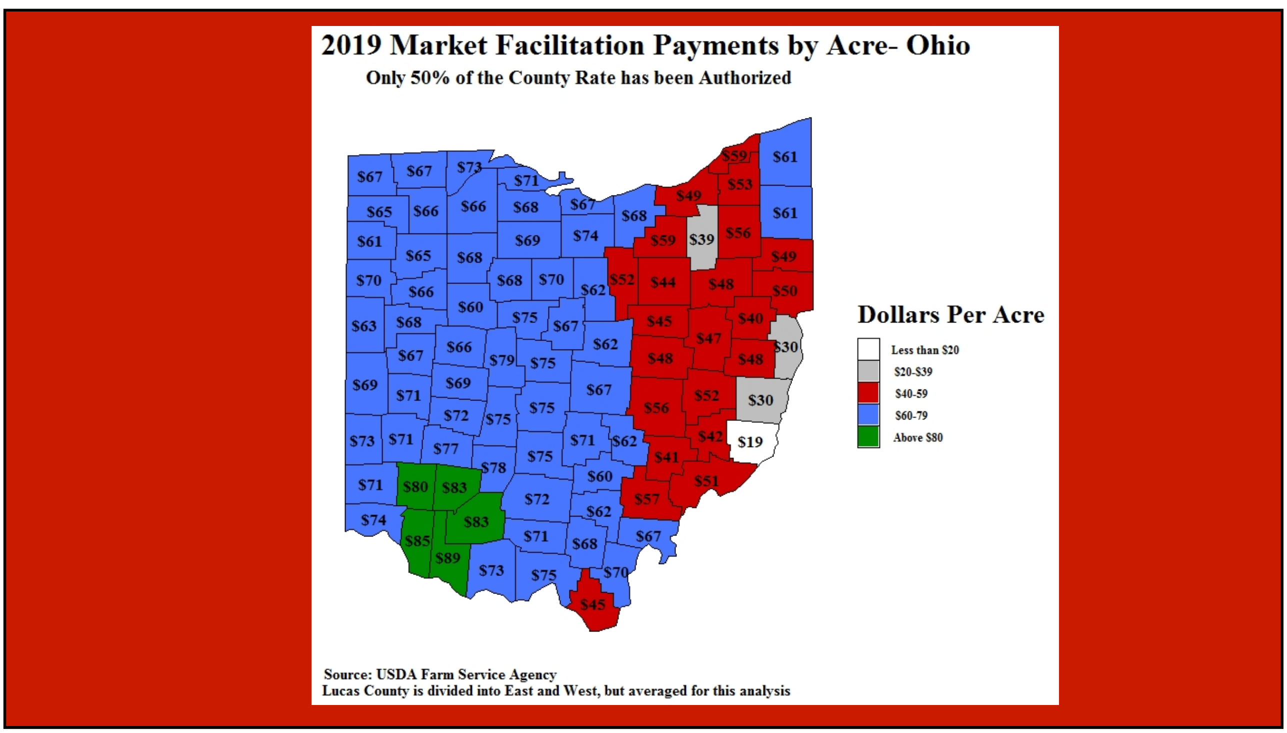
2019 Market Facilitation Payments by Acre- Ohio
Only 50% of the County Rate has been Authorized
Dollars Per Acre
Less than $20
$20-$39
$40-59
$60-79
Above $80
Source: USDA Farm Service Agency
Lucas County is divided into East and West, but averaged for this analysis

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Taxation of Government Payments

- Include in income the year it is received.
  - Dairy Margin Coverage payments (current year's production)
  - ARC & PLC payments (previous year's production)
  - Margin Facilitation Program payments
- Schedule F (Form 1040)
- Subject to SE tax

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Conservation Programs

- Conservation Reserve Program (CRP)
- Conservation Reserve Enhancement Program (CREP)
- Farmable Wetlands Program (FWP)
- Biomass Crop Assistance Program (BCAP)
- Noninsured Crop Disaster Program (NAP)
- Agricultural Management Assistance (AMA)
- **Clear 30 – pilot program to benefit water resources**
- **Soil Health and Income Protection Program (SHIPP)**

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Taxation of Conservation Payments

Include in income
- Usually subject to SE tax
  - Unless material participating farmer receiving Social Security or Disability benefits

IRC § 175 Deduction
- Deduct qualifying soil and water conservation expense

IRC § 126 Exclusion of cost-share payments
- See qualifying criteria in the book (p 566)

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Commodity Credit Corporation CCC Loans

- Low interest loan secured by farmer's unsold crop
- Not included in income unless section 77 election
  - Pay attention to previous years' election
- If section 77 election, sets crop basis at loan rate

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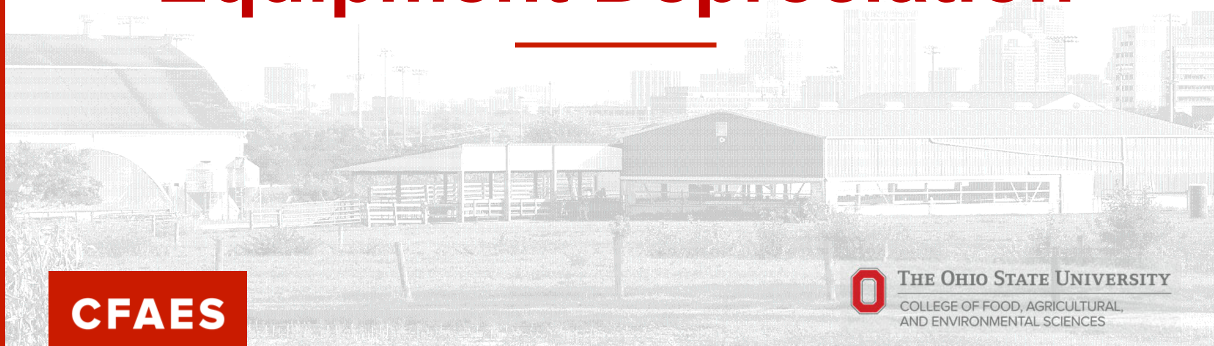
Equipment Depreciation



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Changes for Farm & Machinery Depreciation

- Cost recovery period is now 5 years (not 7) for new farm machinery and equipment.
- Grain bins, fences, and used equipment stay as 7 year assets.
- 200% declining balance is to be used on 3, 5, 7 and 10 year property.
- 150% declining balance on 15 and 20 year property.
- Trees and vines are 10 year property – previously SL, now 150 DB.

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A Comparison of Depreciation Schedules

Year	MACRS 150%	MACRS 200%	Straight-Line
2018 (1/2 Year)	$5,357	$7,143	$3,571
2019	$9,566	$12,245	$7,143
2020	$7,516	$8,746	$7,143
2021	$6,124	$6,247	$7,143
2022	$6,124	$4,462	$7,143
2023	$6,124	$4,462	$7,143
2024	$6,124	$4,462	$7,143
2025 (1/2 Year)	$3,062	$2,231	$3,571

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For Used Tractor: Purchase Price of $50,000

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What a Difference a Year Makes

$100,000 for tractor purchased without Bonus or Section 179 Depreciation

2017- $10,714 depreciation
($100,000/7 x .5 x 150%)

2019- $20,000 depreciation
($100,000/5 x .5 x 200%)

$9,286 more

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NEW Bonus Depreciation Rules

- Expands to 100% for next five years.
- For property placed in service after 9/27/2017. Recovery period still 20 year or less.
- Removes requirement that usage must begin with taxpayer so both new and **used** equipment is eligible.
- Family sale restrictions.

Bonus Depreciation Rules

- 100% through 2022
- 80% for 2023
- 60% for 2024
- 40% for 2025
- 20% for 2026
- 0% for 2027 and beyond

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Section 179-Equipment Expensing

- Can expense new or used equipment in year of purchase.
- Cannot exceed the taxable income derived from the business or create create a loss.
- For 2019 - expanded to $1,020,000 million with a $2.55 million dollar phase-out limit ($1 for $1) .
- Will be indexed for inflation for future years.
- Provisions are <u>not</u> set to expire.

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Excessive Depreciation Concerns

- This increase in the rate of depreciation for many farm assets, combined with the shorter MACRS recovery class for new farm equipment and machinery, may generate more depreciation than is needed by some taxpayers.
- The taxpayer can elect to use the SL method of depreciation and now may also elect to use the 150% method. **Both elections are made on a class-by-class basis each year**. To further reduce the amount of depreciation, the taxpayer may elect to use the alternative depreciation system (ADS), which calculates depreciation using the SL method and lengthens the recovery period.

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Like Kind Exchanges

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No Like Kind Exchange for Personal Property

- §1031 now only applies to real property (land) under the TCJA. Farm equipment not eligible.
- Equipment trade-ins are now immediate (in the year) taxable events.
- Most likely result will be taxable gain.
- Taxable gain may be offset – Bonus Dep. & §179

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Tractor Trade-In: Old vs. New Rules

2019

New Tractor Cost-	$300,000
Tractor for Trade In Value (no tax basis)	$200,000
Boot	$100,000

Old rules: No gain recognized and no tax due, $100K expensable

New rules: Taxable gain of $200k, $300k expensable

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Cautions/Observations

- May already have used the maximum $1,020,000 section 179 deduction or may have exceeded the $2,550,000 investment limit on qualifying purchases.
- May not want to use bonus depreciation because it applies to the entire recovery class basis. This may create more than the optimal amount of depreciation expense.
- State taxes will be treated differently – Bonus Dep. And Section 179 have limitations on Ohio state taxes
- Ohio Income Tax may be higher as a result of this change – however this recapture income is also eligible and included in business income that qualifies for the Ohio Business Tax Exclusion of $250,000

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No Like Kind Exchange for Personal Property Impacts on State and School District Income Tax

Ohio Farmer - Actuals Equipment	New Purchase List Price	Trade-In Value
JD Sprayer	$533,425	$360,000
JD 1770NT Planter	$254,224	$198,300
JD 1795 SR Planter	$289,632	$165,200
Total	$1,077,281	$723,500
Sec 179 Exp		$723,500
Add Back	(5/6 x (723500 -25000) = 582083	
Allowable Dep. Ohio		$141,417
Ohio Taxable Income		$582,083
Potential Ohio Tax Due	@ 4.797%	$27,923
Potential School Tax Due	@ 1.5%	$8,731

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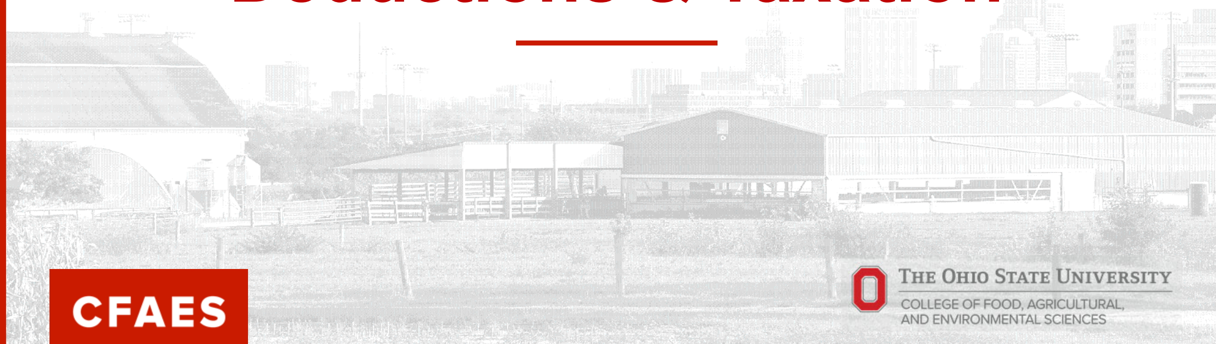
A New World for Business Deductions & Taxation



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New Tax Rate C-Corporations

- Tax rate for C-Corporations reduced to a flat 21%

Pre-TCJA C-Corp Tax Bracket

Taxable Income Over	But Not Over	Tax Is		Of the Amount Over
$0	50,000		15%	0
50,000	75,000	$7,500 +	25%	$50,000
75,000	100,000	13,750 +	34%	75,000
100,000	335,000	22,250 +	39%	100,000
335,000	10,000,000	113,900 +	34%	335,000
10,000,000	15,000,000	3,400,000 +	35%	10,000,000
15,000,000	18,333,333	5,150,000 +	38%	15,000,000
18,333,333	—		35%	0

- Medium to larger C-Corps benefit
- Smaller C-Corps don't benefit
  - A C-Corp with net income less than $96,500 was better off with the old C-Corp rates (in terms of rates only)

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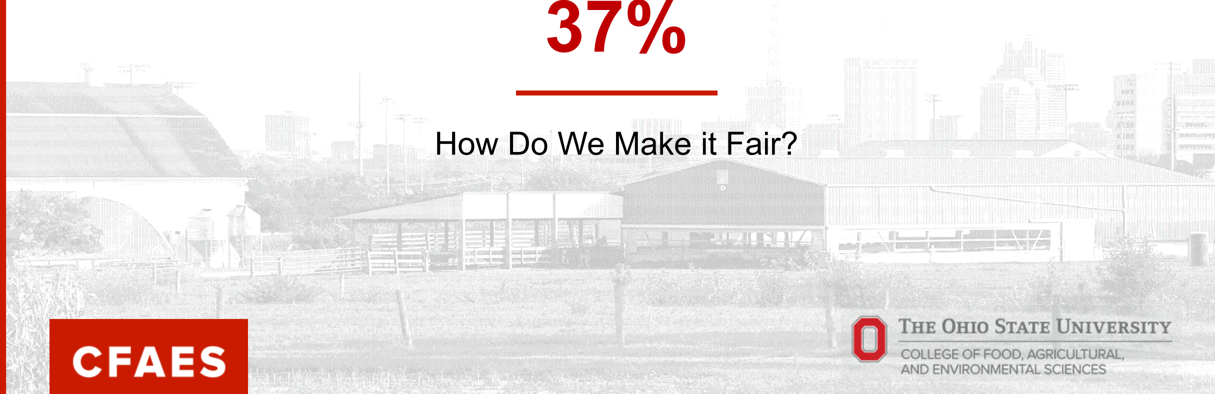
So What About Pass Through Entities Which Could Have Tax Rate Up to 37%

How Do We Make it Fair?



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New IRC Section 199A Deduction

- Helps even playing field for sole proprietorships, partnerships, and S corporations (LLCs are included).
- A new deduction of 20% of **qualified business income** (QBI) was created to help pass through entities. (12/31/2017 – 01/01/2026). It is subject to limitations.
- Taxable income threshold amount of $157,500 (individual) & $315,000 (married taxpayers filing jointly) before phase-ins apply.

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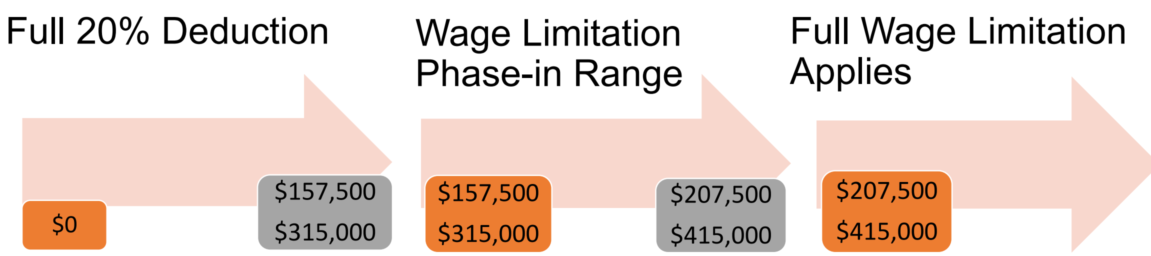
QBI Deduction – Limitations



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Definitions for QBI Deduction

- *Qualified Business Income (QBI)*- is the net amount of qualified items of income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer.
- *Trade or Business*- taxpayer must be involved in the activity with continuity and regularity and the taxpayer's primary purpose for engaging in the activity must be for income or profit.

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See: I.R.C. §162. & *Commissioner v. Groetzinger*

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New IRC Section 199A Deduction

- Determine Qualified Business Income (QBI).
  - Includes Schedule C, F, E, Form 4797 recapture, Form 4835
  - There are a number of definitions, thresholds, and limitations that apply to this deduction.
- Generally the 199A deduction for QBI is the lessor of:
  - 20% of combined QBI or
  - 20% of taxable income minus net capital gain-qualified cooperative dividends.

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Farm With No Business Income from Cooperatives

- Oliver & Minney Tractor had $100,000 of Qualified Business Income from their Schedule F (sole prop.). They sold grain to a local grain elevator (non-cooperative). No other income sources.
- With the new standard deduction of $24,400 their taxable income is $75,600 (assuming all income is ordinary).
- Deduction is the lesser of:
  - 20% of $100,000 (QBI) = $20,000
  - 20% of $75,600 (taxable income minus net capital gains) = $15,120
- Deduction is $15,120.
- Would pay taxes on $60,480.

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Standard Deduction

	2017	2018	2019
Filing Status	Deduction	Deduction	Deduction
Single	$6,350	$12,000	$12,200
Married Filing Jointly	$12,700	$24,000	$24,400
Head of Household	$9,350	$12,000	$18,350
Personal Exemption	$4,050	none	none

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Small Farm Example

- Professor Plum has income from the following:
  - W2- $75,000
  - Schedule C- $1,000
  - Schedule F- $7,000
  - Schedule E- -$3,000
- With the new standard deduction of $12,200 his taxable income (single) is $67,800 (assuming all income is ordinary).
- Deduction is the lesser of:
  - 20% of $5,000 (QBI) = $1,000
  - 20% of $67,800 (taxable income minus net capital gains) = $13,560
- Deduction is $1,000
- Would pay taxes on $66,800.

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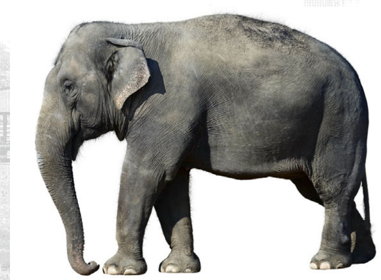
What Qualifies for QBI?



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Guidelines Are Being Released- Notice 2019-07 (Safe Harbor)

Rental activity will automatically be QBI if for each real estate enterprise the following applies:

- Separate books and records are maintained for each real estate enterprise.
- For each real estate enterprise, you must provide at least 250 hours of actual work. This must be work related to maintaining the real estate. This includes (1) advertising to rent, (2) negotiating and executing leases, (3) verifying information, (4) collection of rent, (5) daily operation, maintenance and repair of property, (6) management of real estate, (7) purchase of materials, and (8) supervision of employees and independent contractors.
- You must do this for each year between 2019 and 2022, whereas starting in 2023, you only need these hours in three out of five years.

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1-18-2019

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Getting Out of the Business of Farming

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Getting Out of the Business of Farming

- Farmers making the decision to cease the farming business either voluntarily by retiring or involuntarily through financial distress may face significant tax liabilities.
- Generally, sale of all the farm assets within the same tax year will result in the highest tax liability for the farmer who chooses to go out of business.
- Are you having these conversations about your farm business?

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Selling Assets All in 1 Year

Gain calculation of total sale

Asset	FMV	Basis	Gain (loss)	Character
Stored grain	$ 50,000	$ 0	$ 50,000	Ordinary
Livestock held for sale	100,000	20,000	80,000	Ordinary
Real property	480,000	210,000	270,000	Long-term capital gain (section 1231)
Equipment	100,000	0	100,000	Ordinary (section 1245)
Total	$730,000	$230,000	$500,000	

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Selling Assets All in 1 Year

Ordinary tax $46,944
LTCG triggers tax $43,773
Total tax bill $90,717

George nets $639,283, BUT he still owes the bank $60,717

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Selling over Several Years

- What if George would sell over a few years?
  - Sell grain and real property 2019
  - Sell livestock in 2020
  - Sold ½ equipment in 2021 and rest in 2022
- Tax bill is reduced by $15,061 ($90,717 − $75,656)
- Does not address net present value of money, additional interest paid, change in valuation of assets over time, etc. It may be advisable to sell in one year even with insufficient income to cover the loan.

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Selling over Several Years

FIGURE 14.16 George's Tax Liability—Selling Assets over Several Years

	Total Gain (Loss)	2019	2020	2021	2022
Stored grain	$ 50,000	$ 50,000			
Livestock held for sale	80,000		$80,000		
Real property	270,000	270,000			
Equipment	100,000			$50,000	$50,000
Total gain (loss)	$500,000	$320,000	$80,000	$50,000	$50,000
Other income	5,000	5,000	0	0	0
Total taxable income	$505,000	$325,000	$80,000	$50,000	$50,000
Tax liability[1,2,3,4]	$75,656	$48,464	$13,464	$ 6,864	$ 6,864

1. 2019: Capital gain: $270,000 × 15% = $40,500
2. 2019: Ordinary income = $5,000 + $50,000 = $55,000; tax liability using tax tables = $7,964
3. 2020: Ordinary income = $80,000; tax liability using tax tables = $13,464
4. 2021, 2022: Ordinary income = $50,000; tax liability using tax tables = $6,864

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Installment Sale Option

Taxpayers can use the installment method by taking payments over time.

- Installment reporting is automatic if:
  - There is gain on the sale
  - At least one payment received in year after sale
  - Gain is not from depreciation recapture (§ 1245 gain)

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David L. Marrison, Extension Educator
Coshocton County Extension
724 South 7th Street, Room 110
Coshocton, Ohio 43812
marrison.2@osu.edu
740-622-2265

Thank You!

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