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What is IRS Section 180 and How Does it Work?

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With recent land purchases, some are asking questions to learn more about IRS Section 180 and how it may provide tax deductions in the year of purchase. Let's explore more about this tax code.

What is this code, you may be asking yourself, and what may it have to do with the purchased ground?

Section 180 states that "(a) In general: a taxpayer engaged in the business of farming may elect to treat as expenses which are not chargeable to capital account expenditures (otherwise chargeable to capital account) which are paid or incurred by him during the taxable year for the purchase or acquisition of fertilizer, lime, ground limestone, marl, or other materials to enrich, neutralize, or condition land used in farming, or for the application of such materials to such land. The expenditures so treated shall be allowed as a deduction.

(b) Land used in farming

For purposes of subsection (a), the term "land used in farming" means land used (before or simultaneously with the expenditures described in subsection (a) by the taxpayer or his tenant for the production of crops, fruits, or other agricultural products or for the sustenance of livestock.

(c) Election

The election under subsection (a) for any taxable year shall be made within the time prescribed by law (including extensions thereof) for filing the return for such taxable year. Such election shall be made in such manner as the Secretary may by regulations prescribe. Such election may not be revoked except with the consent of the Secretary."

This means that section 180 can potentially allow landowners of newly acquired land to treat the residual fertility present in the soil at the time of purchase as a deductible cost. Typically, an IRS section 180 tax deduction must be filed in the same year the land is purchased. However, opportunities may exist to file an amended tax return up to three years after the land was purchased. A couple of important things to note if considering talking to your accountant about section 180 is that if the owner was previously the renter (i.e. the land was rented by you prior to purchasing) there is no deduction since they already deducted the cost. The other thing of importance is that the owner is deducting "excess" fertility and cannot deduct all nutrients present but just what is more than "normal". Ideally, a producer should conduct soil sampling before or shortly after the land is acquired and before additional fertilizer application.

Landowners may realize tax savings by deducting the value of pre-existing soil fertility. The value of the residual fertility load and the applicable landowner tax rate determine the savings. The landowner must determine deductions with support from their CPA or tax advisor.

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