NEBRASKA Farm Business Inc.

Farm Fall Tax Update 2025

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Executive Director

1

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2

2

Agenda

New Tax Laws

Crop and Livestock Disaster Provisions

General Tax Planning Strategies

3

Increased Standard Deduction

	2025 Prior Law	2025 After OBBBA	2026 Projected Pre OBBBA
Single	$15,000	$15,750	$8,350
MFJ	$30,000	$31,500	$16,700
HoH	$22,500	$23,625	$12,250

The Act makes the increased standard deduction <u>permanent</u> and bumped the 2025 amount.

Even fewer will itemize deductions.

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4

Personal Exemption

Prior to TCJA, taxpayers could generally take a personal exemption of $4,050 for themselves, their spouse, and each of their dependents.

The TCJA suspended the personal exemption from 2018 through 2025.

The OBBBA permanently repeals the personal exemption.

5

Deduction for Seniors

Years Available:	2025-2028
Who Qualifies:	Seniors 65+ (both spouses if MFJ)
Deduction Amount:	$6,000 per qualifying taxpayer under **I.R.C. § 151**
Filing Requirement:	Must file a joint return (if married) and meet income limits
Phase-Out Thresholds:	$75,000 (Single) $150,000 (Married Filing Jointly)
Available To:	Taxpayers taking **standard deduction** Taxpayers who **itemize deductions**
Other Requirement:	Must have a valid Social Security number

6

Income Taxes for Seniors

	$80,000	$100,000	$120,000
Social Security ($50,000 Gross)	$15,350	$32,350	$42,500
Other Income	$30,000	$50,000	$70,000
Total AGI	$45,350	$82,350	$112,500
Standard Deduction ($31,500 + $1,600 + $1,600)	$34,700	$34,700	$34,700
Senior Deduction	$12,000	$12,000	$12,000
Taxable Income	$-1,350	$35,650	$65,800
Federal Tax	$0	$3,801	$7,419
Total Income/Effective Tax Rate	$80,000 / 0%	$100,000 / 3.8%	$120,000 / 6.2%

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7

Child Tax Credit

Credit Amount:

- $2,200 per qualifying child under age 17
- Adjusted annually for inflation after 2025

Refundable Portion:

- $1,700 is refundable
- Indexed for inflation

Earned Income Requirement:

- Must have at least $2,500 in earned income to claim refundable portion.

Income Phase-Out:

- $200,000 for Single filers
- $400,000 for Married Filing Jointly

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8

Other Dependent Credit

Credit Amount: $500 non-refundable credit for dependents who do not qualify for the CTC (e.g., older children, elderly parents).

Both Child Tax & Dependent Credit
Permanent Provision: The OBBBA made this credit permanent.

SSN Requirement: Child and at least one parent must have a valid Social Security Number.

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9

Qualified Business Income Deduction (199A)

Deduction Amount: 20% of qualified business income (QBI)	
Permanent under OBBBA: This deduction is now permanent	Includes § 199A(g) for agricultural cooperatives and their patrons)
Who Qualifies:	Sole proprietors
	Owners of pass-through entities (partnerships, S-corps, LLCs taxed as partnerships)
Who Does NOT Qualify:	C corporations

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10

Qualified Business Income Deduction (199A)

Phase-Out Range Increased (2026):

- $75,000 for Single filers (was $50,000)
- $150,000 for MFJ (was $100,000)

Effect: Expands eligibility for SSTB owners and those limited by W-2 wage or UBIA (qualified property) rules

11

Qualified Business Income Deduction (199A)

New Minimum Deduction (Starting in 2026)

$400 Minimum Deduction available if:

- Taxpayer has at least $1,000 in active QBI
- Taxpayer materially participates (meets I.R.C. § 469(h) tests)

Inflation Adjusted: Both the $1,000 threshold and $400 deduction indexed annually

12

Estate and Gift Tax Exemption

2025 Exclusion: $13.99 million per person

2026 Exemption Amount:

- Permanently increased to $15 million per person
- Indexed for inflation thereafter
- Was set to cut in ½ prior to OBBBA

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13

SALT Deduction

Beginning in 2025, the SALT Limit increases to $40,000.

In 2030, the limit returns to $10,000.

2026–2029

2025

2030

From 2026 – 2029, the limit will increase by 1%.

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14

SALT Deduction Phase Out

Deduction limit is reduced by 30 percent of the amount by which the taxpayer's MAGI exceeds $500,000 in 2025. In no case can the deduction limit fall below $10,000.

	2025	2026	2027	2028	2029	2030
SALT Limit	$40,000	$40,400	$40,800	$41,200	$41,600	$10,000
Phase Out	$500,000	$505,000	$510,000	$515,100	$520,250	$525,450

No attempt to limit the pass-through entity tax (PTET) workarounds that have been enacted by most states.

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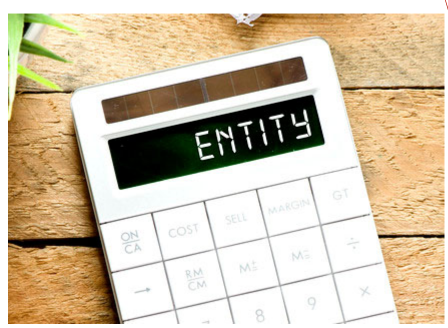
15

Pass Through Entity Tax Election

- New in 2023 for Nebraska (other states implemented earlier)
- Work around the SALT Limitation (State and Local Tax Deduction on Itemized deductions)
- Allows S-Corps and Partnerships to pay the state income tax for its owners and claim as a federal tax deduction.



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16

Pass Through Entity Tax Election

- The entity gets a federal tax deduction in the year the tax is paid.
- A refundable state tax credit will be reported on the K-1 to the owners for their share of the tax paid.
- Out of state owners whose only NE income is from an electing entity no longer needs to file a NE return.
- Is it still worth it?

17

Factors To Consider

- State tax rate
- Federal marginal tax rate
- Is Pass-Through Income Subject to SE
- Is Pass-Through Income QBI
- How big is your state + local tax + property tax exposure
- Other Itemized Deductions?
- MAGI (Modified Adjusted Gross Income) – Subject to Phase Down on SALT?

18

$5,000 of SALT = $100,000 of Income (5% State Tax)

	Deduction	Tax (12%)
PTET	$5,000	-$600
SE Savings	$5,000	-$765
QBI Loss	-$1,000	+ $120
Stand. Ded	$31,500	-$3,780
Total Savings		-$5,025

	Deduction	Tax (12%)
PTET	$0	$0
SE Savings	$0	$0
QBI Loss	$0	$0
Stand. Ded	$31,500	-$3,780
Total Savings		-$3,780

If SALT is your only Itemized Deduction, PTET + Standard Deduction is better.
PTET Advantage is 33%

19

$10,000 of SALT = $200,000 of Income (5% State Tax)

	Deduction	Tax (22%)
PTET	$10,000	-$2,200
SE Savings	$10,000	-$290
QBI Loss	-$2,000	+ $440
Stand. Ded	$31,500	-$6,930
Total Savings		-$8,980

	Deduction	Tax (22%)
PTET	$0	$0
SE Savings	$0	$0
QBI Loss	$0	$0
Stand. Ded	$31,500	-$6,930
Total Savings		-$6,930

If SALT is your only Itemized Deduction, PTET + Standard Deduction is better.

20

$10,000 of SALT = $200,000 of Income (5% State Tax)

	Deduction	Tax (22%)
PTET	$10,000	-$2,200
SE Savings	$10,000	-$290
QBI Loss	-$2,000	+ $440
Item. Ded	$40,000	-$8,800
Total Savings		-$10,850

	Deduction	Tax (22%)
PTET	$0	$0
SE Savings	$0	$0
QBI Loss	$0	$0
Item. Ded	$50,000	-$11,000
Total Savings		-$11,000

Other Itemized Deduction even the equation, especially if income is not SE.

21

$25,000 of SALT = $500,000 of Income (5% State Tax)

	Deduction	Tax (32%)
PTET	$25,000	-$8,000
SE Savings	$25,000	-$725
QBI Loss	-$5,000	+ $1,600
Stand. Ded	$31,500	-$10,080
Total Savings		-$17,205

	Deduction	Tax (32%)
PTET	$0	$0
SE Savings	$0	$0
QBI Loss	$0	$0
Stand. Ded	$31,500	-$10,080
Total Savings		-$10,080

If SALT is your only Itemized Deduction, PTET + Standard Deduction is better.

22

$25,000 of SALT = $500,000 of Income (5% State Tax)

	Deduction	Tax (32%)
PTET	$25,000	-$8,000
SE Savings	$25,000	-$725
QBI Loss	-$5,000	+ $1,600
Item. Ded	$40,000	-$12,800
Total Savings		-$19,925

	Deduction	Tax (32%)
PTET	$0	$0
SE Savings	$0	$0
QBI Loss	$0	$0
Item. Ded	$65,000	-$20,800
Total Savings		-$20,800

Other Itemized Deduction flip the equation, especially if income is not SE.

23

$30,000 of SALT = $600,000 of Income (5% State Tax)

	Deduction	Tax (35%)
PTET	$30,000	-$10,500
SE Savings	$30,000	-$870
QBI Loss	-$6,000	+ $2,100
Stand. Ded	$31,500	-$11,025
Total Savings		-$20,295

	Deduction	Tax (35%)
PTET	$0	$0
SE Savings	$0	$0
QBI Loss	$0	$0
Stand. Ded	$31,500	-$11,025
Total Savings		-$11,025

Phase out of SALT Increase – Limited to $10,000
If SALT is your only Itemized Deduction, PTET + Standard Deduction is better.

24

$30,000 of SALT = $600,000 of Income (5% State Tax)

	Deduction	Tax (35%)
PTET	$30,000	-$10,500
SE Savings	$30,000	-$870
QBI Loss	-$6,000	+ $2,100
Item. Ded	$40,000	-$14,000
Total Savings		-$23,270

	Deduction	Tax (35%)
PTET	$0	$0
SE Savings	$0	$0
QBI Loss	$0	$0
Item. Ded	$50,000	-$17,500
Total Savings		-$17,500

Phase out of SALT Increase – Limited to $10,000
Other Itemized Deduction can't make up for SALT complete phase out

25

Double Up Itemized Deductions

Itemized Deductions must exceed the Standard Deduction to make it pay to use

- If your itemized deductions tend to be more than 50% of the standard deduction, you could consider doubling up
- For example: If you "normally" pay $7,500 in state income taxes, contribute $10,000 to the church, and pay $5,000 in Real Estate Taxes on your house, your itemized would be $22,500 and below the standard deduction.
- Can cause Alternative Minimum Tax to wipe out benefit for higher income individuals.

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26

Double Up Itemized

	Year 1	Year 2
State Income Taxes	$7,500	$7,500
Charitable Contribution	$10,000	$10,000
RE Taxes	$5,000	$5,000
Total Itemized Deductions	$22,500	$22,500
Standard Deduction	$31,500	$31,500
Total	$63,000	

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27

Double Up Itemized

	Year 1	Year 2
State Income Taxes	$15,000	$0
Charitable Contribution	$20,000	$0
RE Taxes	$10,000	$0
Total Itemized Deductions	$45,000	$0
Standard Deduction	$31,500	$31,500
Total	$76,500	

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28

Donor Advised Funds

Contribute grain or cash when things are good.

- Cash generates an Itemized Deduction
- Grain eliminates a Schedule F income

Grows tax free

Distribute to charities over many years.

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29

Deduction for Qualified Overtime Compensation

New Deduction: Federal income tax deduction for “qualified overtime compensation”

Amount:

- Up to $12,500 (Single)
- Up to $25,000 (Married Filing Jointly)

Effective Period: Tax years 2025–2028

Phase-Out: Begins when MAGI exceeds

- $150,000 (Single)
- $300,000 (MFJ)

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30

Deduction for Qualified Overtime Compensation

Defined as overtime pay required under the Fair Labor Standards Act (FLSA)
- No salary, no agriculture employees

Only the "Premium" amount is allowed for deduction
- Example: Employee is paid \$20/hr. Overtime is \$30/hr. Deduction is \$10/hr.

Taxpayer must provide SSN on tax return

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31

Deduction for Qualified Overtime Compensation

FLSA also exempts:
- Secondary agriculture labor, which includes all practices, including forestry or lumbering operations, performed: (1) by a farmer or on a farm, and (2) as an incident to or in conjunction with such farming operations.

Agriculture does not include employment outside of the scope of either primary or secondary agriculture.
- **Example:** packing or processing other farms' produce.

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32

Deduction for Qualified Overtime Compensation

Must be separately reported on a W-2 (or 1099 if non-employee)

- 2026 Draft W-2 Instructions say Report in Box 12
- 2025 W-2 – No Change
    - Employer must report (Box 14?)
    - Reasonably methods will be accepted.

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33

- **Personal Car Loan Interest**

- Brand-new deduction for interest on a loan used to buy a **new personal-use vehicle**
    - Available only for tax years **2025–2028**
- Vehicle Must Be:
    - A new **passenger vehicle** (Car, minivan, van, SUV, pick-up truck or motorcycle)
        - Must be less than 14,000 pounds.
    - Manufactured for public road use (at least two wheels)
    - **Final Assembly** in the United States

Page #46

34

Personal Car Loan Interest

Loan Must Be:

- Taken out **after December 31, 2024**
- Secured by a **first lien** on the vehicle

Can deduct up to $10,000 of interest per year

Income Phase-Out:

	Phase Out Begins	Phase Out Ends
MFJ	$200,000	$250,000
Single	$100,000	$150,000

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35

Trump Accounts

A new type of savings account for children

- Not Roth IRAs — contributions are made with after-tax dollars and not deductible
- Earnings grow tax-deferred until distributed

Must be established before the year the child turns 18

- Child and parents must have a Social Security Number on their tax return
- IRS will automatically create an account if one isn't set up when parents file their return (but it can be declined)
- Pilot Program: US Treasury will contribute $1,000 into the account for every qualifying child born 2025–2028

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36

Trump Accounts

Annual Limit: $5,000 per year (indexed for inflation)

Who Can Contribute: Parents, relatives, employers, non-profits, and government entities

Employer Contributions: Up to $2,500 per year and not taxable to child or parent

Group Contributions: Entities (like non-profits or government programs) can contribute above $5,000 if given to all children in a "qualified group"

No contributions can be made until July 4, 2026

Generally, no withdrawals before age 18

Once distributed, amounts are taxable (similar to traditional IRA rules)

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37

Trump Accounts

7% annual return – Account Value at Age 65

$1,000 Contributed at Birth	$1,000 at birth + employer contributions of $2,500 per year until age 18:	$1,000 at birth + $5,000 per year until age 18
• Account Est. Value = $81,273	• Account Est. Value = $2,125,100	• Account Est. Value = $4,455,063

Going to need rules/instructions to fully understand – But we have time.

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38

Bonus Depreciation

TCJA Rules (Old Law)

Allowed 100% bonus depreciation through 2022 for qualifying property

Began phasing down by 20% per year starting in 2023:

1. 2023 → 80%
2. 2024 → 60%
3. 2025 → 40%
4. 2026 → 20%

Scheduled to expire completely in 2027

OBBBA Changes (New Law)

Permanent 100% Bonus Depr.

Applies to property **acquired after** January 19, 2025

Includes trees and vines planted or grafted after January 19, 2025

Special Election for Transition Year

For property placed in service during a taxpayer's first taxable year ending after Jan 19, 2025

May **elect to apply 40% bonus** depreciation (the old-law percentage) instead of full 100%

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39

Placed in Service Exception

20 *ary 19, 2025.*

21 *(4) ACQUISITION DATE DETERMINATION.—For*

22 *purposes of paragraph (1), property shall not be*

23 *treated as acquired after the date on which a written*

24 *binding contract is entered into for such acquisition.*

†HR 1 EAS

There is an exception to what we normally must follow:

- Written contract, payment, etc
- before 1/20/2025 is not eligible for 100% bonus.

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40

Meals for the Convenience of Employer

Current Rule (Through 2025)

- **Meals provided on-site for the employer's convenience are 50% deductible**

Examples:

- Farm provides lunch so workers stay on-site during harvest
- Meals in a remote location with no nearby restaurants

Employees do NOT pay tax on these meals if they meet § 119 (excludable from income)

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41

Meals for the Convenience of Employer

Starting in 2026, no deduction allowed for:

- Employer-operated eating facilities
- Food or beverages treated as de minimis fringes
- Meals provided for the employer's convenience

Employees still exclude the value from income — but the employer loses the deduction

Special Exception

- Meals on certain fishing boats and in fish processing facilities remain fully deductible after 2025

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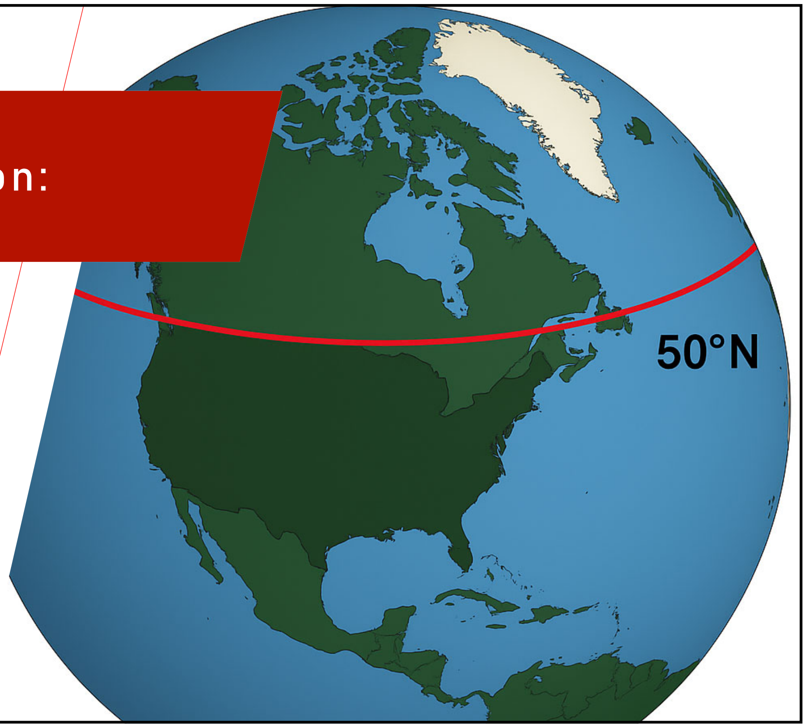
42

Special Exemption:

Must be North of 50°N latitude

- Runs just north of the U.S.–Canada border (most of the border is near 49°N)
- Only a tiny piece of northern Minnesota and much of Alaska are north of this line



43

Section 179 Enhancements

What Section 179 Allows:

- Allows businesses to expense the cost of qualifying property in the year it's placed in service, rather than depreciate it over time.
- Applies to most tangible business property (equipment, machinery, certain buildings like barns, and even used property if new to you).

The maximum I.R.C. § 179 deduction for 2025 was scheduled to be $1,250,000, with an investment limit of $3,130,000.

- These higher amounts ($1,000,000 / $2,500,000, indexed for inflation) were enacted by the TCJA. They are adjusted for inflation each year.

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44

Section 179 Enhancements

OBBBA Changes

- Effective for Property Placed in Service After 2024
- Maximum Deduction: $2,500,000 (permanently increased)
- Investment Limit (Phaseout): $4,000,000
    - Both amounts are indexed for inflation after 2025

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45

Charitable Deduction for Non-itemizers

Starting in 2026, taxpayers who do not itemize can still claim a permanent charitable deduction.

Limits:

- $1,000 for Single filers
- $2,000 for Married Filing Jointly

Same authorization as we had from CARES – above the line deduction

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46

Charitable Deduction for Itemizers

Beginning 2026, taxpayers who itemize face a new “haircut”:

- Individuals: 0.5% of AGI
- Corporations: 1% of taxable income

Contribution Limits:

- Individuals: Permanent rule—can deduct up to 60% of AGI for cash gifts to public charities.
- Corporations: Deduction capped at 10% of taxable income (after applying the 1% floor).

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47

Gain from the Sale or Exchange of Farmland Property to Qualified Farmers

What It Does

- Creates a new election (I.R.C. § 1062) for sellers of farmland.
- Allows gain from the sale to a qualified farmer to be reported and taxed in four equal annual installments — even if the seller receives all cash at closing.

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48

Gain from the Sale or Exchange of Farmland Property to Qualified Farmers

Who Qualifies to Elect

- Seller must be an **individual, trust, or entity** that has:
  - Farmed the property for **10 years**, or
  - Leased it to a qualified farmer for **10 years** before the sale.
- Sale must include a **covenant** restricting use of the land to **farming purposes only** for 10 years after the sale.
  - Covenant is filed with land records.
  - Copy must also be attached to the first tax return after the sale.

Who is a "Qualified Farmer"? An individual actively engaged in farming.

This provision is effective for sales or exchanges occurring in tax years **beginning after July 4, 2025.**

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49

Example – Don's Farm Sale

Don's taxable gain = $1,500,000

Assume tax liability = $300,000 (20% effective capital gains rate for illustration).

- **Under normal rules, Don pays the full $300,000 in 2026.**
- **Under Section 1062 election, he pays:**
  - $75,000 in each year 2026 - 2029

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50

Example – Don's Farm Sale

Interest Benefit

- **Suppose Don invests the $225,000 deferred taxes (the portion not due in 2026) in conservative investments earning 5% annually.**
  - End of 2026: Invest $225,000 → grows to about $236,250
  - End of 2027: After paying $75,000, balance grows to about $170,000
  - End of 2028: After paying $75,000, balance grows to about $99,750
  - End of 2029: After final $75,000 payment, Don has about $24,750 left over
- **Net benefit = ~$24,750 earned just from the time value of money.**

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51

1099-MISC and 1099-NEC Requirements

Current Law (Before OBBBA)

- Businesses must issue a **1099-MISC** (miscellaneous income) or **1099-NEC** (nonemployee compensation) if payments of **$600 or more** are made to a non-employee (independent contractor, landlord, etc.) during the year.
- Copies must be sent to both the IRS and the payee.
- This $600 threshold has been in place since the **1950s** — and never indexed for inflation.

OBBBA Change

- New threshold = $2,000 per payee
- Applies to payments **made in 2026 and later.**
- Backup withholding requirements are updated so they align with the new threshold.

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52

53

Electronic Payments to & From the Federal Government — What You Need to Know

Executive Order (March 25, 2025) mandates that:

- Most federal disbursements be made electronically, and
- That payments to the federal government be processed electronically "as soon as practicable."

For disbursements (e.g., tax refunds, Social Security, vendor payments): paper checks were phased out by September 30, 2025.

For payments *to* the government (taxes, fees, etc.): deadline for mandatory electronic payment not yet fully specified — it must occur "as soon as practicable," so taxpayers should be ready.

Accepted electronic methods include:

- IRS Direct Pay (for individuals)
- EFTPS (Electronic Federal Tax Payment System) (for businesses/others)

Exceptions: Where electronic payment/disbursement is not feasible (for example, individuals without bank access) the Secretary of the U.S. Department of the Treasury may authorize alternative methods.

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54

Electronic Payments to & From the Federal Government — What You Need to Know

What This Means for Nebraska Ag Producers

- If your operation currently pays federal taxes by check or money order — you'll want to switch to an electronic payment method (Direct Pay or EFTPS) *soon*.
- If you expect a federal refund (e.g., from the Internal Revenue Service) or other federal benefit, ensure the bank routing/account info is correct and you're set up to receive direct deposit.
- For entities like trusts or estates related to farm operations: check eligibility of electronic payment platforms (some guidance shows special issues with trusts/estates)

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55

55

Electronic Payments to & From the Federal Government — What You Need to Know

Action Checklist

- Confirm your bank/credit union routing & account number is ready for direct deposit/refund.
- Enroll or verify enrollment in IRS Direct Pay (individuals) or EFTPS (businesses/entities).
- If paying estimated tax, mark upcoming due dates and anticipate needing to pay electronically.
- Monitor guidance from IRS/Treasury for final deadlines and any penalty risks for non-electronic payments.

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56

56

Setting Up A IRS Online Account — How & Why

How to Set Up Your IRS Online Account

1. Go to: irs.gov/account
2. Create or sign in using ID.me verification (photo ID + selfie or video call).
3. Link your SSN or EIN and verify email and phone number.
4. For businesses:
   - Use IRS Online Account for Businesses (new 2024 rollout).
   - Access via irs.gov/businessaccount.
   - Requires the individual with authority (owner, partner, or officer) to verify first.

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57

Setting Up A IRS Online Account — How & Why

Benefits for Individuals

- ✅ View balances & payment history — real-time tax account info.
- ✅ Make or schedule payments via Direct Pay or EFTPS link.
- ✅ Access tax transcripts instantly for loans, FSA forms, or verification.
- ✅ Track refunds and confirm estimated tax payments applied correctly.
- ✅ Get digital notices and communication faster than by mail.

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58

Setting Up A IRS Online Account — How & Why

Benefits for Businesses & Farms

- Centralized dashboard for EIN-linked accounts and sub-users.
- View payroll, excise, and income tax balances in one place.
- Authorize employees or tax pros for account access securely.
- Faster issue resolution — download balance details to share with preparer.
- Prepare for electronic payment mandate (all federal payments going paperless).

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59

Prepaid Expenses

- Can only prepay 50% of your "usual" business expenses.
- Must be an actual purchase
  - Specific quantities @ a specific price
- Must have a management reason for the prepay
  - Reason can't be tax avoidance
  - Discounts, guarantee supply, lock in low price
- Cannot be dealer financed (need to be a separate financing company)
- Consider interest cost in prepay as interest rates rise.

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60

Prepaid Snowball

	Year 1	Year 2	Year 3	Year 4
Gross Income	$500,000	$500,000	$500,000	$500,000
Gross Expenses	$400,000	$350,000	$300,000	$250,000
Prepaid Expenses	$50,000	$100,000	$150,000	$200,000
Net Income	$50,000	$50,000	$50,000	$50,000

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61

Crop Insurance Deferral Rules

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62

Crop Insurance Deferrals

- Must be cash basis taxpayer
- Must *USUALLY* sell more than 50% of affected crops in the year following production
- Crop insurance must be paid due to destruction of crops
- **Portion of losses for price loss are not eligible.**
- No need for county disaster declaration
- All or none election

63

Livestock Deferral Rules

64

Livestock Deferral Elections

Two Options

One-Year-Deferral for all livestock.

Four-Year-Deferral for Draft, Dairy & Breeding Livestock

Must be cash basis taxpayer

Farming must be your primary business

May need a county disaster declaration.

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65

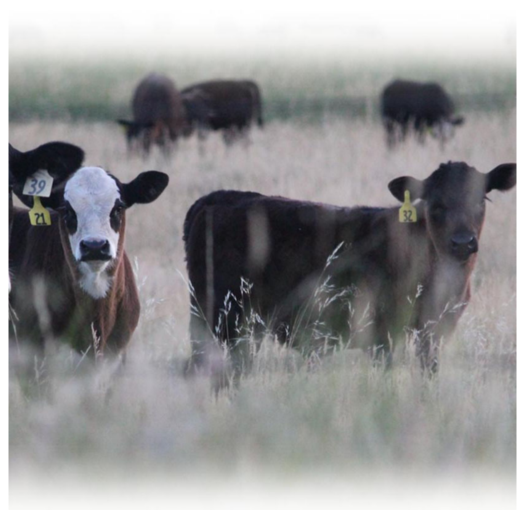
Livestock Deferral Elections

One-Year-Deferral

- IRC §451(e)
- Allows deferral of "excess" livestock (feeding or breeding) to be deferred to the following tax year.
- Must prove the sale was caused by drought, but don't need a Federal Disaster Declaration.
    - Any Federal Assistance (Emergency roadside haying, CRP release, etc)

Four-Year-Deferral

- IRC § 1033(e)
- Two years with no Federal Disaster Declaration
    - Four years needs declaration
- Gain on sale reduces the purchase price of the replacement animals.
- If after four years of drought it is not feasible to replace animals, you can reinvest in non like-kind property. (i.e. – Tractor, building, etc – Not Land)



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Livestock Deferral Elections

Four-Year-Deferral

- IRS automatically extends replacement period for taxpayers in extreme, exceptional, or severe drought based on maps by National Drought Mitigation Center
- Extended replacement period continues until taxpayer's first tax year ending after first drought-free year (first 12 month period ending on August 31st)
- It counts your county and those surrounding yours.

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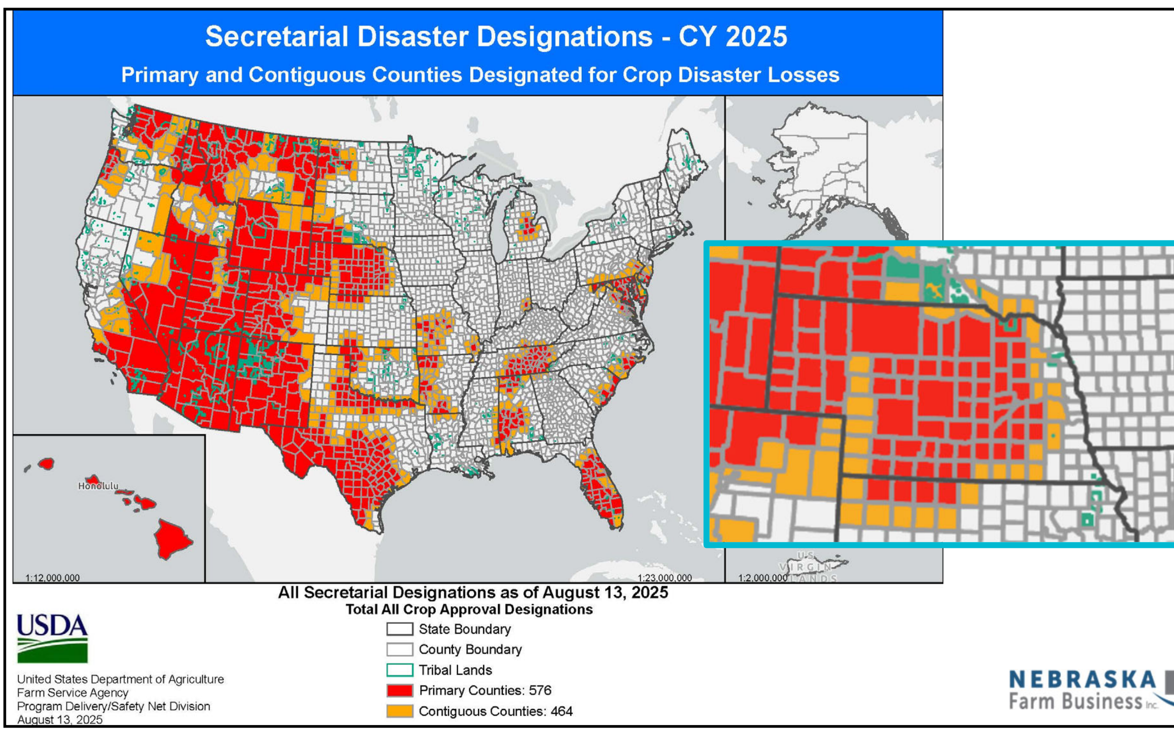

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Livestock Deferral Elections

One-Year-Deferral

- Must make separate election for each classification of animals (hogs, sheep, cattle)
- Due date of election:
  - Market--due date of return including extensions
  - Draft, Dairy, or Breeding--any time in 2 (or 4 or longer) year replacement period

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Other Things to Consider

Just because there is option to defer does not mean you have to or that it will always be the best option.

- You may be deferring an income item subject to a low tax rate
  - Raised Breeding Livestock
  - Low Farm Income
- The deferred gain reduces the basis of the replacement cows which lowers future depreciation that may reduce both income and Self-Employment taxes.

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Raised Breeding Livestock

Recognize Income

- $21,000 Gain
  - Raised Breeding Livestock Sales are Taxed as Capital Gains.
- If you are in the 10% or 12% bracket, capital gains are taxed at 0% in 2022:
  - Federal Tax Due = $0
- In 2024, a deduction for $22,500 is allowed:
  - Federal Tax Savings = $6,142

Defer Income

- $21,000 Gain
- No income is recognized in 2022.
- In 2024, a deduction for $1,500 is allowed:
  - Federal Tax Savings = $410

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71

Purchased Breeding Livestock

Recognize Income

- $7,000 Gain
  - Purchased Breeding Livestock Sales are Taxed as Ordinary Income.
- If you are in the 12% bracket, in 2022:
  - Federal Tax Due = $840
- In 2024, a deduction for $22,500 is allowed:
  - Federal Tax Savings = $6,142
- Net Savings: $5,302

Defer Income

- $7,000 Gain
- No income is recognized in 2022.
- In 2024, a deduction for $15,500 is allowed:
  - Federal Tax Savings = $4,232

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72

Premium Tax Credit Cliff Returns

- OBBBA does *not* extend all of the subsidies beyond 2025; many are expected to shrink or revert in 2026.
- The PTC "cliff" is expected to tighten for 2026: households above 400% FPL may lose or see sharply reduced subsidies.
- For many years, the pay back has been limited to 8.5% of income.

73

General Tax Planning

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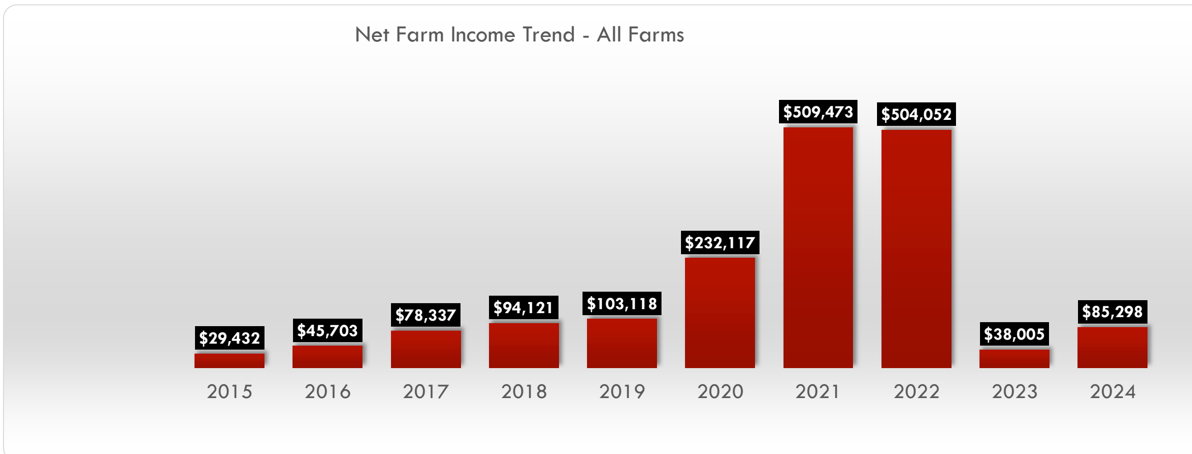
10 Year Accrual Net Income Trend



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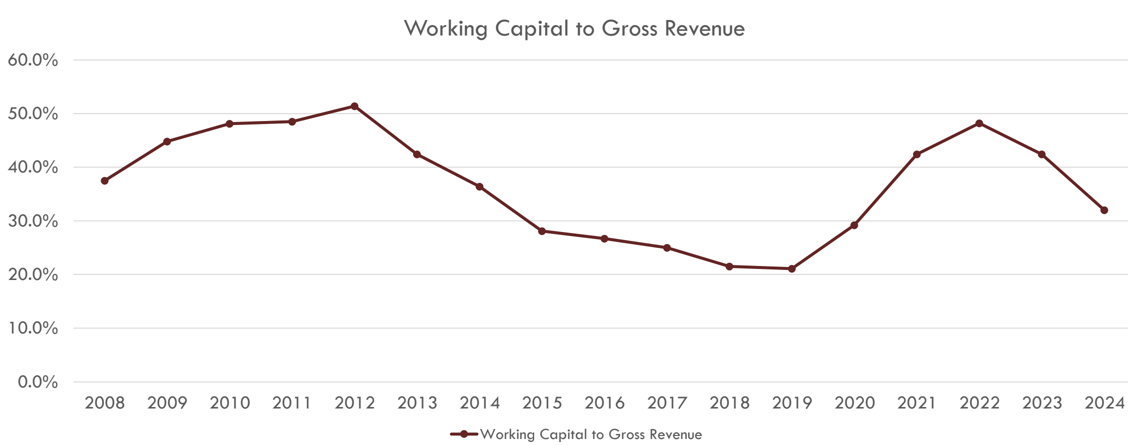
75

Conserve Liquidity



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76

Paying Taxes Conserves Liquidity

If you recognize $100,000 of income, you'll pay about $20,000 in tax.

You'll have $80,000 of cash available to reduce debt.

At 7% interest, that will save $5,600 of interest cost in a year.

1. Flip it and invest it at 4% and make $3,200 in a year.

If you buy something you don't need or even kinda need…

You'll spend $100,000 and save $20,000 of tax.

Cash flow is reduced by $100,000 to borrowing plus at 7% Interest, costs additional $7,000

Or you lost the ability to invest the money.

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77

77

Financing Purchases Caution

Using enhanced depreciation on financed assets separates the deduction and payment

If you take the entire deduction up front, you have to generate taxable income to make the payments in the future.

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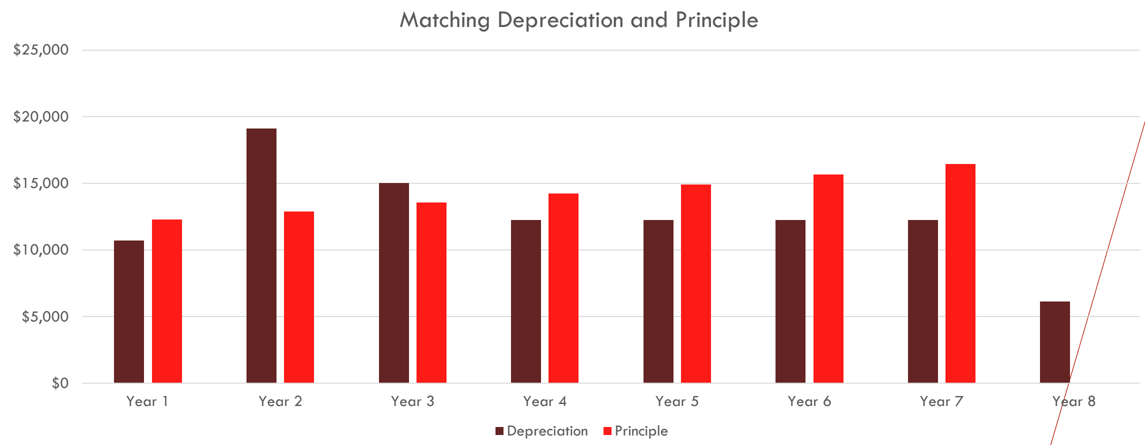
78

Financing Purchases Caution



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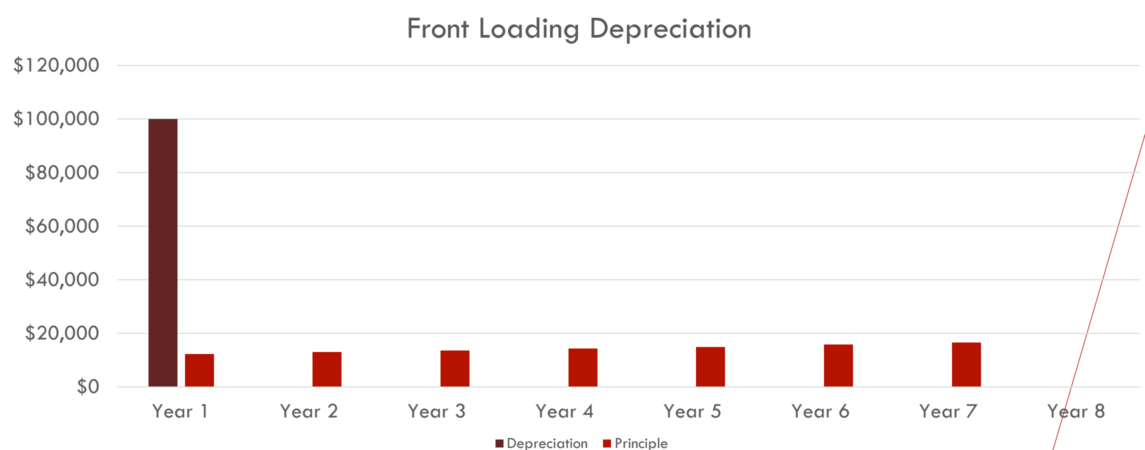
79

Financing Purchases Caution



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80

Financing Purchases Caution

In each of the following years, you must generate $25,000- $30,000 additional taxable income to make the principle payment and pay the additional taxes.

$25,000 Taxable Income

<u>- $7,500 in taxes</u>

$17,500 available for principle

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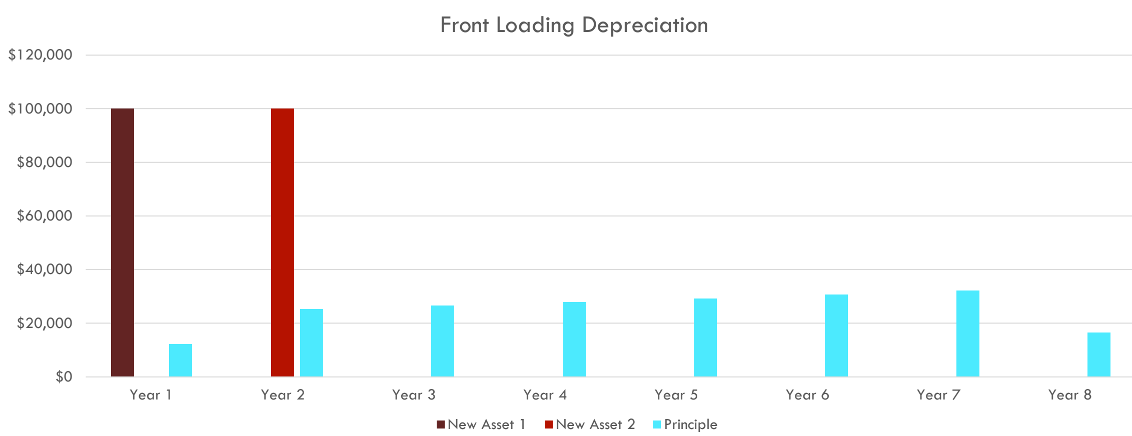
81

Financing Purchases Caution



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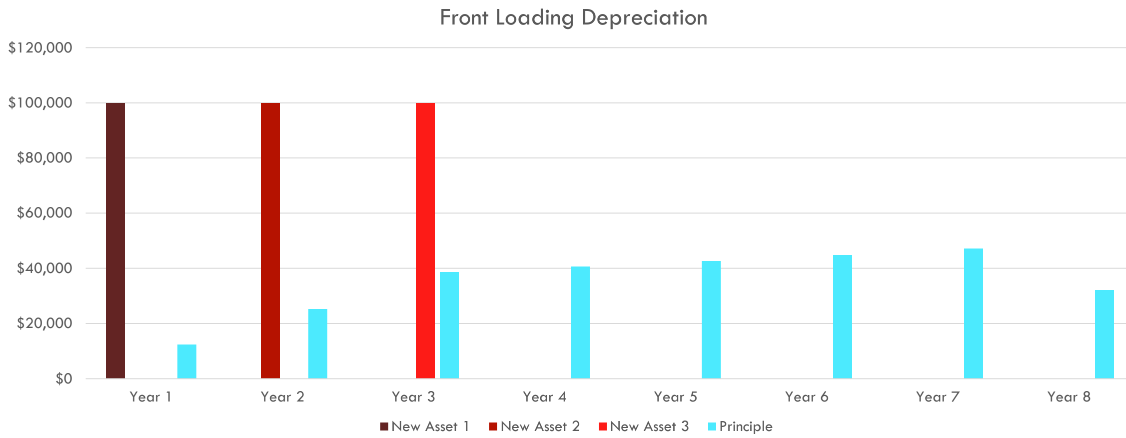
82

Financing Purchases Caution



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Gifting Grain

Grain delivered to the elevator in the charity's name can be excluded from income.

- It reduces Self-Employment Taxes
- Allows charitable donations without filing Schedule A.

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Donor Advised Fund

A charitable investment account that allows donors to contribute assets and recommend where the money goes.

Example:

- You Contribute $100,000 of cash to a DAF.
  - You get a charitable donation today and itemize this year and then go back to the standard deduction in future years.
  - You can spread that over as many charities and years as you want.
    - Doesn't work great for small donations
- Active farmers can also contribute grain to avoid Sch A.

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85

Paying Spouses

BENEFITS TO PAYING SPOUSES:

1. Turn Health Insurance Deduction into a Farm Expense
   a. Reduce SE Taxes
2. Can Create A Farm Expense for Other Medical Costs
   a. Reduces SE Tax & Income Taxes

3. *Be careful if you're getting Premium Tax Credit – You can't be offered insurance from an employer and be eligible for the credit.

Income Level	Below SE Limit	SE Limit - $250,000	Above $250,000
Health Insurance	$10,000	$10,000	$10,000
Tax Savings	$1,530	$290	$380

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86

86

Paying Spouses

Benefits to Paying Spouses:

- Build Social Security History for a Spouse not employed off the farm
  - Qualifies for Disability and Survivor Benefits
  - Schedule F can only be in 1 name
    - One SE limit
    - Build one SS account higher to qualify for higher retirement benefits
      - Spouse receives 100% of own or ½ of spouse's retirement benefits
  - Caution: If divorce occurs, spouse can be left with little retirement benefits. Rules are complicated but it can be disallowed

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87

Paying Children

Benefits to Paying Children:

- Reduce SE Tax
  - Sole-proprietor's children, under 18, can earn wages without paying employment taxes
  - Reduces farm income, reducing both income and social security tax
    - Children have own standard deduction (parents still claim exemption)
    - Possibly in a lower tax bracket – watch "Kiddie Tax"
- Create Earned Income to Qualify for Roth IRA
  - IRA's are not looked at for FAFSA (Federal Student Aid)

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88

89

Take-Away's

- Don't be afraid to pay taxes
  - Spending your way out of taxes kills your liquidity
- Do your tax planning early
- Set up your IRS Account and be ready for electronic payments
- If you get a Premium Tax Credit, watch your income declaration.

90

Questions?

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91