



Farm Fall Tax Update 2023

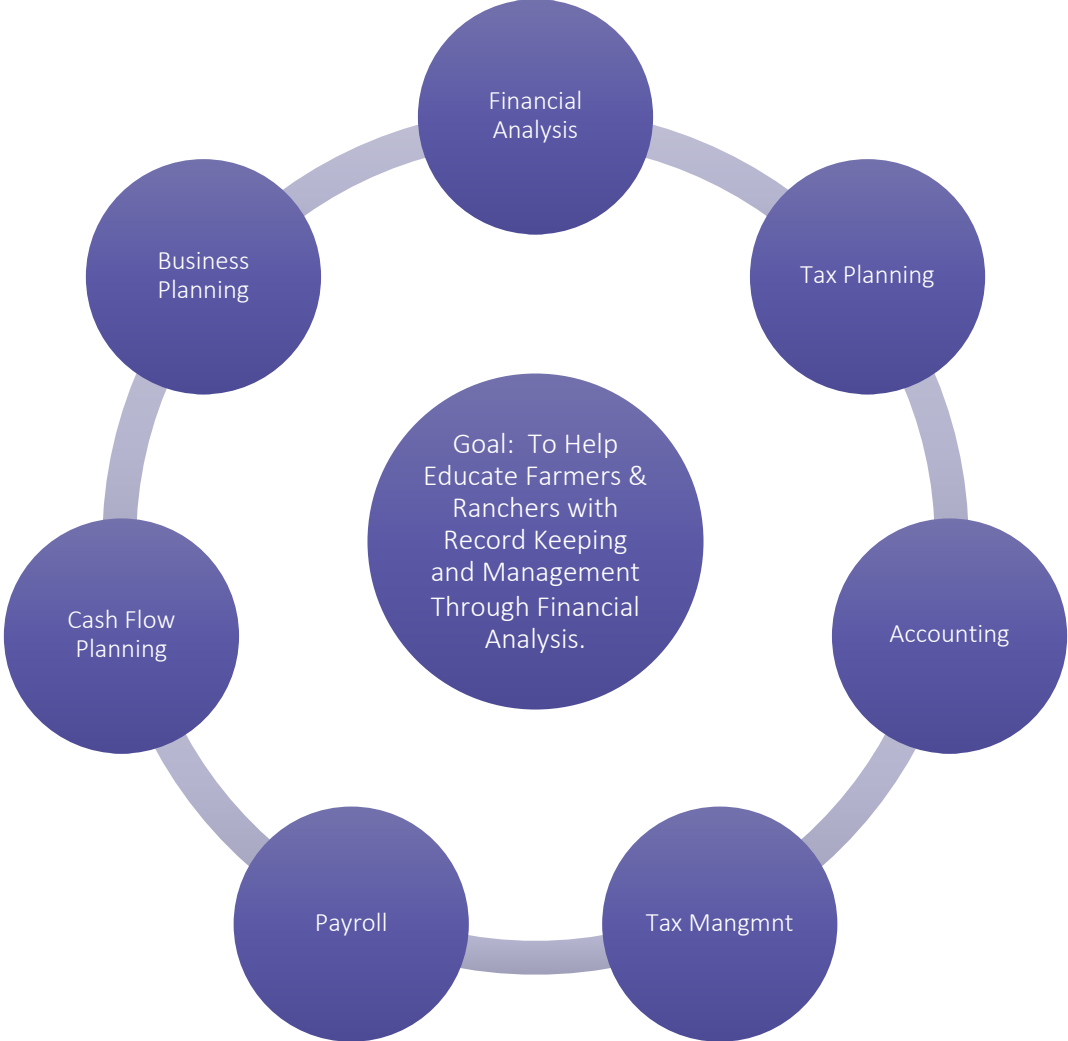
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Executive Director

 **Nebraska Farm
Business, Inc**

Yielding Success Through
Financial Management

Nebraska Farm Business, Inc.





Agenda

- New Tax Laws
- Expiring Tax Laws
- Crop and Livestock Disaster Provisions
- General Tax Planning Strategies

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.



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.
- Starting in 2024, estimated tax penalties will be assessed for any entity not making quarterly tax estimates.
 - Even qualified farm operations will have to make estimated tax payments.

Retroactive Decision

- NE & CO are only states to allow a retroactive election back to 2018.
- Must be made by December 31st, 2025
- Can be made multiple times (i.e. 2018-2020 and then 2021-2022)
- Most entities will need to file a 2018 Nebraska state return (was not required if all owners lived in Nebraska)
- Could create a cash flow “crunch”.

PTETE Example

- Each year is a separate election (but 2018-2022 can be filed together)
- Savings will depend on your federal income tax bracket.
- No savings will be seen on your state tax return.
- Shortest cash flow turnaround (for 2018-2023) is paying in December and getting the credit in 2024.

	NE Income	Tax Owed	Federal Savings @ 22%
2018	\$100,000	\$6,840	\$1,504.80
2019	\$150,000	\$10,260	\$2,257.20
2020	\$50,000	\$3,420	\$752.40
2021	\$300,000	\$20,520	\$4,514.40
2022	\$250,000	\$17,100	\$3,762.00
2023	\$200,000	\$13,280	\$2,921.60
2024*	????	\$13,280	\$2,921.60
		\$84,700	\$18,634

Opportunity Scholarship Act

- Starts in 2024
- Allows a nonrefundable tax credit up to:
 - Total contributions to a scholarship-granting organization
 - 50% of income tax liability
 - \$100,000
- Scholarship-Granting Organization (SGO's) provide needs-based scholarships for private elementary & secondary schools in NE.



NE Tax Rate Changes

	2023 \$'s	2023	2024	2025	2026	2027
Bracket 1	\$7,390	2.46%	2.46%	2.46%	2.46%	2.46%
Bracket 2	\$44,350	3.51%	3.51%	3.51%	3.51%	3.51%
Bracket 3	\$71,460	5.01%	5.01%	5.01%	4.55%	3.99%
Bracket 4		6.64%	5.84%	5.20%	N/A	N/A

Tax Cuts
and Jobs
Act Sunsets
on Horizon



Historical Tax Rates

Married Filing Jointly			
1981	0.0%	>	\$0
	14.0%	>	\$3,400
	16.0%	>	\$5,500
	18.0%	>	\$7,600
	21.0%	>	\$11,900
	24.0%	>	\$16,000
	28.0%	>	\$20,200
	32.0%	>	\$24,600
	37.0%	>	\$29,900
	43.0%	>	\$35,200
	49.0%	>	\$45,800
	54.0%	>	\$60,000
	59.0%	>	\$85,600
	64.0%	>	\$109,400
	68.0%	>	\$162,400
	70.0%	>	\$215,400

* \$706,512 Indexed to 2022

Married Filing Jointly			
1986	0.0%	>	\$0
	11.0%	>	\$3,670
	12.0%	>	\$5,940
	14.0%	>	\$8,200
	16.0%	>	\$12,840
	18.0%	>	\$17,270
	22.0%	>	\$21,800
	25.0%	>	\$26,550
	28.0%	>	\$32,270
	33.0%	>	\$37,980
	38.0%	>	\$49,420
	42.0%	>	\$64,750
	45.0%	>	\$92,370
	49.0%	>	\$118,050
	50.0%	>	\$175,250

* \$476,680 Indexed to 2022

Married Filing Jointly			
2017	10.0%	>	\$0
	15.0%	>	\$18,650
	25.0%	>	\$75,900
	28.0%	>	\$153,100
	33.0%	>	\$233,350
	35.0%	>	\$416,700
	39.6%	>	\$470,700

* \$574,254 Indexed to 2022

Married Filing Jointly			
2021	10.0%	>	\$0
	12.0%	>	\$19,900
	22.0%	>	\$81,050
	24.0%	>	\$172,750
	32.0%	>	\$329,850
	35.0%	>	\$418,850
	37.0%	>	\$628,301

199a – Qualified Business Income Deduction



20% of Qualified Income is excluded from taxable



Included in law through 2025 (sunsets without action)



Incomes over the threshold (Approx \$364,200 MFJ) limited to:

50% of wages or

25% of wages + 2.5% UBIA (Investment in assets in the past 10 years “ish”)

Income Comparison

- *Assumes 2017 income amounts which will be indexed for inflation in 2026.
- ** Income tax calculated only – SE tax may be additional.

	2017/2026	2022
Farm Income	\$100,000	\$100,000
QBI	\$0	\$-20,000
Standard Deduction	\$12,500	\$25,000
Personal Exemptions	\$4,000	\$0
Taxable Income	\$83,500	\$55,000
Tax Due	\$12,353	\$6,189

Other Expiring Tax Laws

- Federal Estate Tax Exclusion – Currently at \$12.92 million in 2023 (will drop in 1/2 in 2026)
 - \$13.61 million in 2024
- Standard Deduction
- Personal Exemptions will come back
- Child Tax Credit will drop

Section 179 & Bonus Depreciation

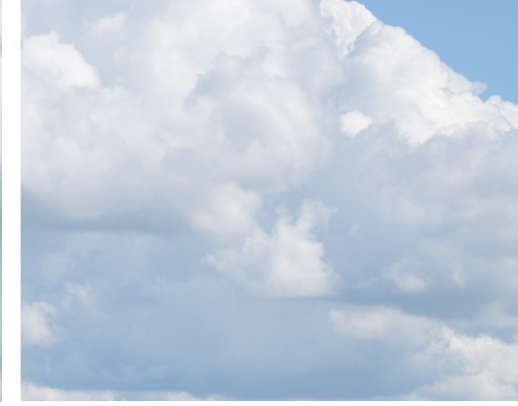
- Section 179 enhanced limits were permanent & are indexing for inflation
 - \$1,160,000 expense limit for 2023
 - \$2,890,000 purchase limit for 2023
- Bonus depreciation = 80% for 2023
 - 60% - 2024
 - 40% - 2025
 - 20% - 2026
 - 0% - 2027

Equipment Trading Trap

	2024	2025	2026	2027	2028	2029
Bonus	60%	40%	20%	0%	0%	0%
Purchase Price	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Trade Value	\$ 5,400,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000
Trade Difference	\$ 1,600,000	\$ 385,000	\$ 385,000	\$ 385,000	\$ 385,000	\$ 385,000
Selling Price	\$ 5,400,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000
Basis	\$ -	\$ 2,240,000	\$ 3,360,000	\$ 4,480,000	\$ 5,600,000	\$ 5,600,000
Gain	\$ 5,400,000	\$ 4,375,000	\$ 3,255,000	\$ 2,135,000	\$ 1,015,000	\$ 1,015,000
Depreciable Basis	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Bonus	\$ 4,200,000	\$ 2,800,000	\$ 1,400,000	\$ -	\$ -	\$ -
Regular	\$ 560,000	\$ 840,000	\$ 1,120,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Total Depreciation	\$ 4,760,000	\$ 3,640,000	\$ 2,520,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Gain over Depr	\$ 640,000	\$ 735,000	\$ 735,000	\$ 735,000	\$ (385,000)	\$ (385,000)
Remaining Value	\$ 2,240,000	\$ 3,360,000	\$ 4,480,000	\$ 5,600,000	\$ 5,600,000	\$ 5,600,000

Leases

- A lease is defined by a fair market value buyout at the end of the time.
 - Not \$1 or final payment Buyout
 - No Interest Rate Tied to Agreement
- Many leases today do not meet IRS's definition of a true lease.
 - Means a purchase/lending arrangement has been made & must be depreciated.





Prepaid Expenses

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.

Interest Carry Costs

	1.5%	5%	10%
2 Months	\$250	\$833	\$1,666
4 Months	\$500	\$1,666	\$3,333
6 Months	\$750	\$2,500	\$5,000
12 Months	\$1,500	\$5,000	\$10,000
*Costs to carry \$100,000			



Crop Insurance Deferral Rules



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

	<u>Corn</u>	<u>Soybeans</u>
• Spring Price:	\$5.91	\$13.76
• Fall Price:	\$4.88	\$12.84
• Losses will include a prices loss portion of the payment.		
• No need for county disaster declaration		
• All or none election		



Livestock Deferral Rules

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.

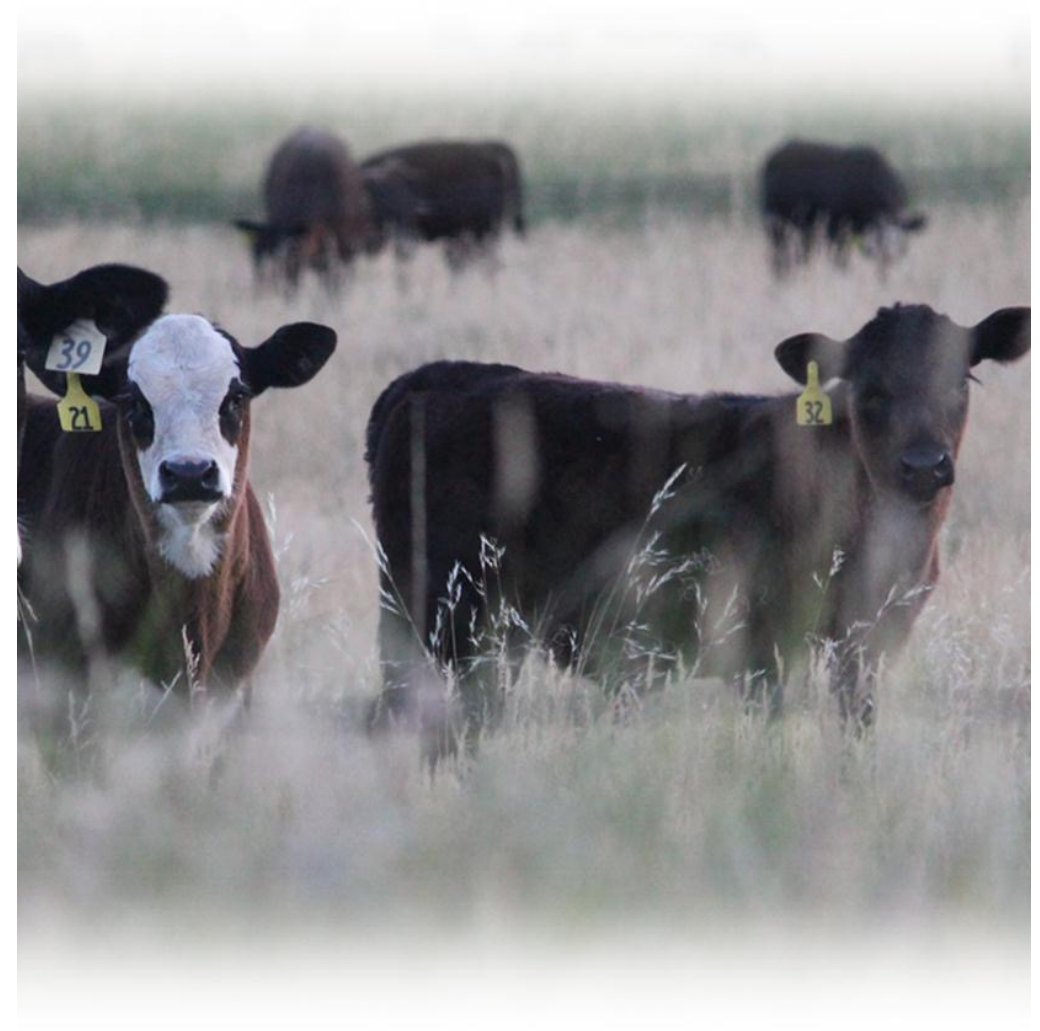
Livestock Deferral Elections

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

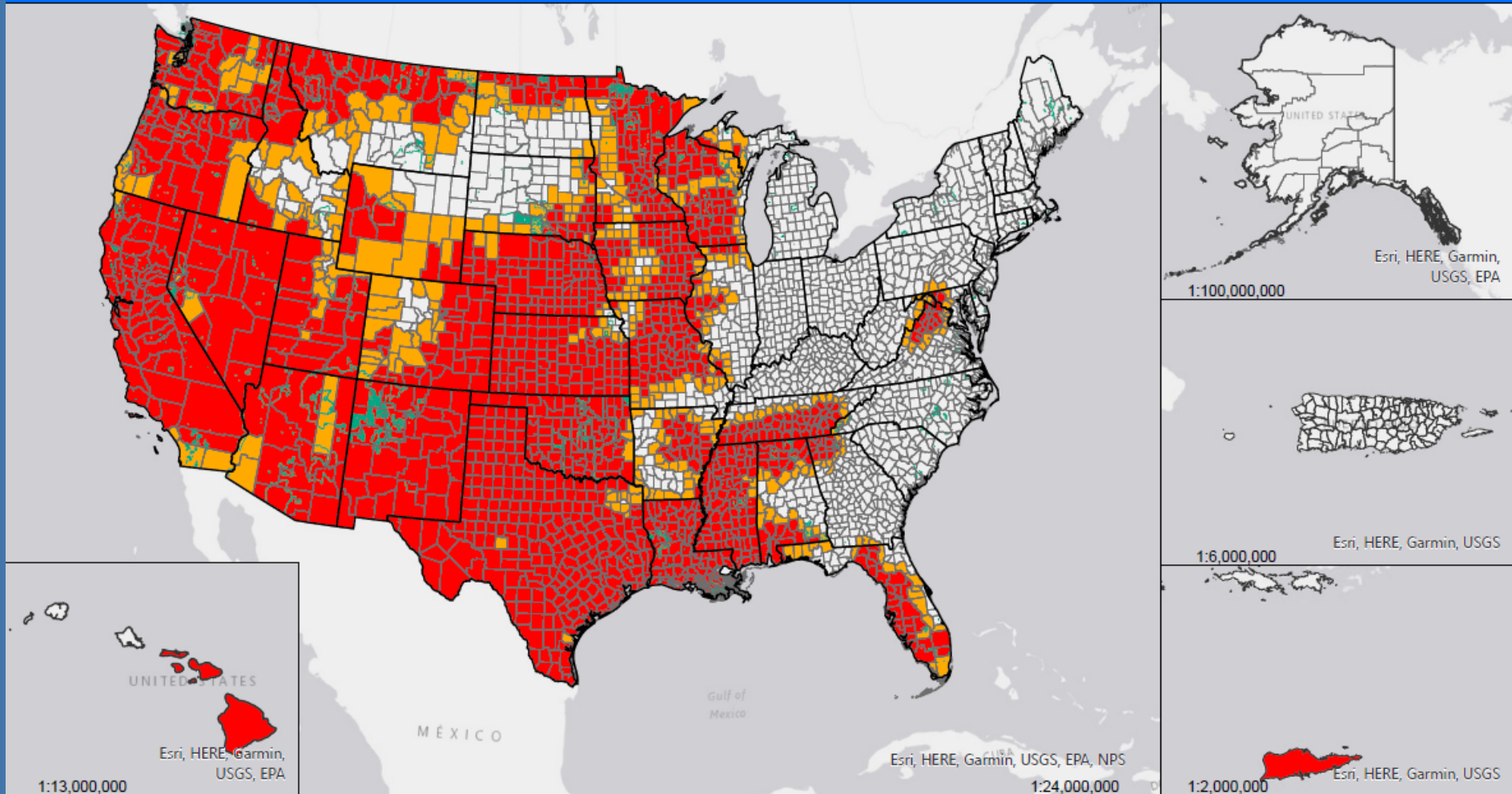
- IRC § 1033(e)
- Two years with no Federal Disaster Declaration
 - Four years needs declaration
- Gain on sale reduces the purchase price of the replacement animals.
- If after four years of drought it is not feasible to replace animals, you can reinvest in non like-kind property. (i.e. – Tractor, building,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



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.

2023 Secretarial Drought Designations - All Drought



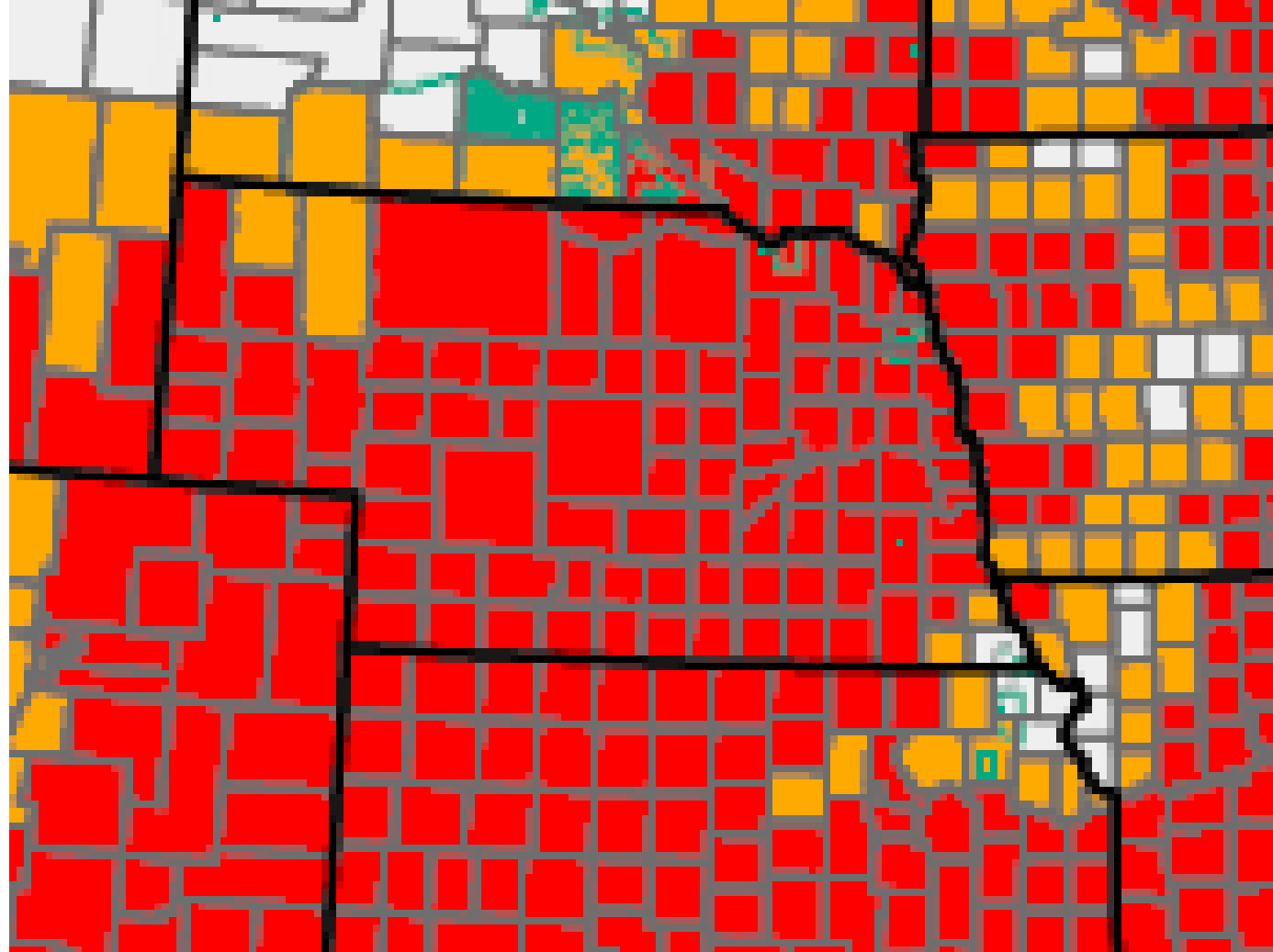
Secretarial Drought Designations for 2023
Disaster Incidences as of November 8, 2023



United States Department of Agriculture
Farm Service Agency
Program Delivery/Safety Net Division
November 8, 2023

- State Boundary
- County Boundary
- Tribal Lands
- Primary Counties: 1,343
- Contiguous Counties: 427

88 Counties – Primary – 4 Contiguous



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

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.

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



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



Other Things to Consider

- Rather than deferral, consider handling extra income by other means:
 - Prepay expenses to offset income (handle prepaid expenses correctly)
 - Income averaging (will not affect SE tax)
 - Depends on each situation but could absorb a lot of tax.
 - Also consider that future tax rates are not likely to be lower than today's.



General Tax Planning



Paying Spouses

Benefits to Paying Spouses:

Turn Health Insurance Deduction into a Farm Expense

Reduce SE Taxes

Can Create A Farm Expense for Other Medical Costs

Reduces SE Tax & Income Taxes

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

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 traditionally in husband's 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, wife can be left with little retirement benefits. Rules are complicated but it can be disallowed

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)

COMMODITY WAGES

- Allows wages to be paid in commodity rather than cash.
- Saves employment taxes
- Must be paid **CORRECTLY**

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