



Tax Planning in 2022

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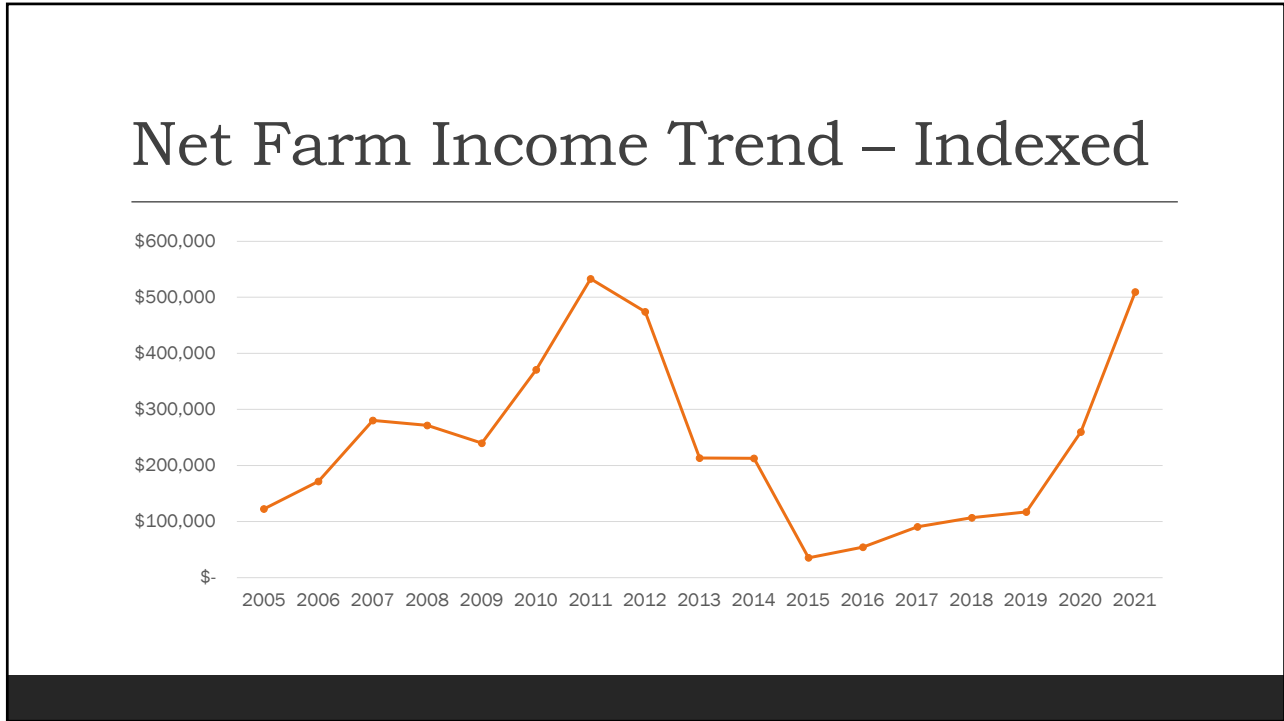
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Nebraska Farm Business, Inc.

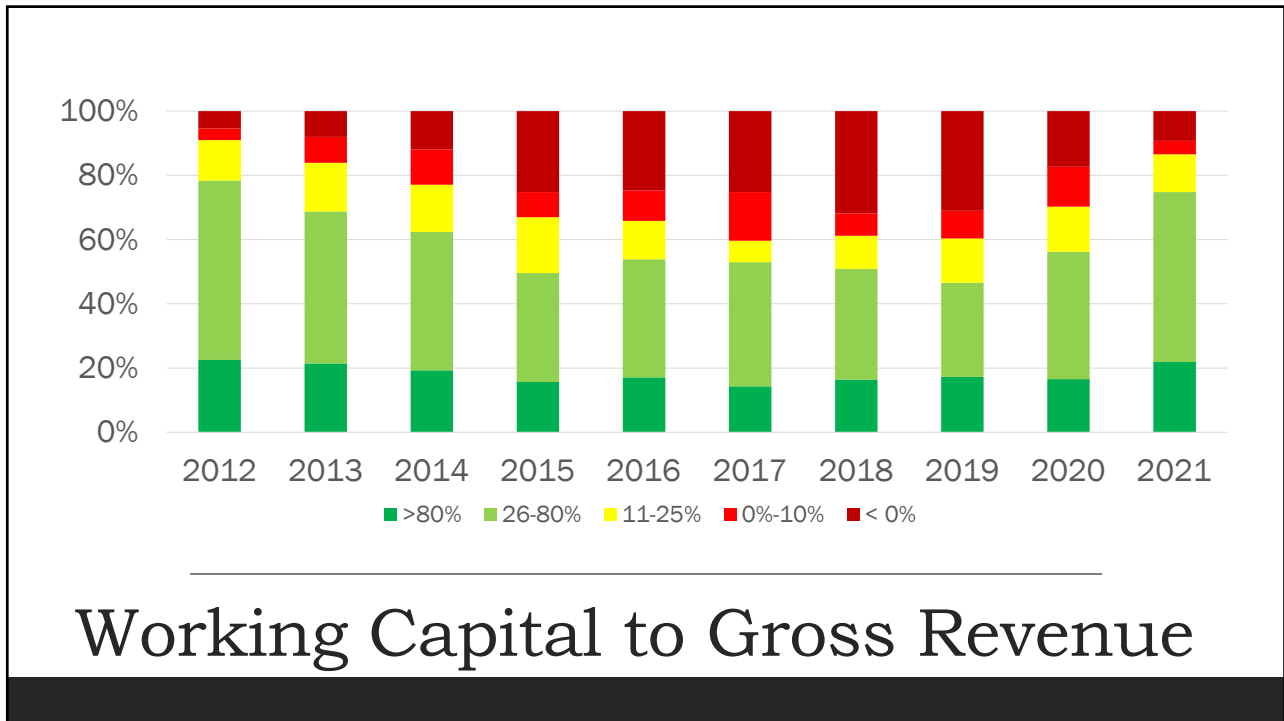


Goal: To Help Educate Farmers & Ranchers with Record Keeping and Management Through Financial Analysis.

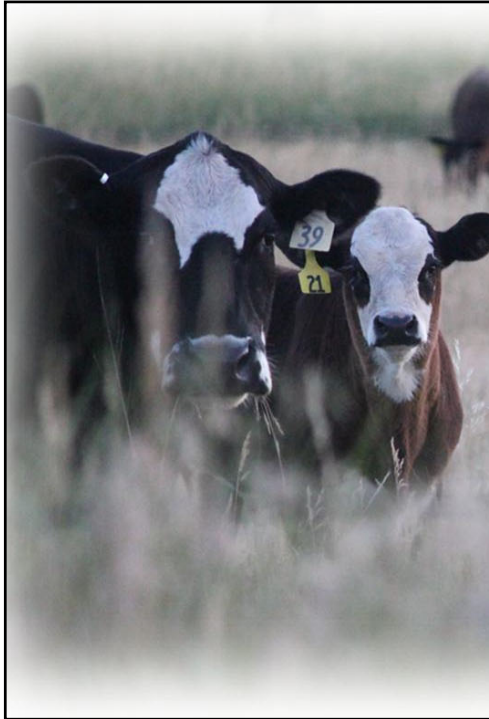
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Lessons Learned

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Tax Strategies that Burn Liquidity



Buying Equipment

Financing and using Section 179



Buy any "Stuff" you don't need



Prepaying expenses without "management purposes"

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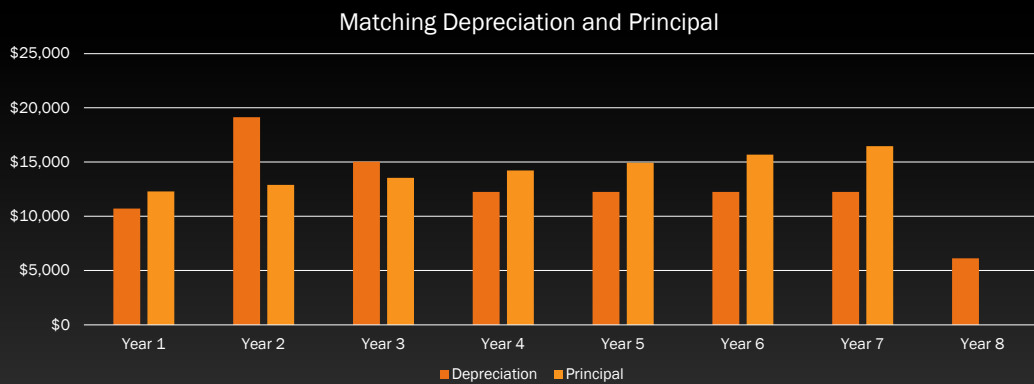
Caution to purchasing equipment

Buying equipment, you don't need, to save taxes doesn't pay.

- Often spending \$100,000 saves \$30,000 - \$40,000 in taxes
- Costs \$100,000 in liquidity or payments plus interest

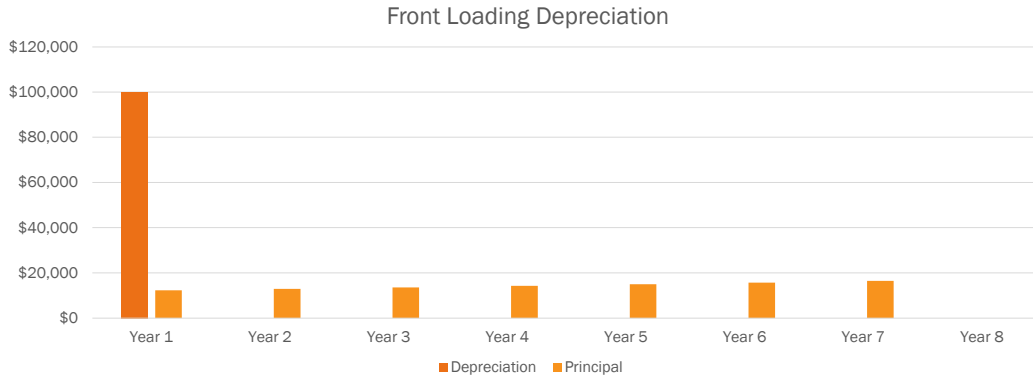
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Financing Purchases Caution



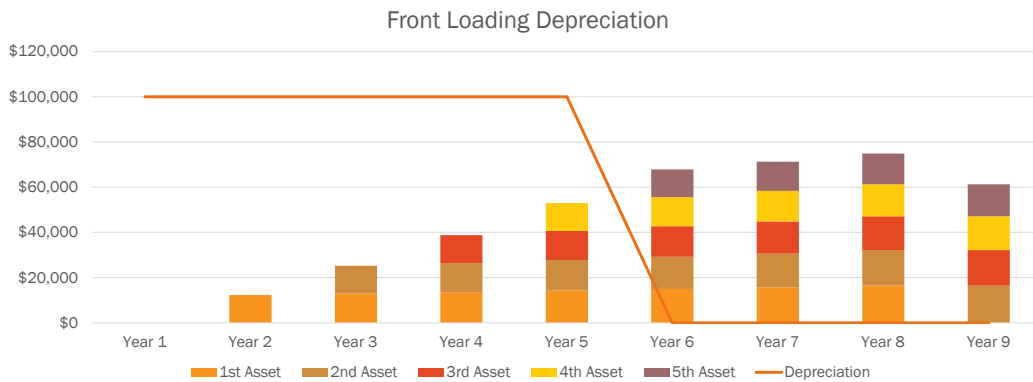
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Financing Purchases Caution



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Financing Purchases Caution



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Section 179 & Bonus Depreciation

Section 179 enhanced limits were permanent & are indexing for inflation

- \$1,080,000 expense limit for 2022
- \$2,700,000 purchase limit for 2022

Bonus depreciation = 100% for 2022

- 80% - 2023
- 60% - 2024
- 40% - 2025
- 20% - 2026
- 0% - 2027

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Prepaid Expenses



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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)

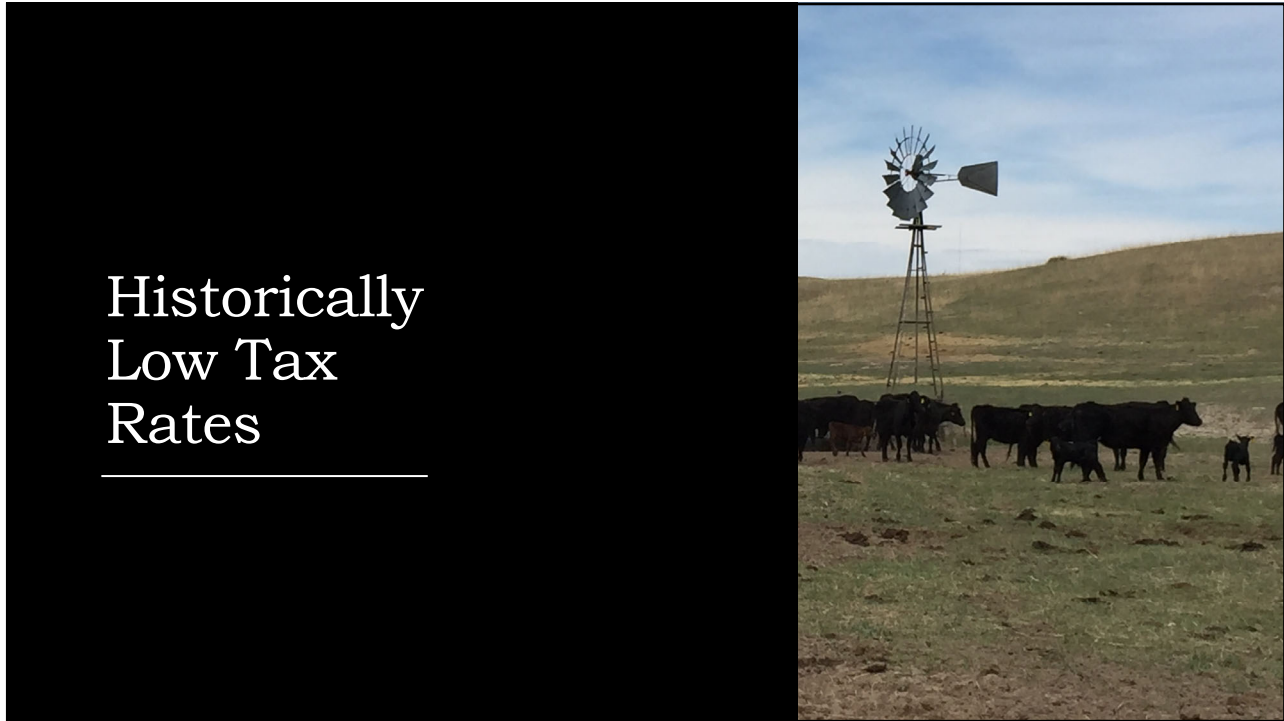
Consider interest cost in prepay as interest rates rise.

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Interest Carry Costs

	1.5%	5%	7.5%
2 Months	\$250	\$833	\$1,250
4 Months	\$500	\$1,666	\$2,500
6 Months	\$750	\$2,500	\$3,750
12 Months	\$1,500	\$5,000	\$7,500
*Costs to carry \$100,000			

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Historical Tax Rates

Married Filing Jointly			Married Filing Jointly			Married Filing Jointly			Married Filing Jointly		
1981	0.0%	> \$0	1986	0.0%	> \$0	2017	10.0%	> \$0	2021	10.0%	> \$0
	14.0%	> \$3,400		11.0%	> \$3,670		15.0%	> \$18,650		12.0%	> \$19,900
	16.0%	> \$5,500		12.0%	> \$5,940		25.0%	> \$75,900		22.0%	> \$81,050
	18.0%	> \$7,600		14.0%	> \$8,200		28.0%	> \$153,100		24.0%	> \$172,750
	21.0%	> \$11,900		16.0%	> \$12,840		33.0%	> \$233,350		32.0%	> \$329,850
	24.0%	> \$16,000		18.0%	> \$17,270		35.0%	> \$416,700		35.0%	> \$418,850
	28.0%	> \$20,200		22.0%	> \$21,800		39.6%	> \$470,700		37.0%	> \$628,301
	32.0%	> \$24,600		25.0%	> \$26,550						
	37.0%	> \$29,900		28.0%	> \$32,270						
	43.0%	> \$35,200		33.0%	> \$37,980						
	49.0%	> \$45,800		38.0%	> \$49,420						
	54.0%	> \$60,000		42.0%	> \$64,750						
	59.0%	> \$85,600		45.0%	> \$92,370						
	64.0%	> \$109,400		49.0%	> \$118,050						
	68.0%	> \$162,400		50.0%	> \$175,250						
	70.0%	> \$215,400									

* \$574,254 Indexed to 2022

* \$706,512 Indexed to 2022

* \$476,680 Indexed to 2022

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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 (Appox \$340,000 MFJ) limited to:

- 50% of wages or
- 25% of wages + 2.5% UBIA (Investment in assets in the past 10 years “ish”)

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Income Comparison

	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

* Assumes 2017 income amounts which will be indexed for inflation in 2026.

** Income tax calculated only – SE tax may be additional.

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Other Expiring Tax Laws

Federal Estate Tax Exclusion – Currently at \$12.6 million (will drop in 1/2 in 2026)

Standard Deduction

Personal Exemptions will come back

Child Tax Credit will drop

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Crop Insurance Deferral Rules

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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: | \$5.90 | \$14.33 |
| ◦ Fall Price: | \$6.86 | \$13.81 |
| ◦ Soybeans could include a prices loss portion of the payment. | | |

No need for county disaster declaration

All or none election

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Livestock Deferral Rules

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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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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)

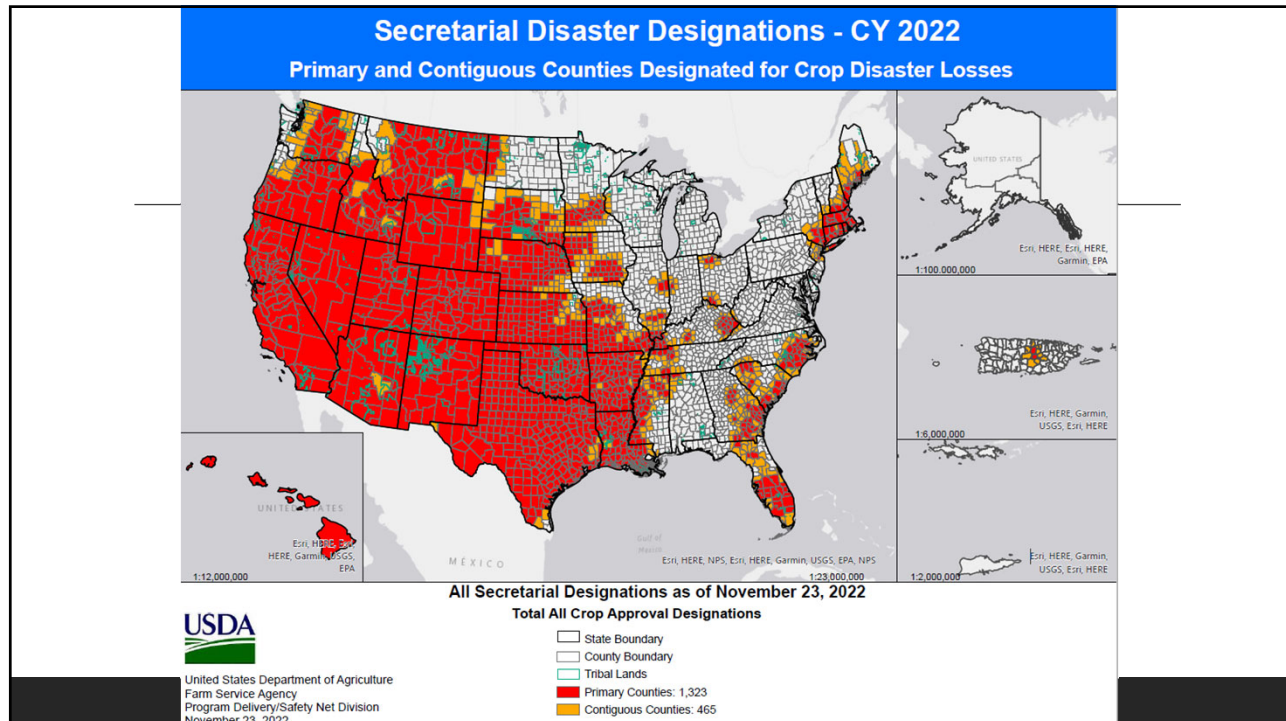
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Livestock Deferral Elections

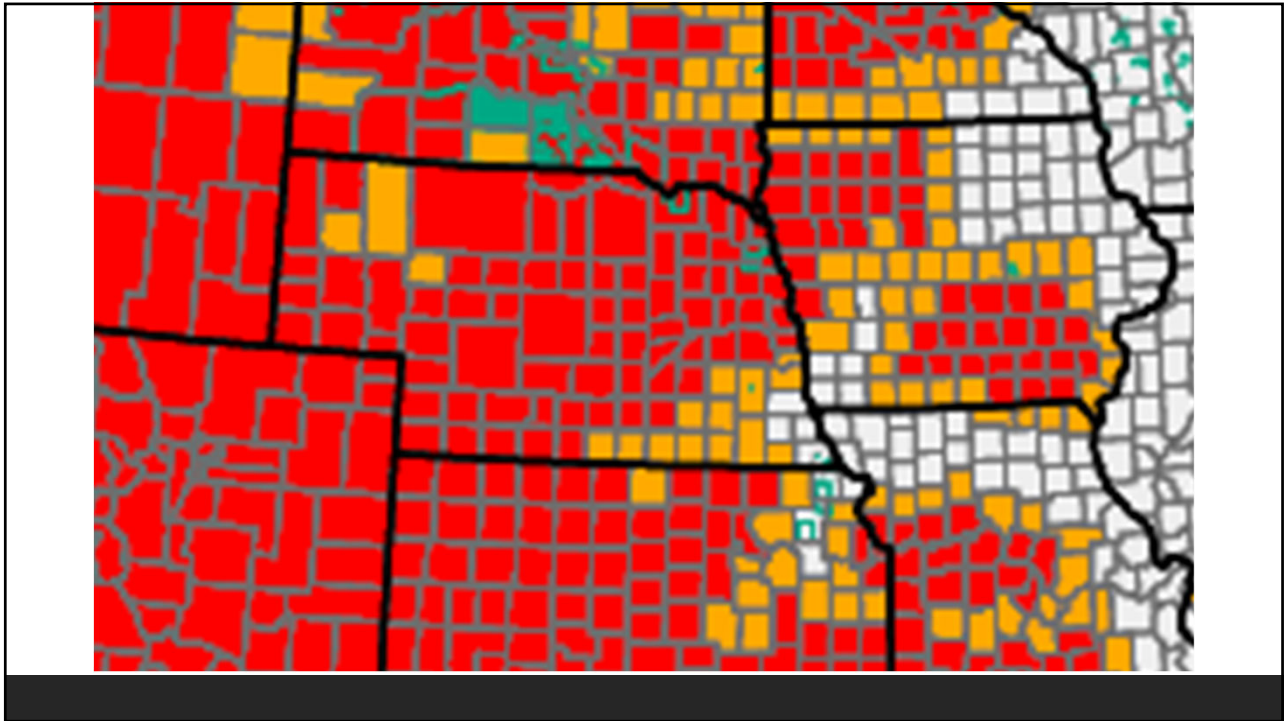
Four-Year-Deferral

- 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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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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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

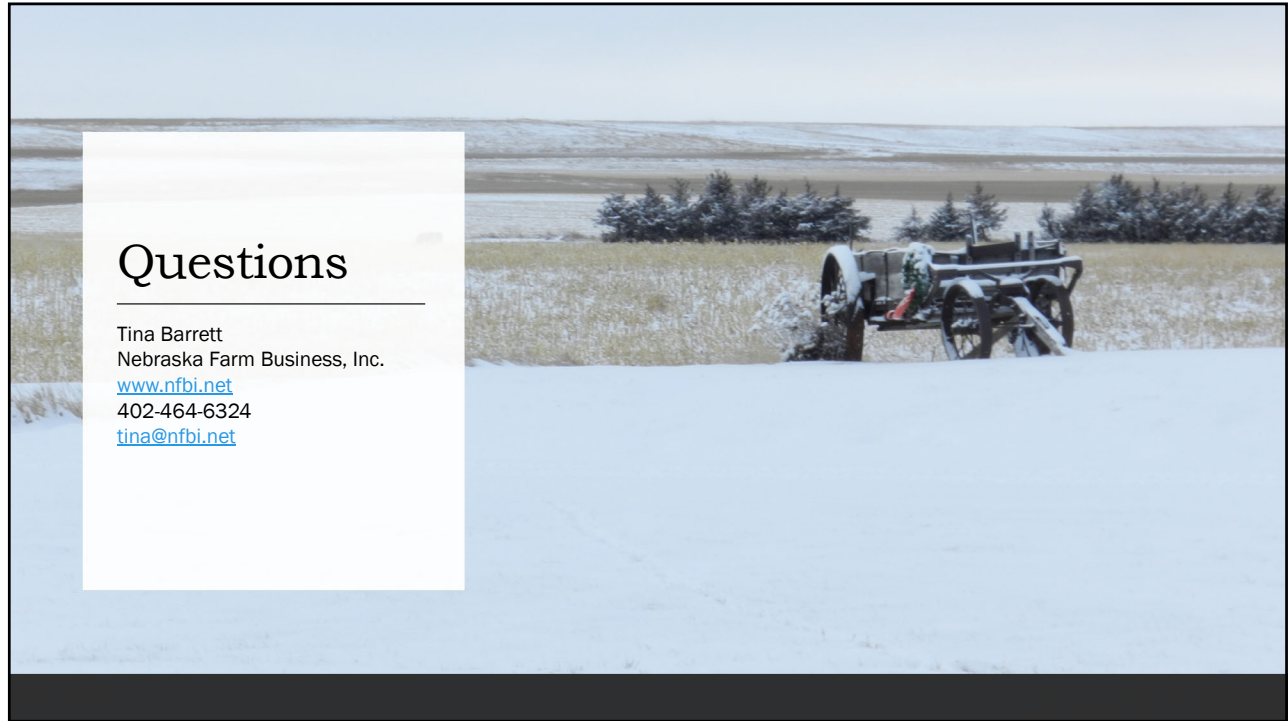
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Other Things to Consider

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.

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Questions

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