



Managing Taxes After Year-End

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Content:

Management strategies

+ / - Expenses

+ / - Revenues

Other options

1099s



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Disclaimer

- None of what is presented should be considered formal legal or tax advice
- This presentation is for educational purposes
- Consult with trusted professionals on your individual situation

Oh...Shoot

- We've completed the year
- Tax situation is different than anticipated!



Oh...Shoot

- What can we do?
- What options are available?
- Our goal is to prepare you for discussions with your preparer



A couple notes

- Farming / Sch. F is one part of an overall return
- Deferring tax does not eliminate tax
- What helps your family / business thrive?



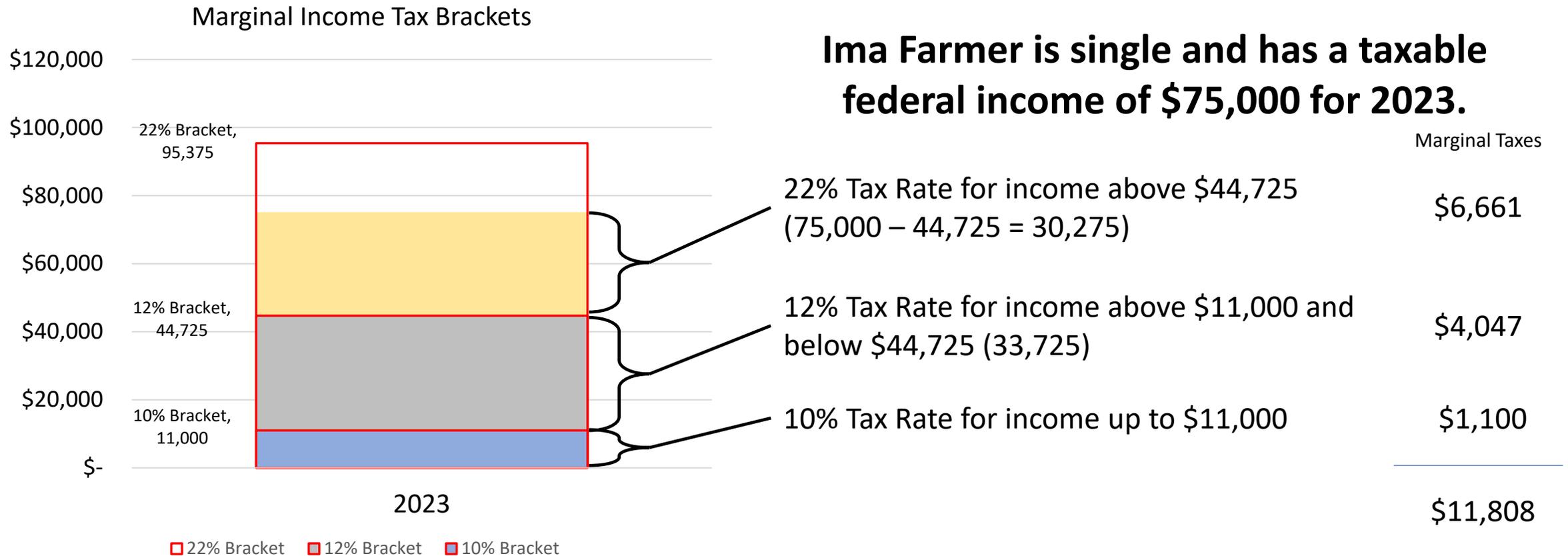
Single Filing Status

2023 tax rate bracket income ranges

- 10% – \$1 to \$11,000;
- 12% – \$11,001 to \$44,725;
- 22% – \$44,726 to \$95,375;
- 24% – \$95,376 to \$182,100;
- 32% – \$182,101 to \$231,250;
- 35% – \$231,251 to \$578,125; and,
- 37% – \$578,126 or more.

Typically, + 15.3% for self-employment

Marginal Taxes



Ima Farmer is single and has a taxable federal income of \$75,000 for 2023.

Single Filing Status

2023 tax rate bracket income ranges

\$75,000

- 10% – \$1 to \$11,000; **\$1,100**
- 12% – \$11,001 to \$44,725; **\$4,047**
- 22% – \$44,726 to \$95,375; **\$6,661**

$\$11,808 / \$75,000 = 15.7\%$ effective rate

Total Tax / Taxable Income = Effective Tax Rate

Tax Planning Strategies

- Minimize income tax
 - Prepay expenses, maximize depreciation, defer crop insurance
- Optimize after tax income
 - Maximize marginal brackets & review effective tax rate



Tax Planning Rule of Thumb

In the long run:

Net farm income + Non-farm income

Should Be Greater Than

Family living expense + Income tax liability + Land principal payments



Tax Planning Caution



- Equipment purchases should be based on need, not income tax savings

Tax Planning

- Ag producers have unique options for income tax planning
 - Many tools or options not available to main street businesses
- Working with your tax professional before year end is your most effective tool!
- Leave yourself some wiggle room if possible
- Sometimes, things just happen.....

Depreciation Options

- Accelerate depreciation (§179 or bonus)
- Accelerating depreciation does not provide more depreciation, it simply changes the timing of the depreciation deduction
- Trade-off between current expense vs. later
- Taking §179 or bonus depreciation on financed equipment is deducting an expense that hasn't been paid for yet

§179 Depreciation

- Allows businesses to deduct elected cost of qualifying assets in the first year
- What property qualifies?
 - Used primarily in a trade or business (>50% business use)
 - Acquired by purchase
 - Generally, 15-year tangible personal property or less
 - Machinery & equipment, breeding livestock, single purpose agricultural or horticulture structures, certain business vehicles, computers, software, office furniture

§179 Depreciation Limits

- Maximum deduction limited to \$1,160,000 (2023)
- Investment in qualified property limited to \$2,890,000 (2023)
 - Each \$1 over investment limit reduces deduction limit by \$1
 - Investment of \$4,050,000 or more = no §179 deduction
- §179 deduction cannot exceed business income
 - W2 wages, income from farm business (Schedule F), non-farm business (Schedule C), certain pass-through income (Schedule E, page 2), gain on certain business property (Form 4797)

§168 Special Depreciation

- Special “bonus” depreciation allowance is an additional deduction before calculating regular depreciation
 - 80% for 2023, 60% for 2024
- What property qualifies?
 - Tangible personal property with a life of 20-years or less
 - Acquired by purchase
 - Generally, the same assets as with §179 plus farm buildings

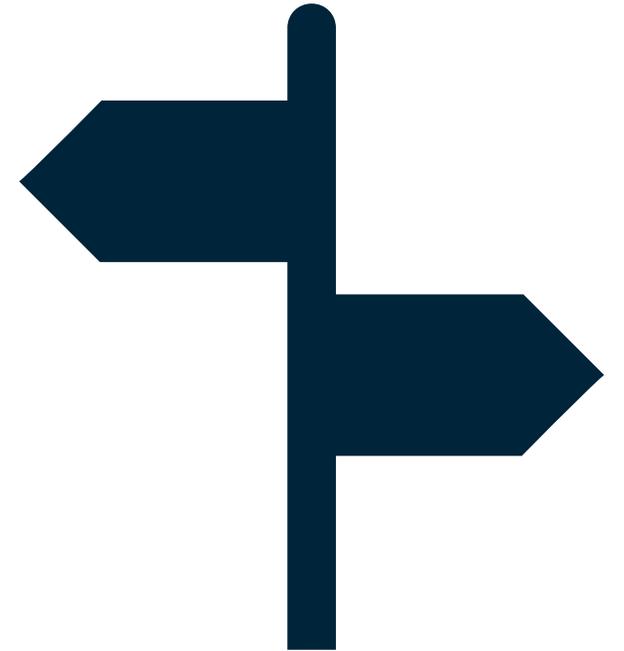
§168 Special Depreciation

- “Bonus” depreciation is default, must elect to not take
 - Election applies to all property within a class
- No investment or deduction limits, bonus can create a business loss



§179 vs §168

- §179 allows taxpayer to choose the deduction amount, up to the cost of the property, election made for each eligible item
- §168 is all-or-none for all property within a class
- §168 allowed for farm shops, machine sheds, etc



Other Depreciation Options

- Elections available to slow down depreciation, reducing depreciation expense and increasing taxable income
 - Default farm depreciation is MACRS 200DB
 - Elect to use MACRS 150DB
 - Elect to use straight-line (SL)
 - Elect to use SL and use Alternative Depreciation System (ADS)
 - ADS increases depreciable life (usually)

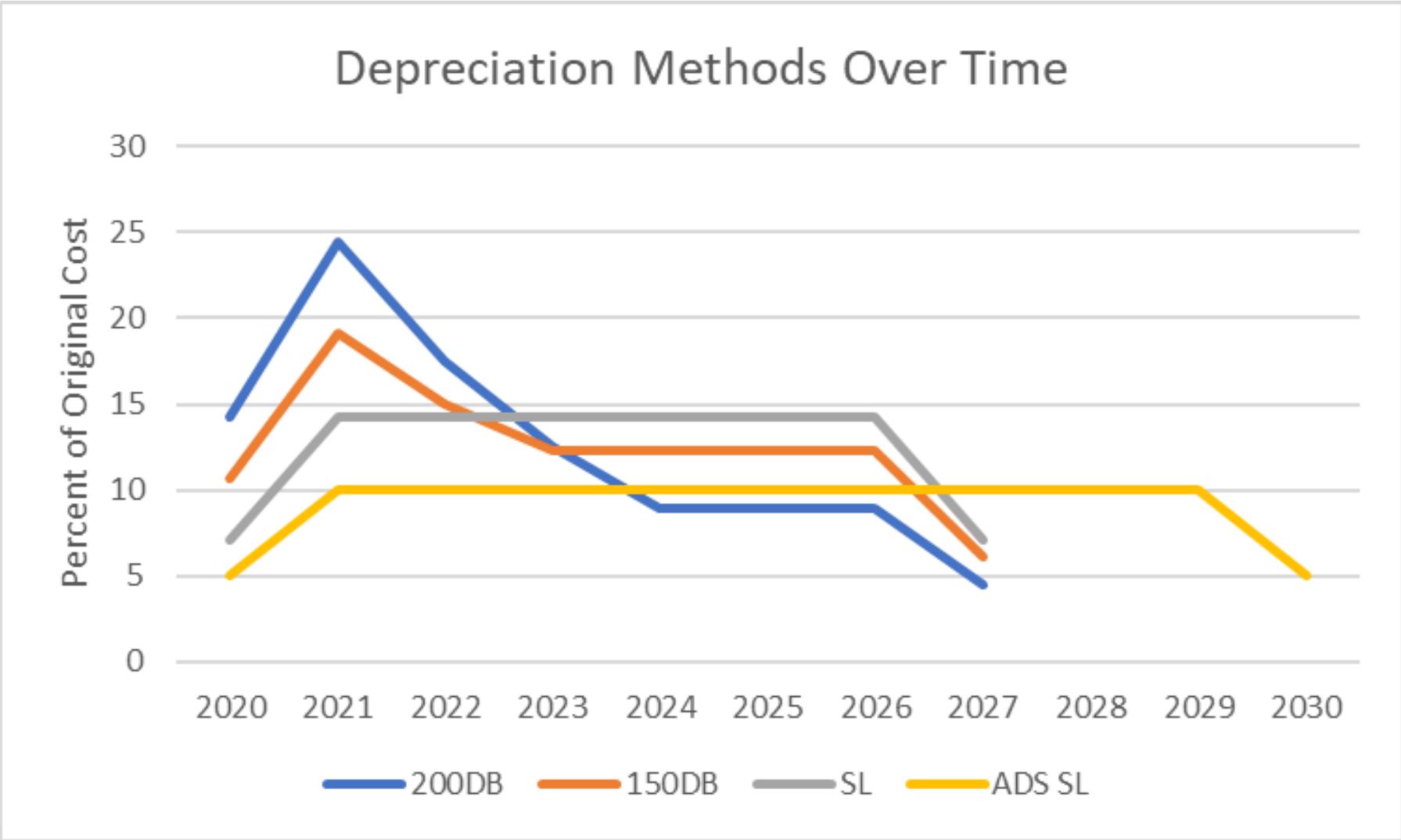
Other Depreciation Options

- IRS Pub 225 page 44

Table 7-1. Farm Property Recovery Periods

Assets	Recovery Period in Years	
	GDS	ADS
Agricultural structures (single purpose)	10	15
Automobiles	5	5
Calculators and copiers	5	6
Cattle (dairy or breeding)	5	7
Communication equipment ¹	7	10
Computer and peripheral equipment	5	5
Drainage facilities	15	20
Farm buildings ²	20	25
New farm machinery and equipment ³	5	10
Used farm machinery and equipment	7	10
Fences (agricultural)	7	10
Goats and sheep (breeding)	5	5
Grain bin	7	10
Hogs (breeding)	3	3

Other Depreciation Options



CCC Loan Election

- Loan from CCC on grain in storage (commercial or home storage)
- Election allows loan proceeds to be treated as income
- Requires work before year end, but allows flexibility after-the-fact
- 2023 National loan rate
Wheat= \$3.38/bu, Corn= \$2.20, Grain Sorghum= \$2.20, Soybeans= \$6.20
- Requires accurate accounting records

Constructive Receipt

- Constructive receipt is the point where the taxpayer has control of funds
- You have control of funds if you have received a check even if not deposited in the bank
- You have control of funds if you have the ability to receive a check even if you have not received it

Deferred Payment Contract

- Sale of grain or livestock in the current year with a contract for payment sometime in the future (usually the next tax year)
- Written contract with purchaser (elevator or sale barn)
 - Specifies quantity, price, grade and time of payment in following year
 - Seller has no right to the proceeds until the date specified
- Common method of taking advantage of a price but delaying recognition of income
- May be a risk of non-payment as an unsecured creditor

Deferred Payment Contract

- Option to elect out of installment treatment on deferred payment contracts
 - Recognize income in the year of sale even though payment is not received until a future year
 - Effective tax planning tool if there is uncertainty
 - Election is all or none on a contract-by-contract basis
 - Plan for flexibility by selling in multiple contracts in varying amounts



Defer Crop Insurance

- Potential to defer crop insurance proceeds, from crop damage or destruction, to the year following production
 - Available if you normally sell > 50% of grain the following year
 - Cash basis taxpayers only
 - If qualified, all crop insurance proceeds must be deferred even if from different crops
- Revenue policies may have both a revenue and yield loss
 - Revenue portion of crop insurance cannot be deferred
- Rainfall or weather insurance proceeds cannot be deferred

Drought Related Livestock Sales

- Two elections available when weather conditions lead to sales in excess of normal practices
- §451(g)
 - Applies to market animals or breeding stock
 - Applies only to sales in excess of normal
 - Requires federal disaster declaration
 - Defer recognition to the following tax year

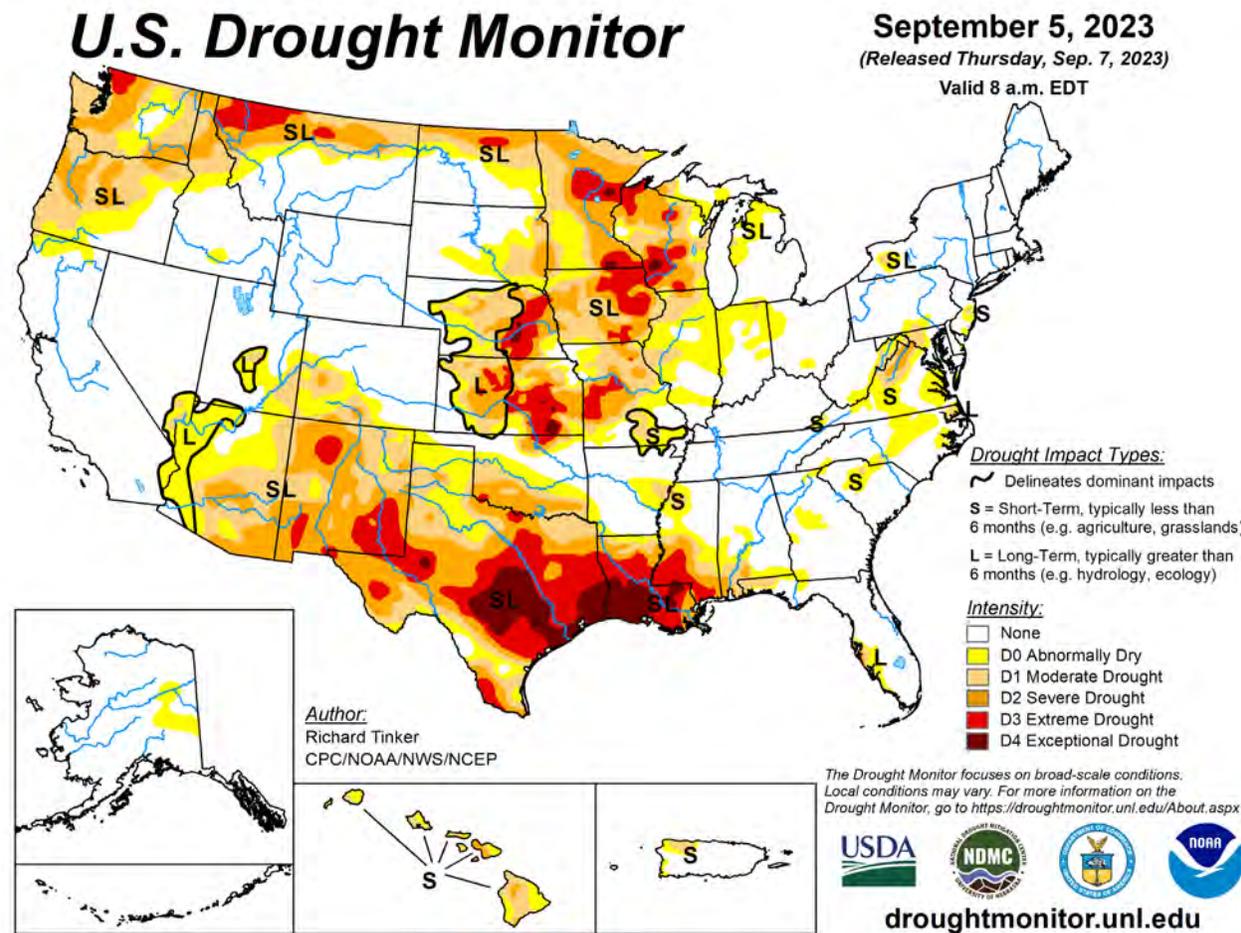


Drought Related Livestock Sales

- §1033(e)
 - Applies only to breeding livestock
 - Applies only to sales in excess of normal
 - Does not require federal disaster declaration
 - Gain is “held” until replacement is purchased or 2 years later (may be extended in certain conditions)
 - When replacement stock is purchased, basis of replacements is decreased by deferred gain

Drought Related Livestock Sales

<https://extension.usu.edu/ruraltax/tax-topics/weather-related-sales-of-livestock>



Income Averaging

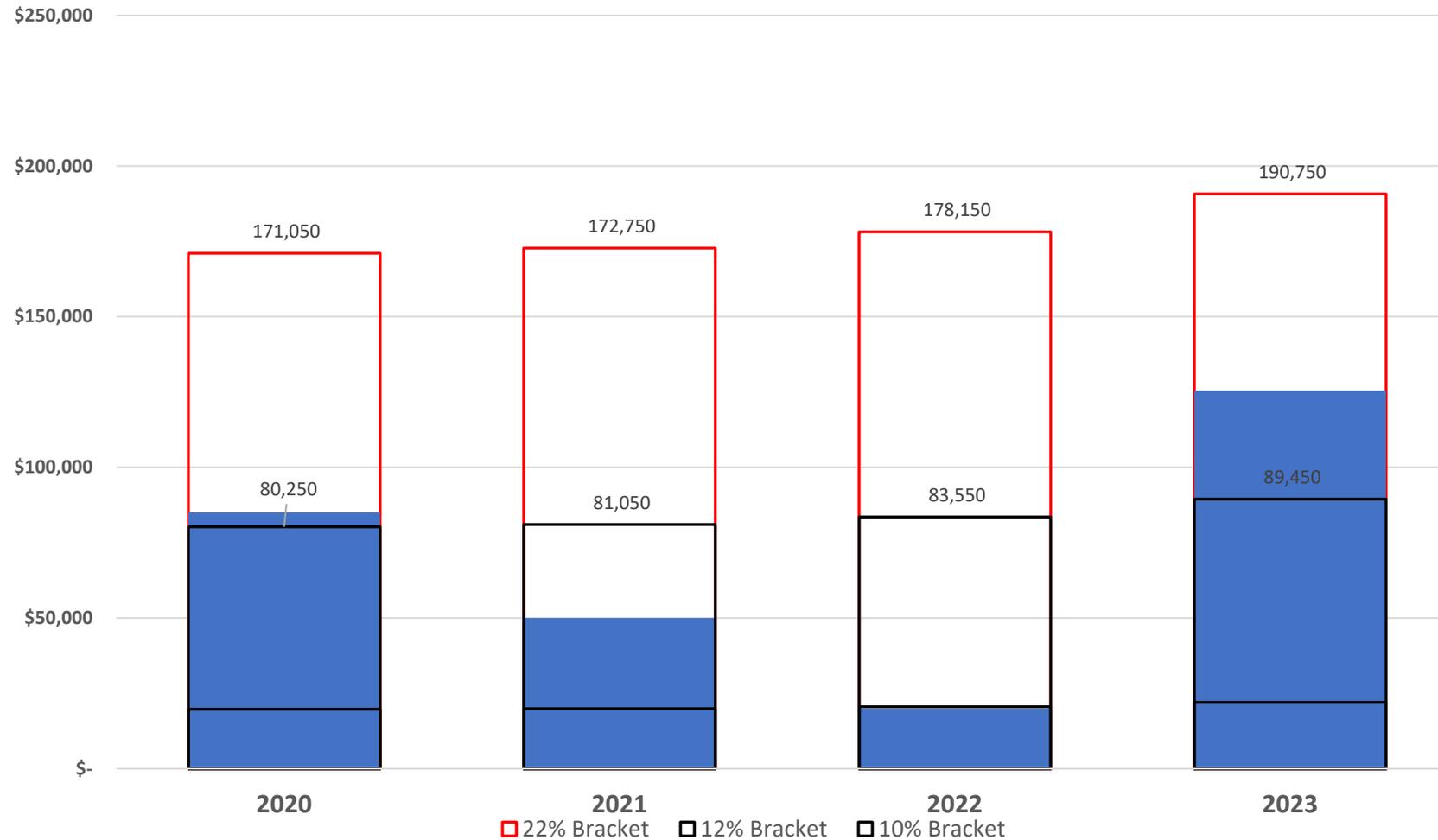
- Special election available to farmers and fishermen (reported on Schedule J) to utilize unfilled brackets in previous years
- Elected Farm Income (2023 total amount to average) divided equally over the three prior base years (2020, 2021, 2022); overall tax is recalculated and compared
- Does not amend or change prior year returns
- Income averaging just about tax rates; goal is to fill lower brackets of the base years

Income Averaging

- Does not impact income subject to self-employment tax
- Can elect any amount as *Elected Farm Income* up to the total of
 - Farm income reported on Schedule F or Form 4835
 - Gain from machinery or breeding livestock sales on Form 4797
 - Certain farm pass-through income
 - Wages from farming S corp. for >2% shareholder
 - Gain on land sales NOT eligible

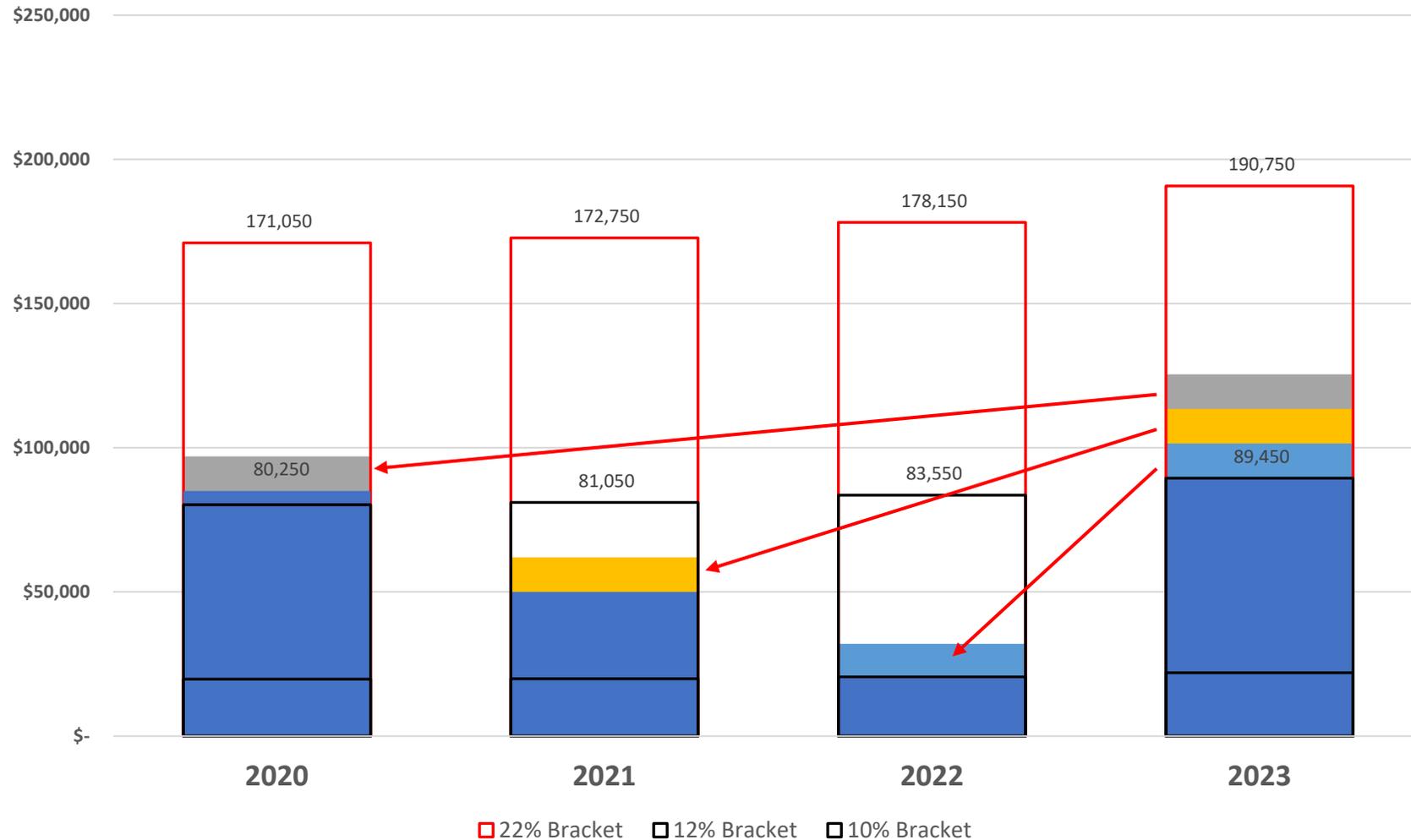
Income Averaging

Income Averaging



Income Averaging

Income Averaging



Income Averaging

- Original:

\$30,000 taxed at 22%

tax = \$6,600

- With Averaging:

\$10,000 taxed at 22%

\$20,000 taxed at 12%

tax = \$4,600

Tax savings: \$2,000

Tax Planning – Income Averaging

- Can be utilized in high earning years
- The current benefit of income averaging is maximized when - the average marginal tax rate for the base years (including EFI) equals the marginal tax rate on the residual election year income



Tax Planning – Income Averaging

- Could also be beneficial to create ‘gaps’ for future years
 - Base years drop off after 3 years; 2024
- Income tax for each year used as a future base-year will be calculated after any earlier year election



Retirement Plan Contributions

- Traditional IRA contribution
 - Requires earned income to contribute
 - Maximum contribution of \$6,500 per individual for 2023 (\$7,500 if 50 or older)
 - Maximum contribution may be limited if you, or your spouse, participate in a qualified retirement plan
 - Plan may be established as late as tax filing deadline
 - Contribution deadline is 4/15/2024
 - Schedule I

Retirement Plan Contributions

- Simplified Employee Pension (SEP)
 - Maximum contribution \approx 20% of self-employed income or 25% of an employee's earnings
 - Maximum contribution \$66,000 in 2023
 - Plan may be established as late as tax filing deadline
 - Contribution deadline is 4/15/2024 or 10/15/24 with extension
 - Cannot discriminate against eligible employees
 - IRS Pub. 560



Retirement Plan Contributions

- Savings Incentive Match Plan for Employees (SIMPLE)
 - Both employee contribution and employer contribution
 - Self-employed individual is both employer and employee
 - Plan must be established by October 1 of prior year
 - Contribution deadline
 - For employee portion, within 30 days of withholding
 - For employer contribution, 4/15/2024 or 10/15/24 with extension
 - Cannot discriminate against eligible employees

Health Savings Account (HSA)

- Must participate in eligible health plan, usually a HDHP
- Contributions are deductible
 - \$3,850 for single coverage
 - \$7,750 for family
 - Additional \$1,000 if 55 and older
 - Contribution deadline is 4/15/2024
- Distributions are tax-free if for qualified medical expenses
- Schedule I

Tax Planning

- Taxes paid as you go, if no or low withholding, may need to make estimated tax payments during the year
 - Underpayment of estimated tax penalties may apply if late or estimated tax is underpaid
- Qualified farmers not subject to underpayment penalty if:
 - One estimated tax payment is made by January 15, or
 - Income tax return is filed, and all tax paid, by March 1
- Qualified farmer if 2/3 of gross income from farming
- Interactive Tax Assistant (ITA) <https://www.irs.gov/help/ita>

1099 Filing Requirements

- Prior webinar
- Payments of \$600 or more for rent or services
 - Rents (land, equipment, etc.) (1099-MISC)
 - Non-employee compensation (1099-NEC)
 - Veterinarian (1099-MISC)
 - Accounting / legal (1099-NEC)



Common Situations

■ Received:

- Crop insurance proceeds (1099-MISC) (Sch. F)
- Gov't payments (1099-G) (Sch. F)
- Rents (1099-MISC) (Sch. E.)
- Non-employee compensation (custom work) (1099-NEC) (F/C)
- Consulting (1099-NEC) (Sch. C)
- Co-op Distributions (1099-PATR) (Sch. F)

Filing Requirements

- Payments of < \$600 are supposed to be recorded but do not require the form
- Generally, forms are NOT required on payments to corporations, government agencies, or tax-exempt organizations

Deadline for Recipients

- Jan. 31 – All other 1099s
- Feb. 15 – 1099-B, 1099-S



Deadline for IRS

- Jan. 31 – 1099NEC
- Feb. 28 (paper) – All other 1099s
 - Include Form 1096
- Mar. 31 (electronic) – All other 1099s
 - 10 or more informational returns, must be e-filed

Resources

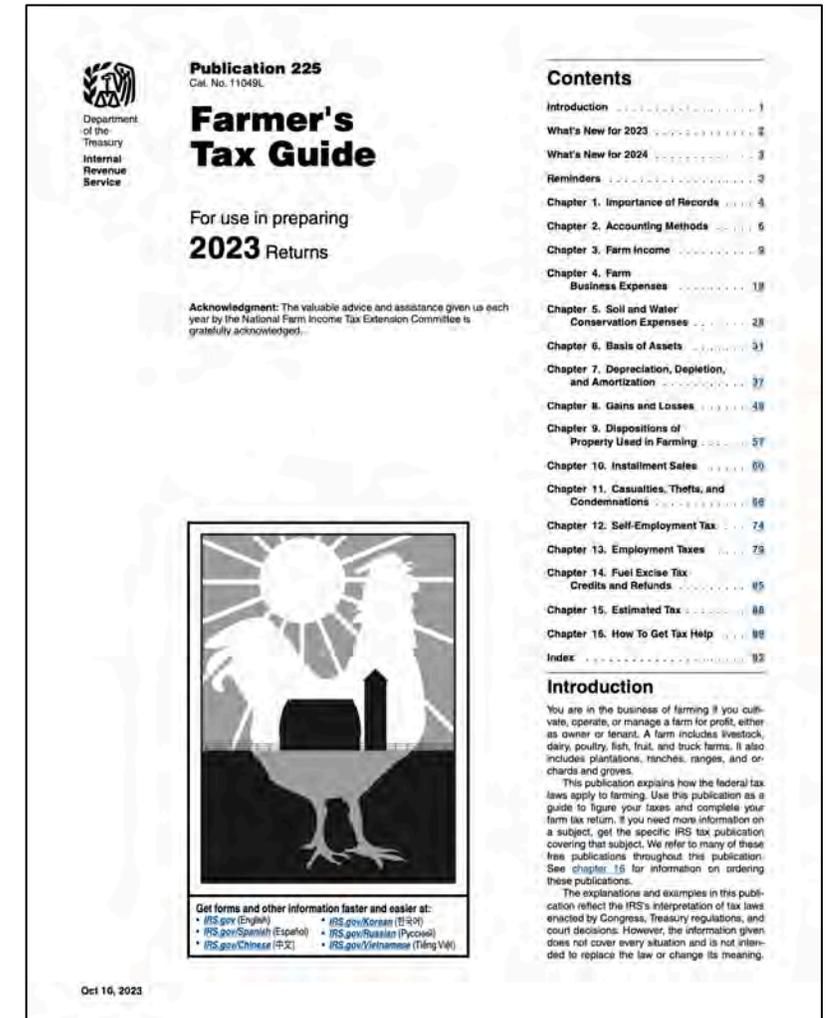
■ www.IRS.gov

- Forms
- Instructions

■ Pub. 225 – Farmers Tax Guide

■ RuralTax.org

■ <https://www.farmers.gov/taxes>



Questions



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