



Lessons Learned from Tax Season 2024!!

May 16, 2024

JC Hobbs, Oklahoma State University

Guido van der Hoeven, NC State University, Emeritus

Rural Tax Education

RuralTax.org



- Website hosted by Utah State University
- Material developed, managed, and owned by the **National Farm Income Tax Committee**
- Informational Material on Ag, Timber, and Rural Tax topics include but not limited to:
 - Disaster/Weather Losses
 - Treatment of Government Payments
 - Farm Losses and Hobby Rules
 - Self-Employment Taxes
 - Estate and Gift Taxes
 - Like Kind Exchanges
 - Depreciation
 - Etc...



Disclaimer

This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA21CPT0012032. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture. In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services. USDA is an equal opportunity provider, employer, and lender. Rural Tax Education is part of the National Farm Income Tax Extension Committee. In their programs and activities, the land-grant universities involved in this project do not discriminate based on race, color, religion, sex, national origin, age, genetic information, sexual orientation or gender identity/expression, disability, status as a protected veteran, or any other status protected by University policy or local, state, or federal law.

Program Agenda

RuralTax.org

- This webinar presentation is cast as a “coffee chat” to discuss 10 lessons learned from the perspective of questions which arose during the tax preparation season.
- JC and Guido will discuss in a somewhat informal manner...but hopefully useful.

Systemic Processing Issues

Letters are being received by farmers indicating that their return is in error as they are “not farmers” for estimated tax purposes.

Apparently, the IRS is not looking at “Gross Farm Income” on Line 9 of Schedule F

Form 4797 Equipment Sales

Possibly using Net Farm Income results in miscalculation

Letters indicating a miscalculation of Farm Income Averaging

Letters indicating incorrect use of Farm Optional Method for SE Tax and Claiming the EIC

Schedule F v. Schedule C

Schedule F is used for farming activities, there can be a de minimis non-farm sales (<5%?) during a trial period of the activity.

Schedule C is used for non-farm business activities even if farm assets are used:

- Agri-tourism

- Making jams, cheese, pies and other value-added products

- Side gigs such as consulting in an area of expertise

Depreciation Issues

Misunderstanding of recovery periods

3-, 5-, 7-, 10-, 15-, 20-year are generally used for agricultural assets:

5-year for new equipment (200% DB, or 150% DB, or SL)

7-year for used equipment

Bonus or Special First Year Depreciation

Depending on the year, 100%, 80%, 60%, 40%, 20%, and 0%

IRC § 179 Expensing up to \$1,160,000 (2023) subject to limitations

Taxation of Grants Received

Generally, grants received are taxable income (IRC § 61) and subject to SE tax.

Often there are offsetting expenses

Some grants for soil and water conservation purposes may be excluded under IRC § 126.

Need to be clear as to the purpose of the grant and the granting agency's protocols.

Hiring Owner's Children

Parents and Partnerships where the parents are the only partners, can hire their children under the age of 18 without requiring federal and FICA withholding

Not the same rules apply for grandparents

Not the same rules apply for LLCs, Corporations or Partnerships with other family members (e.g., aunts, uncles, cousins)

Recent Fire Losses (Casualties)

Disaster Declarations: Presidential, agency, Sec. of Ag, State

Loss of pasture and feed

Donation of feed

Limited to lesser of FMV or Basis (which is often zero)

Loss of Personal Property (Different Rules Apply)

Business Assets (cattle, equip, machinery)

Non-Business Assets (residence, car, furniture, etc.)

\$100 rule, AGI limitation

Insured versus Uninsured

Deferring Cattle Sale Income

Under IRC § 1033(e) sale of excess cattle can be deferred

The farmer/rancher changes mind on replacing deferred cattle
Options?

Amend the tax year in which the cattle were first deferred

Buy cattle back to preserve tax benefits of the past, e.g.,

Child Tax Credit

Educational Tax Credits

Earned Income Tax Credit

Sell the re-purchased cattle in the subsequent tax year,

the income tax liability may be less, the same, or more

Taxpayer dies without replacement, must amend original tax
return

Entity Issues

Who owns the “stuff”

Separate the Entity from the Equity Owners (individuals)

Piercing the “Corporate Veil”

Using the company accounts as personal bank

Violating the operating agreement, bylaws, etc.

Using company equipment/assets for personal purposes

Conservation Easement

Sale of development rights

A sale of a land interest, expect a Form 1099-S, calculate gain or loss and report on Part 1 or Part 2 of Form 4797.

Donation

To a 501(c)(3) or gov't agency which holds the easement

For farmers, 100% of AGI, carried forward 15 years

For non-farmers, 50% of AGI, carried forward 15 years

Combination of Sale and Donation

The donation can offset the taxable consequence of the sale depending on the fact pattern.

Timber Tax Issues

Generally, the most common issue is basis of the timber is not known or poorly recorded

Purchase, Inherited, or by Gift, (transfer into entity/by divorce)

Knowing if you are “in the business” or acting as an “investor”

Sales are “capital gain”, either IRC § 1231(biz) or 1221(capital)

Business deductions may be limited based on the circumstances of the tax year.

Investor’s deductions are limited currently due to TCJA

Excess Soil Fertility

Beware of aggressive agronomy/consulting firms

Taking a conservative position is recommended (pigs get fed, hogs get slaughtered)

Use BMPs for estimating crop rotations with the report estimating nutrient uptake from the soil

Some estimates have come in at 65-70 years...is it worth it?

IRS has not disallowed, however, State Depts of Revenue have

Thank you for Attending!!

What questions might you have?

For any follow-up questions contact:

janet.wright@usda.gov

