

Reporting Sales & Purchases of Farm Assets

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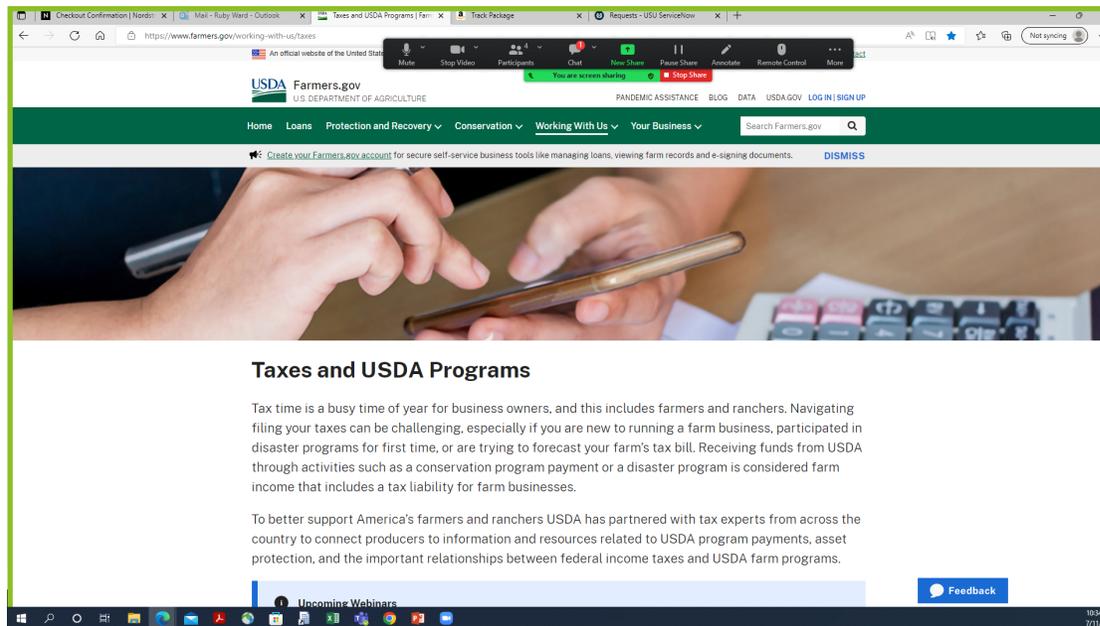
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Tax and Financial Education Project

- 3-Year USDA-FSA Funded Project
- Tax related educational materials:
 - Beginning Farmers/Ranchers
 - Commercial Farmers/Ranchers
 - Socially Disadvantaged Farmers/Ranchers
 - Landowners
 - Others



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- Website hosted by Utah State University
- Material developed, managed, and owned by the **National Farm Income Tax Extension 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...

Program Agenda

- Farmers Tax Guide What's New
- 2024 Reporting Rules
- Machinery Sale Caution
- Examples
- Forms 4797 and 4562



New Farmer Tax Topics

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Valuable Information
for Farm Tax Return
Preparation

Publication 225

Cat. No. 11049L

Farmer's Tax Guide

For use in preparing

2024 Returns

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7.

Depreciation, Depletion, and Amortization

What's New for 2024

Increased section 179 expense deduction dollar limits. The maximum amount you can elect to deduct for most section 179 property you placed in service in 2024 is \$1,220,000. This limit is reduced by the amount by which the cost of the property placed in service during the tax year exceeds \$3,050,000. Also, the maximum section 179 expense deduction for sport utility vehicles placed in service in tax years beginning in 2024 is \$30,500. See [Dollar Limits](#) under [Section 179 Expense Deduction](#), later.

2024 IRS Pub 225 Chapter 7

Phase down of special depreciation allowance. The special depreciation allowance is 60% for certain qualified property acquired after September 27, 2017, and placed in service after December 31, 2023, and before January 1, 2025 (other than certain property with a long production period and certain aircraft). For certain property with a long production period and certain aircraft placed in service after December 31, 2023, and before January 1, 2025, the special depreciation allowance is 80%. The special depreciation allowance is also 60% for certain specified plants bearing fruits and nuts planted or grafted after December 31, 2023, and before January 1, 2025. See [Certain qualified property acquired after September 27, 2017](#) and [Certain specified plants](#) under [What Is Qualified Property](#), later.

Change to IRS Pub 225 “Farmers Tax Guide”

- Prior to 2023, sales of machinery were not included in the definition of “gross income from farming”
- This caused gains from trade-ins reported on Form 4797 to perhaps “disqualify” a taxpayer as farmer
- If not a farmer, no longer eligible to make only 1 estimated tax payment on January 15 of following year or file by March 1 with no estimated payments
- 2023 Pub 225 Significant Change: **sales of machinery are now included as** “gross income from farming”

Gross income from farming is the total of the following amounts from your tax return.

- Gross farm income from Schedule F (Form 1040).
- Gross farm rental income from Form 4835.
- Gross farm income from Schedule E (Form 1040), Parts II and III.
- Gains from the sale of livestock used for draft, breeding, sport, or dairy purposes reported on Form 4797.
- Gains from the sale of depreciable farm equipment reported on Form 4797.

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Estimated Tax Payments [IRC § 6654(i)(2)]

- For estimated tax purposes, IRS considers a taxpayer a “farmer” if:
 - Two-thirds of the producer’s gross income is derived from farming
 - Then for calendar year taxpayers:
 - Pay one estimated tax payment by January 15th and file April 15 or
 - Forego estimated tax payments and make payment in full and file March 1st
 - If no estimated tax payment is made and payment and filing is done April 15th, an interest penalty will apply



Tax Effects from 2024 Purchases

- IRC 179 Expense Election
- Bonus Depreciation (None or 60%)
- Regular Depreciation
- State rules may not follow federal rules
- Personal Property Like-Kind Exchanges
 - none after 12/31/2017 Tax Cut and Jobs Act (Sec. 1031 change)

2024 Depreciation Provisions

100% bonus depreciation through 2022

60% bonus depreciation for 2024, 40% after 2024

All farm assets including machine sheds (new & used)

\$1,220,000 Maximum Sec 179 deduction

\$3,050,000 Maximum Sec 179 purchase limit

Most farm assets (new & used)

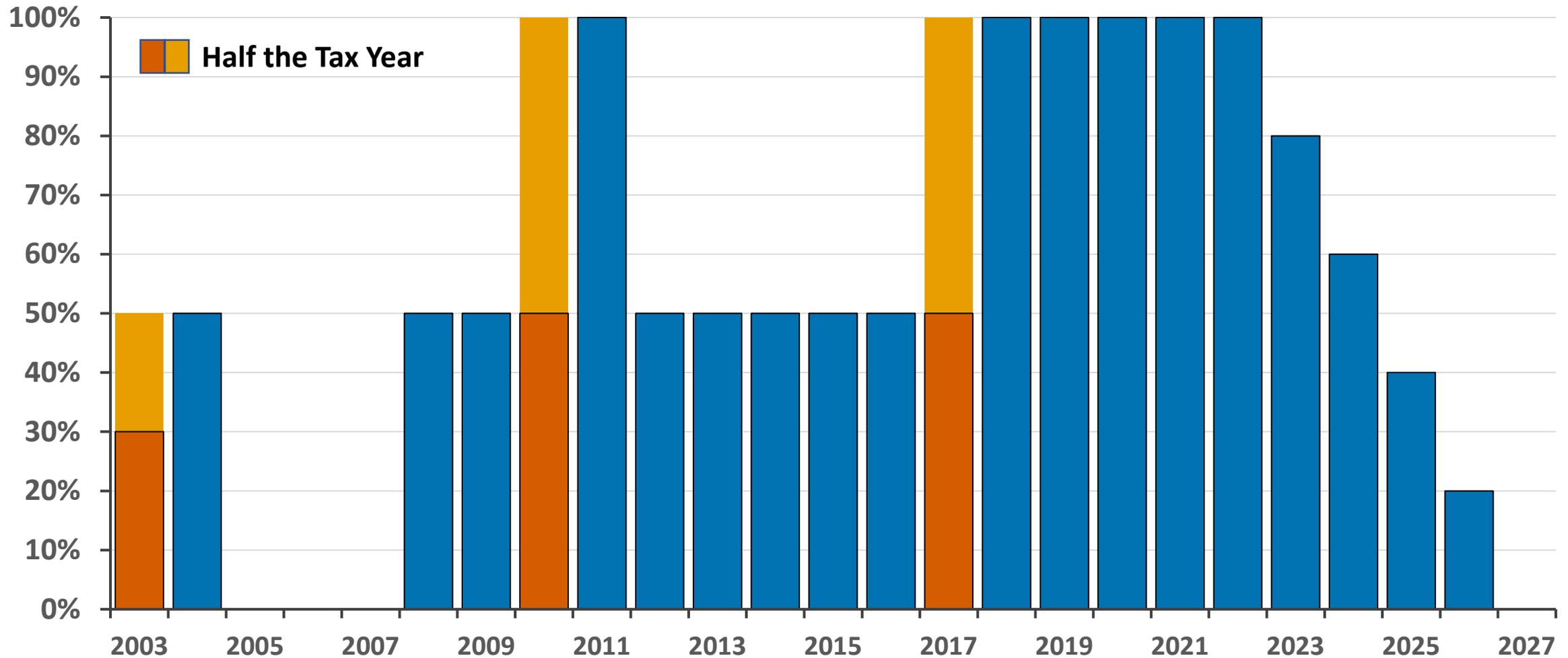
Related party acquisitions do not qualify

Brothers are not related parties for this rule

Must be placed in service

“in a state of readiness for its intended use”

Bonus Depreciation Set to Phase Out by 2027



Reducing Self Employment Tax (15.3%)

- Trade of machinery can lower this tax liability
- Full value of purchase is depreciated on Form 4562 then to Schedule F
 - **Lowers SE tax**
- Fair Market Value of trade is reported on Form 4797 as sale of assets
 - **Not subject to SE tax**
- Example: A truck with a FMV of \$20,000 is traded for a new truck with a total cost of \$45,000. The \$20,000 trade-in value is reported on Form 4797 not subject to 15.3% SE tax.
 - **Potential tax savings ~ \$3000 compared to Pre TCJA**

Sale of Machinery Tax Caution

- If done via installment sale
full contract price is taxable in year of sale
even if not fully paid for in that year
- IRS requires depreciation claimed in prior years
to be “recaptured” in year of sale
not year of payment



Sale of Machinery Tax Caution

- Related party buyer
no 179 expense or bonus depreciation
 - Seller: large income in year of sale
 - Related party buyer: deductions over time
- **Better idea may be a**
Long term lease
with periodic purchase option



Machinery Depreciation Example

- Trade-in value of Tractor \$85,000
 - Purchase cost was \$90,000, fully depreciated
- Purchase price of replacement Tractor \$185,000
- Net Trade-in \$100,000
(irrelevant for tax)
- Must report a gain of \$85,000 on Form 4797
- Full purchase price eligible for depreciation on Form 4562, Sch F
- Saves ~ \$13,000 SE tax potentially
- Gain on Form 4797 is ordinary gain and thus QBID eligible
 - QBID – Qualified Business Income Deduction 20%

Machinery Depreciation Example

\$100,000 Purchase price of used tractor in 2024

New farm equipment has a 5 year recovery period

Used farm equipment has a 7 year recovery period

IRC 179 expense up to \$100,000

Bonus depreciation {60%} of \$60,000 (2024) +\$5,714 regular

Bonus will only be \$40,000 if purchased in 2025

If no 179 or bonus, then regular depreciation is \$14,286

Machine Shed Depreciation Example

\$300,000 Cost of shed placed in service in 2023

Farm buildings have a 20 year recovery period

IRC 179 expense – not available

Bonus depreciation {60%} of \$180,000 (2024) +\$4,500 regular

Bonus will only be \$120,000 if purchased in 2025

Regular (if no bonus) depreciation would be \$11,250

Illinois depreciation will be \$11,250

Machinery Depreciation Example 2024

\$4,300,000	Cost of new machinery placed in service
\$3,100,000	Value of machinery traded in (fully depreciated)
\$1,200,000	Anticipated deductions

IRC 179 expense – N/A – total purchases > \$4.27 million

Bonus depreciation of \$2.58 million + \$344,000 regular

Total deductions \$2,924,000

Machinery Depreciation Example 2024

\$2,924,000	Total deductions
\$3,100,000	Gain reported from trade in
\$ 176,000	Net increase to federal taxable income
\$1,200,000	Anticipated net decrease to taxable income
\$1,376,000	Additional {unexpected} taxable income in 2024
\$2,240,000	<i>Net increase to 2024 Illinois taxable income</i>

\$3.1M gain less \$860k ($\$4.3M \times 20\%$)

Form 4797 is used to report Sales of Assets

<p>Form 4797</p> <p>Department of the Treasury Internal Revenue Service</p>	<p>Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))</p> <p>Attach to your tax return. Go to www.irs.gov/Form4797 for instructions and the latest information.</p>	<p>OMB No. 1545-0184</p> <p style="font-size: 2em; font-weight: bold;">2024</p> <p>Attachment Sequence No. 27</p>
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Name(s) shown on return	Identifying number	
1a Enter the gross proceeds from sales or exchanges reported to you for 2024 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions	1a	
b Enter the total amount of gain that you are including on lines 2, 10, and 24 due to the partial dispositions of MACRS assets	1b	
c Enter the total amount of loss that you are including on lines 2 and 10 due to the partial dispositions of MACRS assets	1c	

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)

Form 4797 is used to report Sales of Assets

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255
(see instructions)

19	(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A	Tractor	06/15/2020	03/01/2024
B			
C			
D			

These columns relate to the properties on lines 19A through 19D.		Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1a before completing.)	85000			
21	Cost or other basis plus expense of sale	90000			
22	Depreciation (or depletion) allowed or allowable	90000			
23	Adjusted basis. Subtract line 22 from line 21.	0			
24	Total gain. Subtract line 23 from line 20	85000			
25	If section 1245 property:				
a	Depreciation allowed or allowable from line 22	85000			
b	Enter the smaller of line 24 or 25a	85000			

Form 4797 is used to report Sales of Assets

Part II Ordinary Gains and Losses (see instructions)

10	Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):						
11	Loss, if any, from line 7					11	()
12	Gain, if any, from line 7 or amount from line 8, if applicable					12	
13	Gain, if any, from line 31					13	
14	Net gain or (loss) from Form 4684, lines 31 and 38a					14	85000
15	Ordinary gain from installment sales from Form 6252, line 25 or 36					15	
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824					16	
17	Combine lines 10 through 16					17	85000
18	For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below.						
a	If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the loss from income-producing property on Schedule A (Form 1040), line 16. (Do not include any loss on property used as an employee.) Identify as from "Form 4797, line 18a." See instructions					18a	
b	Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Schedule 1 (Form 1040), Part I, line 4					18b	85000

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 130861 Form **4797** (2024)



Form 4562 is used to report Depreciation of Assets

Form 4562 Department of the Treasury Internal Revenue Service	Depreciation and Amortization (Including Information on Listed Property) Attach to your tax return. Go to www.irs.gov/Form4562 for instructions and the latest information.	OMB No. 1545-0172
		2024 Attachment Sequence No. 179
Name(s) shown on return <i>Example</i>	Business or activity to which this form relates <i>Schedule F Grain Farming</i>	Identifying number <i>XXX-XX-XXXX</i>

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	1220000
2	Total cost of section 179 property placed in service (see instructions)	2	100000
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	3050000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	1220000
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
	Tractor	100000	10000
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	10000
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	10000
10	Carryover of disallowed deduction from line 13 of your 2023 Form 4562	10	0
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions	11	63549
12	Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11	12	10000
13	Carryover of disallowed deduction to 2025. Add lines 9 and 10, less line 12	13	0

Note: Don't use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Don't include listed property. See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions	14	54000
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Form 4562 is used to report Depreciation of Assets

Part III MACRS Depreciation (Don't include listed property. See instructions.)						
Section A						
17 MACRS deductions for assets placed in service in tax years beginning before 2024						17
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>						
Section B—Assets Placed in Service During 2024 Tax Year Using the General Depreciation System						
(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		36000	5	HY	200%DB	7200
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	
Section C—Assets Placed in Service During 2024 Tax Year Using the Alternative Depreciation System						
20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 30-year			30 yrs.	MM	S/L	
d 40-year			40 yrs.	MM	S/L	
Part IV Summary (See instructions.)						
21 Listed property. Enter amount from line 28						21
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions						22 71200
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs						23

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 12906N

Form 4562 (2024)

Resource Links

- Rural Tax.org
 - <http://www.ruraltax.org>
 - <http://ruraltax.org/beginningfarmer-tax>
- USDA Farmers Website
 - <https://www.farmers.gov/taxes>
- IRS Publication 225: Farmers Tax Guide
 - <https://www.irs.gov/pub/irs-pdf/p225.pdf>
- Land Grant University Tax Education Foundation
 - <https://taxworkbook.com>



New Farmer Tax Topics

ruraltax.org

- University of Illinois Tax School
- <https://taxschool.illinois.edu>

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Questions?

