



2019 Farm Income Tax Webinar

Charles Brown

Field Specialist - Farm Management

crbrown@iastate.edu

641-673-5841

515-240-9214



IOWA STATE UNIVERSITY
Extension and Outreach

Tax Cuts & Jobs Act

- Signed into law on December 22, 2017.
- Biggest changes to the tax code since 1986.
- Most clients saw tax savings although many didn't realize it.



IOWA STATE UNIVERSITY
Extension and Outreach

Children with Unearned Income

- For tax years 2018 to 2025
- Parents' rates no longer considered
- Apply ordinary & capital gains rates of trusts/estates to *net unearned* income
- Earned income taxed @ single rate

IOWA STATE UNIVERSITY
Extension and Outreach

Capital Gains Tax Rates

2019 Long Term Capital Gains Tax Brackets			
Tax Bracket/Rate	Single	Married Filing Jointly	Head of Household
0%	\$0 - \$39,375	\$0 - \$78,750	\$0 - \$52,750
15%	\$39,376 - \$434,550	\$78,751 - \$488,850	\$52,751 - \$461,700
20%	\$434,551+	\$488,851+	\$461,701+

IOWA STATE UNIVERSITY
Extension and Outreach

Child Tax Credit (2018-2025)

- \$2,000 (up from \$1,000) per qualifying child **with SSN** issued prior to due date of return
 - Refundable to extent of lesser of: \$1,400 or 15% earned inc. > \$2,500
- Phase out start (not indexed):
 - \$400,000 AGI (MFJ) (**used to be \$110,000**)
 - \$200,000 AGI (MFS, HoH, Single)

IOWA STATE UNIVERSITY
Extension and Outreach

Child Tax Credit (2018-2025)

- New Dependent Credit - \$500
- Dependent as defined in § 152 other than a qualifying child
 - **Not refundable**

No credit if dependent is resident of Canada/Mexico & not US citizen

IOWA STATE UNIVERSITY
Extension and Outreach

Limit on State and Local Taxes

- No deduction for foreign real property tax
- \$10,000 (\$5,000 MFS) limit to total of:
 - State & local property taxes
 - State, local and foreign income tax, war profits tax, excess profits tax
 - General sales tax
- Limit does not apply if tax is a § 162 or § 212 expense

IOWA STATE UNIVERSITY
Extension and Outreach

Other TCJA Changes 2019

Standard deductions doubled

- MFJ & Surviving Spouse \$24,400
- Head of Household \$18,350
- Single & MFS \$12,200

Additional for elderly or blind:

- \$1,300 MFJ (each), \$1,650 others

IOWA STATE UNIVERSITY
Extension and Outreach

Gifting Grain to Charity

- Married filing jointly must exceed \$24,400 in order to itemize
 - Cash donations to charity do not reduce taxable income unless you exceed \$24,400
- Instead, make a gift of grain to your church
 - Gift 1400 bushels of corn with a market value of \$5000
 - Farmer doesn't get a charitable deduction, but also doesn't pay taxes on selling the grain
 - Church receives the grain and then sells the grain
 - Farmer realizes about a \$1430 savings in self-employment and Federal & Iowa income taxes

IOWA STATE UNIVERSITY
Extension and Outreach

College Savings Iowa 529 Plans

- 2019 Contributions
 - \$3387 per beneficiary
 - Married filing jointly couple – both can contribute (2 x \$3387)
 - Can contribute \$75,000 filing single or \$150,000 if married filing jointly in one year if no other contributions are made for the next 5 years
- Deductible on Iowa return, not Federal
- Not taxable when money is withdrawn if used for qualifying educational expenses

IOWA STATE UNIVERSITY
Extension and Outreach

Meals for Convenience of Employer

- Meals for the convenience of employer are now 50 percent deductible and will be 0% deductible after 2025.
- Should continue to be excluded from employee's income under IRC § 119(a) if Treas. Reg. § 1.119-1(a)(2)(ii) conditions are met.
- If meals are not excludable from income, expense is deductible as compensation.

11

IOWA STATE UNIVERSITY
Extension and Outreach

Modification of NOL

NOLs Arising in Years Beginning > 12/31/2017

- NOL deduction limited to 80% of taxable income (w/o NOL)

Example

- \$95,000 NOL in 2018 carried to 2019
- \$100,000 Taxable Income in 2019
- NOL deduction limited to \$80,000

IOWA STATE UNIVERSITY
Extension and Outreach

Modification of NOL

- 2-year carryback repealed
- Replaced with indefinite carryforward
- Farm loss may be carried back 2 years (instead of 5)
 - May elect to forego carryback (irrevocable)

IOWA STATE UNIVERSITY
Extension and Outreach

Section 179 Expensing

- \$1,000,000 limit / \$2.5M phaseout threshold
 - Tax years beginning after 2018 are indexed for inflation
 - \$1,020,000 / \$2,550,000 (2019)
- After \$3,570,000 no expensing allowed
- Asset by asset, rather than class-by-class.
- Must be used more than 50 percent for business purposes.
- Election may be made on an amended return.

IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Section 179 Limit

- 2019: \$100,000 for all taxpayers, with a phase-out threshold of \$400,000. Iowa Code § 422.7(51).
 - Next year (2020): coupled with federal!

15

IOWA STATE UNIVERSITY
Extension and Outreach

Bonus Depreciation Placed Into Service After 9/27/17

- 100 percent bonus depreciation for new and used property through 2022, for qualifying property acquired *and* placed into service after September 27, 2017.
 - Taxpayers could elect to use 50 percent bonus only for *first tax year ending after September 27, 2017.*
 - Can elect out of bonus by class (elections cannot be revoked without IRS consent)

IOWA STATE UNIVERSITY
Extension and Outreach

Bonus Depreciation Property Placed Into Service After 9/27/17

General (also for plants bearing fruits and nuts)

After 9/27/17 & Before 1/1/23	100%
After 12/31/22 & Before 1/1/24 (2023)	80%
After 12/31/23 & Before 1/1/25 (2024)	60%
After 12/31/24 & Before 1/1/26 (2025)	40%
After 12/31/25 & Before 1/1/27 (2026)	20%

Aircraft & long production period property %'s decrease one year later, ending with 20% in 2027

No bonus in Iowa.

IOWA STATE UNIVERSITY
Extension and Outreach

Like-Kind Exchange

- The Act retained IRC § 1031 like-kind exchange treatment for real property, but permanently eliminated it for **personal property**, beginning with exchanges occurring after December 31, 2017.
 - **A trade is treated as a taxable sale and a purchase.**
- While increased expensing and depreciation options may offset impact, there are significant distinctions.

IOWA STATE UNIVERSITY
Extension and Outreach

Old Law

- Old law, like kind exchange treatment was mandatory for a trade:
- In 2017, John traded a tractor with a FMV of \$75,000 and an adjusted basis of \$0 for a tractor with a fair market value of \$125,000, plus \$50,000 in cash.
 - IRC § 1245 recapture was deferred, and the basis in John's replacement tractor was \$50,000 (\$0 basis in relinquished tractor, plus boot paid). John could generally use IRC §179 to immediately expense \$50,000, the amount of boot paid in the transaction.

19

New Law Example

- In 2018, John “trades” a tractor with a FMV of \$75,000 and an adjusted basis of \$0, plus \$50,000 cash, for a tractor with a fair market value of \$125,000.
- This transaction is a sale and a purchase. John must now recognize \$75,000 in § 1245 recapture.
 - John's basis in his new tractor is \$125,000, the full purchase price of the tractor.
 - John can likely use federal IRC § 179 to expense that amount in 2018. If Section 179 is not available, he can use 100 percent bonus.

20

Repeal of 1031 Example

New combine and corn head

Purchase Price \$ 750,000

	Federal	Iowa	Iowa (old rule)
Traded combine & corn head (Purchase price \$500,000, but \$0 basis)	<u>Income</u>	<u>Income</u>	<u>Income</u>
Trade-in value \$ 400,000	Ordinary income \$ 400,000	\$ 400,000	\$ -
Difference paid \$ 350,000			
	Section 179 Expense \$ 400,000	Section 179 Expense \$ -	\$ -
	Depreciation (\$750,000 - \$400,000) <u>\$ 70,000</u>	Depreciation (\$750,000) <u>\$ 150,000</u>	\$ 70,000
	Net income from trade \$ (70,000)	Net income from trade \$ 250,000	\$ (70,000)

IOWA STATE UNIVERSITY
Extension and Outreach

Impact of New Treatment

- Farmer is eligible to fully expense new equipment in 2019 using Section 179.
 - How will this impact Farmer?
 - This will cause often cause Schedule F to be significantly reduced or show a loss.

22

IOWA STATE UNIVERSITY
Extension and Outreach

Self-Employment Tax

- Farmers must pay 12.4 percent in self-employment tax on 92.35 percent of their net farm income, up to \$132,900 in 2019. Additionally, they must pay 2.9 percent on 92.35 percent of all net farm income (there is no ceiling). Additionally, they may take a deduction on Schedule 1, Form 1040 for one-half of the self-employment tax they pay.
- **If a farmer has negative Schedule F income, he will have no self-employment tax liability.** In fact, he will save \$7,065 in self-employment tax income if he does not report \$50,000 net Schedule F income he might have reported under prior tax law.

23

IOWA STATE UNIVERSITY
Extension and Outreach

Retirement Accounts

- If a farmer has no self-employment income, he cannot make contributions to a simplified employee pension (SEP) plan, a SIMPLE IRA Plan, or a SOLO 401(k) plan in 2019 and recognize a deduction for the corresponding contribution.
- Nor can he contribute to a traditional or a Roth IRA unless he has other earnings. Gains from the sale of depreciated property do not count.
- Roth IRA contributions (not deductible) are a good option in a year when taxable income is low.

24

IOWA STATE UNIVERSITY
Extension and Outreach

Health Insurance

- If a farmer has no self-employment income, he is not eligible to take a self-employed health insurance deduction in 2019. With the cost of health insurance high, this can mean the loss of a significant tax benefit that cannot be recouped in future years.

25

Iowa HF 779 – Like Kind Exchange

- SF 2417 allows individuals in 2019 to elect 1031 treatment for personal property.
- This bill extends this benefit to corporations and bank franchises

26

C CORP ISSUES

27

IOWA STATE UNIVERSITY
Extension and Outreach

Corporate Income Tax Rate

- *Permanently* lowered the *maximum* corporate tax rate from 35% to 21%, beginning in 2018.
 - Hasn't been a tax cut for everyone.

28

IOWA STATE UNIVERSITY
Extension and Outreach

Corporate Tax Rate – Now a *Flat* Rate

- Note that BIG tax is now 21 percent also.
- And that it's not a tax cut for everyone. Old Rates:

Taxable Income	Tax rate (percent)
Not over \$50,000	15
Over \$50,000 but not over \$75,000	25
Over \$75,000 but not over \$10,000,000	34
Over \$10,000,000	35

- \$50,000 taxable income = \$7,500 in 2017, but \$10,500 in 2018.
- \$80,000 taxable income = \$15,450 tax in 2017, but \$16,800 in 2018.

29

IOWA STATE UNIVERSITY
Extension and Outreach

Key Estate & Gift Tax Provisions Impacting Farm Succession Planning

- Doubled the basic exclusion to \$11,400,000 (2019) per person for estate and gift and generation skipping tax.
- \$15,000 annual exclusion retained.
- Portability Retained
- Basis Adjustment Retained
- Capital Gains rate unchanged
- **Basic exclusion amounts reset to pre-Act levels in 2026!**

30

IOWA STATE UNIVERSITY
Extension and Outreach

What is the impact of temporarily increased exclusion?

- Must watch developments for married clients above \$12 M or so carefully.
- Until Congress changes the law or the new provisions sunset, planning opportunities exist for higher wealth clients.
 - Gift while the sun still shines?
 - No clawback (proposed regulation REG-106706-18)

31

IOWA STATE UNIVERSITY
Extension and Outreach

No Clawback

- \$9 million gift in 2021. Files Form 709.
- Dies in 2026, after BEA reset to \$5 million
- BEA is \$9 million (amount of gift sheltered by BEA in 2021).

IOWA STATE UNIVERSITY
Extension and Outreach

But this only works if you go all the way.

- \$5 million gift in 2021. Files Form 709.
- Dies in 2026, after BEA reset to \$5 million
- BEA is \$5-6 million.
- Additional wealth distributed at death is not shielded from estate tax.

33

What about portability?

- Existing regulations would apply DSUE (deceased spouse unused exclusion) in place at time of first spouse to die.
- This makes portability election more, not less, important.
- Would (in the absence of contrary guidance) lock in the higher amount of exclusion for future years, even if exclusion decreases.

34

Portability Example

- Spouse dies in 2023 leaving \$11 million DSUE.
 - Portability is elected.
- Surviving spouse dies in 2027 after BEA reset to \$5-6 million.
 - Current regulations would allow \$11 million DSUE to apply.
 - Surviving spouse would have \$16-17 million exemption.
 - No portability elected: \$5-6 million exemption.

35

IOWA STATE UNIVERSITY
Extension and Outreach

Thank You!

Have a Great Holiday Season!



IOWA STATE UNIVERSITY
Extension and Outreach