

# **Charles Brown**

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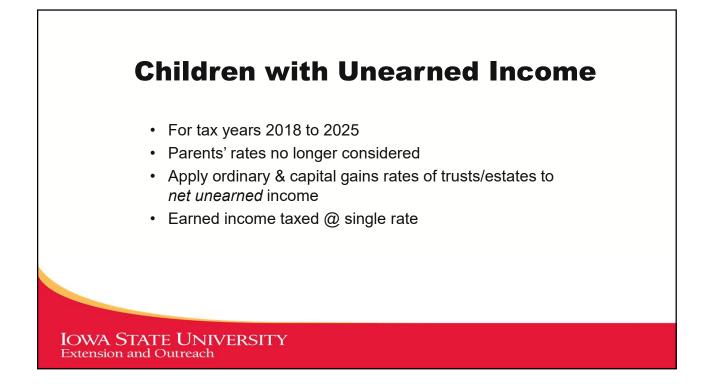


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# **Tax Cuts & Jobs Act**

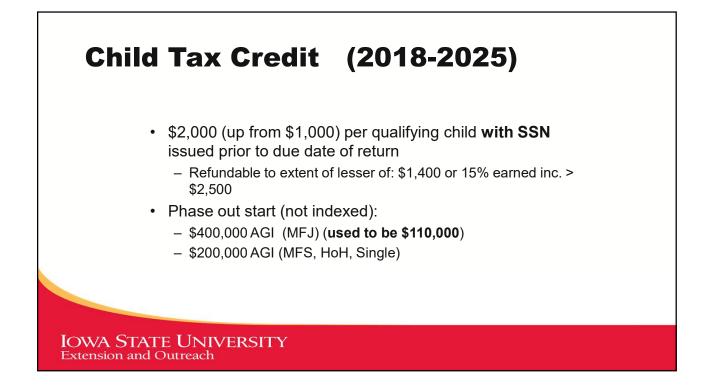
- Signed into law on December 22, 2017.
- Biggest changes to the tax code since 1986.
- Most clients saw tax savings although many didn't realize it.

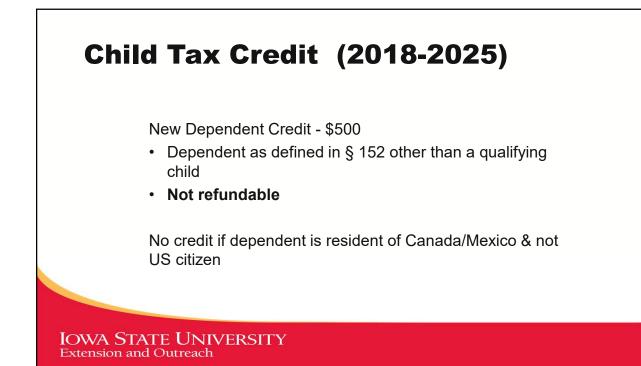


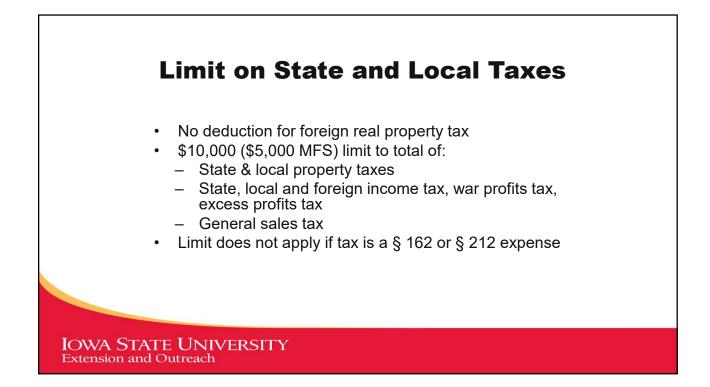


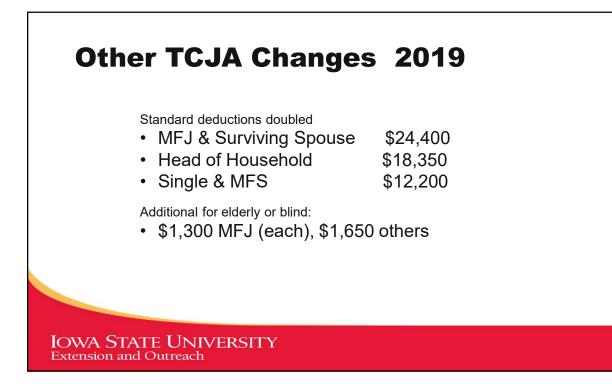
# **Capital Gains Tax Rates**

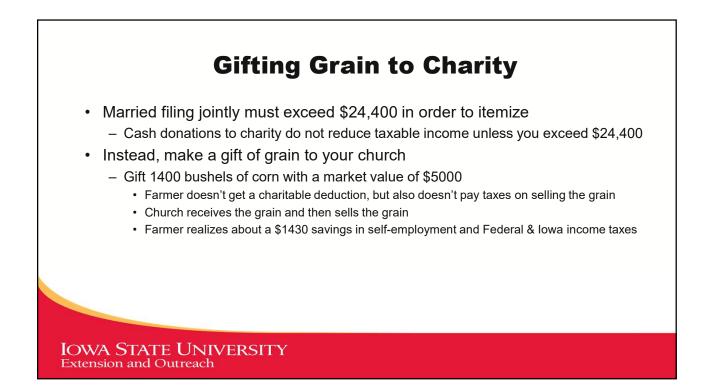
2019 Long Term Capital Gains Tax Brackets						
Tax Bracket/Rate	Single	Married Filing Jointly	Head of Household			
0%	\$0 - \$39,375	\$0 - \$78,750	\$0 - \$52,750			
15%	\$39,376 - \$434,550	\$78,751 - \$488,850	\$52,751 - \$461,700			
20%	\$434,551+	\$488,851+	\$461,701+			





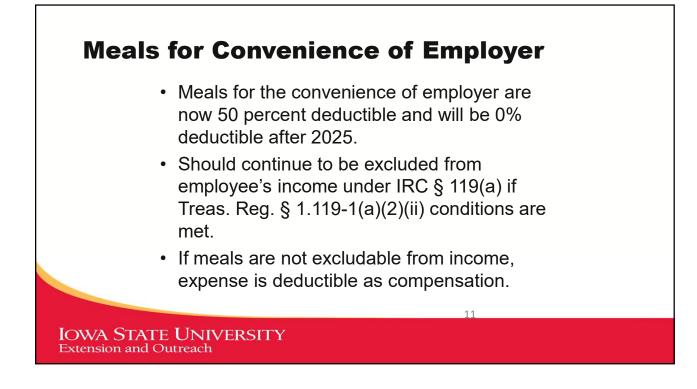


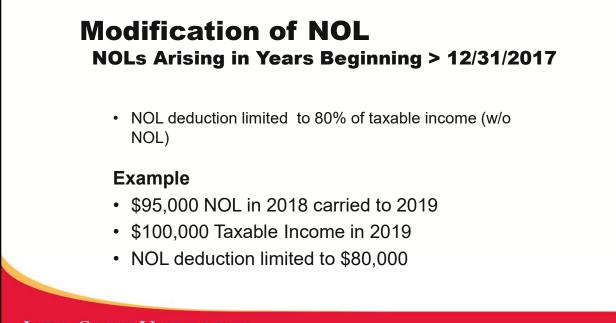


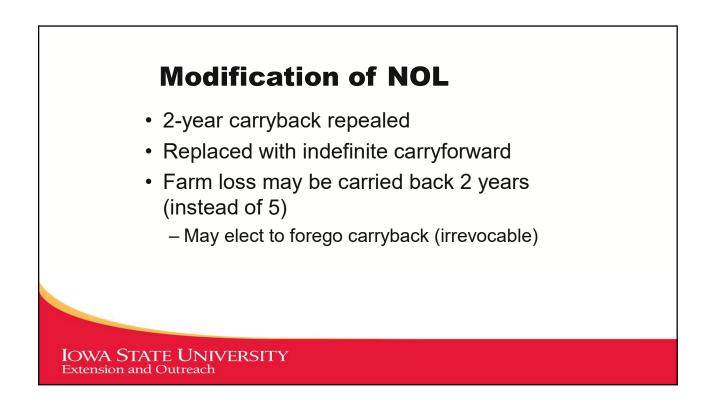


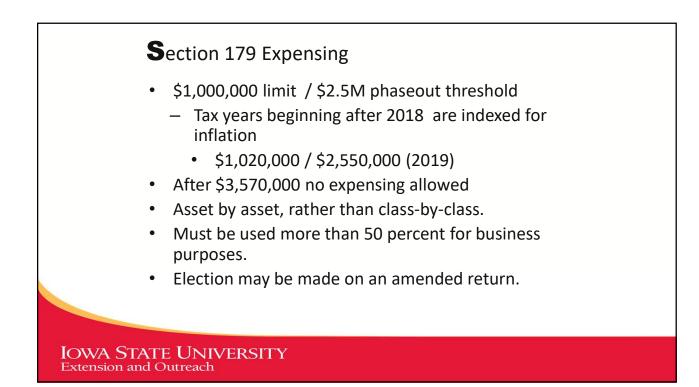
# **College Savings Iowa 529 Plans**

- 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



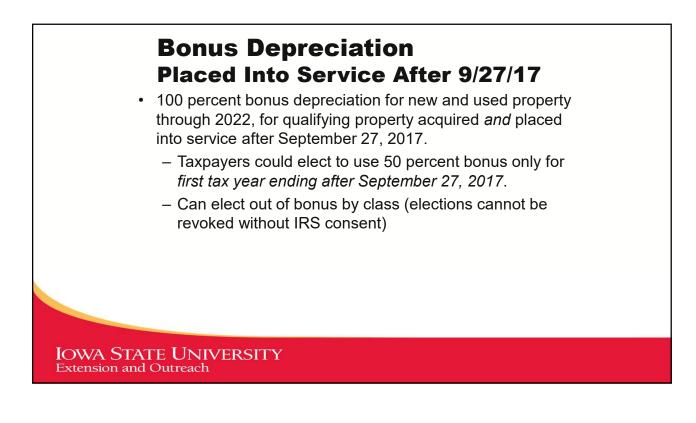






# **Iowa Section 179 Limit**

- 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!



Bonus Depreciati Property Placed Into So 9/27/17		)r
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 pro one year later, ending with 20% in 2		ase
No bonus in Iowa.		

## **Like-Kind Exchange**

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- 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.

### **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.

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#### **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.

<b>Repeal of 1031 Example</b>								
New combine and corn head								
Purchase Price \$ 750,000								
	Federal		lowa	Iowa (old rule				
raded combine & corn head (Purch	ase price \$500,000, but \$0 basis) Income		Income	Income				
Trade-in value \$ 400,000	Ordinary income \$ 400,000	\$	400,000	\$-				
Difference paid \$ 350,000								
	Section 179 Expense \$ 400,000 Depreciation (\$750,000-	Section 179 Expense \$	-	\$-				
	\$400,000) <u>\$ 70,000</u>	Depreciation (\$750,000) <u>\$</u>	150,000	\$ 70,000				
	Net income from trade \$ (70,000)	Net income from trade \$	250,000	\$ (70,000				

# 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.

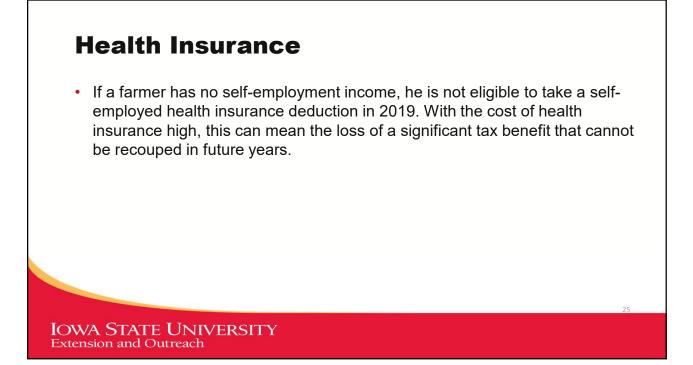
# Self-Employment Tax

- 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 selfemployment 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.

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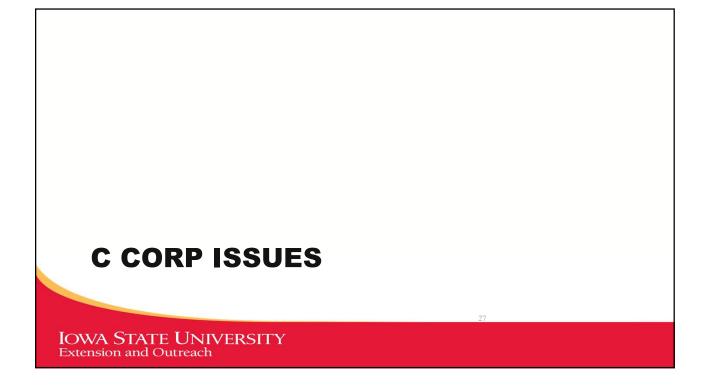
#### **Retirement Accounts**

- 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.

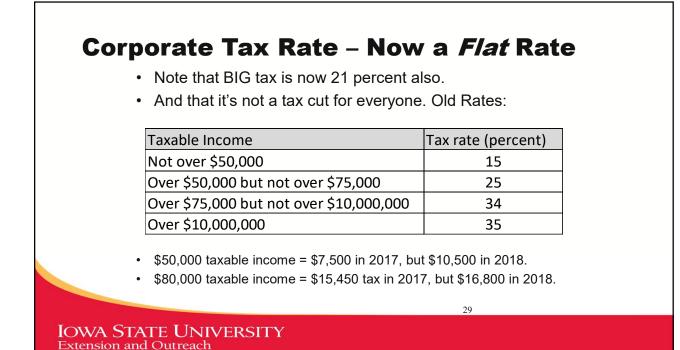


# Iowa HF 779 – Like Kind Exchange

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



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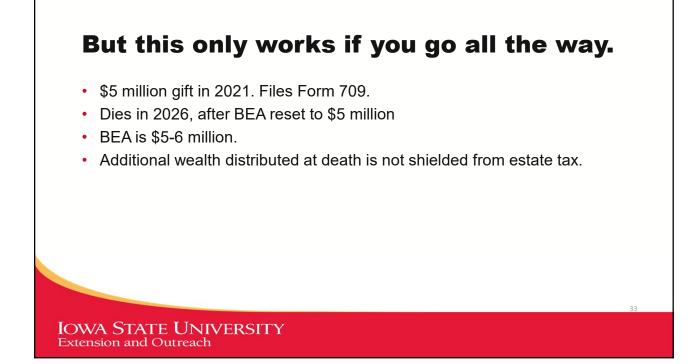


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# **No Clawback**

- \$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).



# 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

