2023 Farm Income Tax Webinar

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Tax Rates for 2023

2023 Tax Rate Schedules

Section 1(j)(2)(A)—Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is:	The Tax Is:
Not over $22,000	10% of the taxable income
Over $22,000 but not over $89,450	$2,200 plus 12% of the excess over $89,450
Over $89,450 but not over $190,750	$10,294 plus 22% of the excess over $190,750
Over $190,750 but not over $364,200	$32,580 plus 24% of the excess over $190,750
Over $364,200 but not over $462,500	$74,208 plus 32% of the excess over $364,200
Over $462,500 but not over $693,750	$105,664 plus 35% of the excess over $462,500
Over $693,750	$186,601.50 plus 37% of the excess over $93,750

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Tax Rates for 2023

Section 1(j)(2)(C)—Unmarried Individuals (Other Than Surviving Spouses and Heads of Households)

If Taxable Income Is:	The Tax Is:
Not over $11,000	10% of the taxable income
Over $11,000 but not over $44,725	$1,100 plus 12% of the excess over $11,000
Over $44,725 but not over $95,375	$5,147 plus 22% of the excess over $44,725
Over $95,375 but not over $182,100	$16,290 plus 24% of the excess over $95,375
Over $182,100 but not over $231,250	$37,104 plus 32% of the excess over $182,100
Over $231,250 but not over $578,125	$52,832 plus 35% of the excess over $231,250
Over $578,125	$174,238.25 plus 37% of the excess over $578,125

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Tax Rates for 2023

Section 1(j)(5)—Capital Gains Rates (Noncorporate Taxpayers)

Category of Gain	Tax Rate
Gain on collectibles	28%
I.R.C. § 1202 gain	28%
Unrecaptured I.R.C. § 1250 gain	25%
Net long-term capital gain	
Taxable income does not exceed $89,250 (MFJ), $44,625 (MFS), $59,750 (HoH), $44,625 (single), $3,000 (estate or trust)	0%
Taxable income does not exceed $553,850 (MFJ), $276,900 (MFS), $523,050 (HoH), $492,300 (single), $14,650 (estate or trust)	15%
Taxable income exceeds the maximum 15% rate amount	20%

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Tax Rates for 2023

Standard Mileage Rates

Cents per Mile	2021	2022 (Q1 and Q2)	2022 (Q2 and Q3)	2023
Business	56.0	58.5	62.5	65.5
Charity work	14.0	14.0	14.0	14.0
Medical/moving*	16.0	18.0	18.0	22.0

* The TCJA suspends the moving expense deduction for individual taxpayers in 2018 through 2025, except for armed forces members who move pursuant to a military order.

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Tax Rates for 2023

Standard Deduction

	2021	2022	2023
MFJ or QW	$25,100	$25,900	$27,700
Single	$12,550	$12,950	$13,850
HoH	$18,650	$18,800	$19,400
MFS	$12,550	$12,950	$13,850
Additional for elderly/ blind - married	$1,350	$1,400	$1,500
Additional for elderly/ blind – unmarried and not a surviving spouse	$1,700	$1,750	$1,850
Taxpayer claimed as dependent	Greater of $1,100 or earned income plus $350 but not exceeding nondependent standard deduction	Greater of $1,150 or earned income plus $400 but not exceeding nondependent standard deduction	Greater of $1,250 or earned income plus $400 but not exceeding nondependent standard deduction

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Iowa Personal Tax Rates 2023

Married Filing Jointly	Up to $3,476	0.33%
	$3,476 - $6,952	0.67%
	$6,952 - $25,724	2.25%
	$25,724 - $48,848	4.14%
	$48,848 - $94,952	5.63%
	$94,952 - $142,428	5.96%
	$142,428 - $165,528	6.25%
	$165,528 - $331,056	7.44%
	Over $331,056	8.53%

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Iowa Corporate Tax Rate 2023

Bracket	Tax Rate
$0- $25,000	5.5%
$25,001- $100,000	5.5%
$100,001- $250,000	8.4%
> $250,000	8.4%

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- Iowa Corporate Income Tax Rate Changes for 2024
  Order 2023-02 certifies the Department's calculation of new corporate income tax rates effective for tax years beginning on or after January 1, 2024, pursuant to 2022 Iowa Acts, House File 2317, Division IX.

Bracket	Tax Rate
$0 - $25,000	5.5%
$25,001 - $100,000	5.5%
$100,001 - $250,000	7.1%
> $250,000	7.1%

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Payroll Tax Forms

- W4
- IA W-4
- I9
- W2
- W3
- 943
- SUTA
  - **Iowa** Unemployment Insurance. **Agricultural employers** who paid cash wages of $20,000 or more to **agricultural** laborers in any quarter of the current or previous calendar year, or employed 10 or more workers in some portion of a day in 20 separate weeks in the current calendar year or the preceding calendar year is a "liable **employer**" who is obligated to report wages and pay unemployment insurance taxes.
- FUTA

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1099 Forms

- 1099-MISC
- 1099-NEC
- 1099-INT
- 1099-DIV
- 1096
- W9

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Iowa Retirement Income Exemption

- 160 acre farm
  - Basis = $1,000/acre X 160 = $160,000
  - FMV = $10,000/acre X 160 = $1,600,000
  - Cash rent = $300/acre X 160 acres X 10 years = $480,000
- Iowa income tax ($480,000 x 3.9%) = $18,720 tax
- Iowa income tax on land sold ($1,600,000-$160,000 = $1,440,000 gain
  - $1,440,000 x 3.9% = $56,160 tax

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Section 179

- A taxpayer may elect to treat the cost of any Section 179 property as an expense, deductible for the tax year in which the property is placed into service.
- The maximum I.R.C. § 179 deduction for 2023 is **$1,160,000**, reduced $1 for every $1 over the **$2,890,000 investment limit**.

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Active Requirement

- Qualifying property eligible for section 179 must be purchased for use in an "active" trade or business. The asset must be used more than 50% in the trade or business.
- "Trade or business" means an I.R.C. § 162 trade or business, which requires "regular and continuous" activity and an intent to profit.
- Section 179, however, adds an "active" requirement that is not clearly defined. Legislative history suggests Congress did not want passive investors in a trade or business offsetting passive income with the I.R.C. § 179 deduction.

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Section 179 Eligibility

- Property eligible for the I.R.C. § 179 deduction must be acquired by purchase; property acquired by gift or inheritance does not qualify. Property is not treated as acquired by purchase, even if a cash transaction is involved, if it is acquired from a related person or from another member of the same controlled group.
- The I.R.C. § 267(b) definition of **related persons** generally applies, but for this purpose, members of an individual's family include only a spouse, ancestors, and lineal descendants (not brothers and sisters).

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Section 179 Eligibility

- The I.R.C. § 179 deduction is limited to the taxpayer's aggregate net income from the active conduct of trades or businesses, including being an employee.
- Trade or business income is computed without regard to the cost of qualified expense property, the deduction for one-half self-employment tax, NOL carrybacks and carryforwards, and deductions suspended under other provisions, such as the passive loss rules.
- Amounts that cannot be deducted due to the tangible income limitation are carried forward indefinitely until they can be deducted.

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Property	GDS	ADS	179?	Type
Drainage Tile	15	20	YES	Integral
Paved Barn Lots	15	20	YES	Integral
Grain bins (but not shed used for flat storage)	7	10	YES	Storage
Poultry House	10	15	YES	Single Purpose
Agricultural Fences	7	10	YES	Integral
Trees and Vines Bearing Fruit or Nuts	10	20	YES	Integral
Peanut facility	7	10	YES	Storage
Orchards			YES	Integral
Irrigation Systems (If composed of masonry, concrete, tile, metal, or wood)	7	10	YES	Integral
Water Well for raising poultry and livestock or for irrigation	15	20	YES	Integral
Potato Facility	7	10	YES	Storage
Fruit Refrigerated Structure	7	10	YES	Storage
Machinery- New	5	10	YES	Personal Property
Machinery-Used	7	10	YES	Personal Property
Automobiles	5	5	YES	Personal Property
Cattle (dairy or breeding)	5	7	YES	Personal Property
Farm Building*	20	25	NO	Real Property

*Farm buildings are not eligible for section 179 because they are I.R.C. § 1250, not I.R.C. § 1245 property.

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Making the Election

- Taxpayers may elect to expense part or all of the cost of I.R.C. § 179 property that they placed in service during the tax year and use more than 50% in their trade or business.
- The election is made on Form 4562, and must be filed with either:
  - The original return (whether or not timely filed) OR
  - An amended return filed within the time prescribed by law for the applicable tax year

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Making the Election

- An election made on an amended return must specify the item of section 179 property to which the election applies and the part of the cost of each item to be taken into account.
- The amended return must also include any resulting adjustments to taxable income.

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Revoking the Election

- A I.R.C. § 179 election (or any specification made in the election) can be revoked without obtaining IRS approval by filing an amended return.
- The amended return must be filed within the time prescribed by law for the applicable tax year.
- The amended return must include resulting adjustments to taxable income or to tax liability.
- Once made, the revocation is irrevocable.

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Bonus Depreciation

- Also called additional first-year depreciation, farmers may deduct 80% of the basis of depreciable property if the taxpayer places the property into service in 2023.
- Bonus depreciation, unlike section 179, applies to multi-purpose farm buildings, as well as other assets.
- Bonus depreciation, however, must be taken for an entire class of assets.
- It is automatic, so those who do not wish to take the accelerated depreciation must elect out.
- **Bonus depreciation has begun to phase out**. It is scheduled to end entirely in 2027.

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Bonus Depreciation Phase-Out (It Finally Begins)

- The scheduled phase-out is as follows:
  - 2023: 80 percent bonus
  - 2024: 60 percent bonus
  - 2025: 40 percent bonus
  - 2026: 20 percent bonus

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Taking Bonus in 2023

- Taxpayers claim the bonus depreciation deduction on Form 4562 in the year they place the property into service. It is automatic unless the taxpayer elects out. Bonus depreciation applies to any basis remaining after any amount expensed under I.R.C. § 179.
- After the taxpayer calculates the bonus depreciation for the qualified property, they use the remaining cost to calculate the regular MACRS depreciation deduction. In other words, the order of the basis reduction is as follows:
    1. Section 179
    2. Bonus deprecation
    3. MACRS

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Example

- On February 14, 2023, Josh purchased a new tractor for use in his farming operation. He placed it into service in 2023. The tractor cost $250,000 and he elected to expense $50,000 of the cost under I.R.C. § 179.
- He did not elect out of bonus depreciation, so he next deducted $160,000 of the basis as additional first-year depreciation [.80*$200,000].
- He uses the remaining cost ($40,000) to calculate his regular MACRS depreciation deduction for 2023 and later years. The tractor is five-year property.

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Electing Out of Bonus

- Although the additional first year depreciation deduction is automatic for qualified property, taxpayers may elect of the deduction for the taxable year the property is placed in service.
- Once made, an election applies to all qualified property in the same class of property and placed in service by the taxpayer in the same taxable year.

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Electing Out of Bonus

- To make an election, the taxpayer must attach a statement to a timely filed Form 4562 (including extensions) indicating the class of property for which he or she is making the election and that, for such class, the taxpayer is not to claim any special depreciation allowance.
- The election must be made by the due date (including extensions) of the federal tax return for the tax year in which the taxpayer places the qualified property in service.

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Electing Out of Bonus

- Taxpayers who timely file a return but fail to make the election can still make the election by filing an amended return within six months of the due date of the return (excluding extensions).
- Write "Filed pursuant to section 301.9100-2" on the amended return.
- An election out of bonus depreciation cannot be revoked without IRS consent. This generally requires a costly Private Letter Ruling.

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Rules for Vehicles

- An over-the-road tractor is a highway truck designed to tow a trailer or semitrailer that does not carry cargo on the same chassis as the engine. (Note however that the trailer and trailer-mounted containers are 5-year MACRS property with a 6-year ADS life.)
- A lightweight truck is a truck with unloaded vehicle weight greater than 6,000 pounds but less than 13,000 pounds.
- A heavy general-purpose truck has an unloaded vehicle weight of 13,000 pounds or more.
- A **passenger vehicle** is any four-wheeled vehicle manufactured primarily for use on public streets, roads, and highways that has an **unloaded gross vehicle weight (GVW) of 6,000 pounds or less**. This definition includes automobiles, trucks, and vans.

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Passenger Automobile Limits for 2023

The I.R.C. § 280F limit applies to the total depreciation calculated for the year, including any section 179 deduction or bonus depreciation. The first-year limit is greater for taxpayers claiming the special deprecation allowance. Rev. Proc. 2023-14 provides the following section 280F limits for vehicles acquired after September 27, 2017, and placed in service in 2023:

Tax year 1	$12,200 ($20,200 if special depreciation allowance is claimed)
Tax year 2	$19,500
Tax year 3	$11,700
Tax years 4 and after	$6,960

These limits are based on 100% business use and must be prorated for business use that is less than 100%. Because passenger autos are listed property, these rules apply only if the vehicle is used more than 50% for business purposes.

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SUV Limits for 2023

- An SUV is defined as a four-wheeled vehicle designed to carry passengers over public streets, roads, or highways (but not operated exclusively on rails) that is not subject to I.R.C. § 280F and is **rated at more than 6,000 but not more than 14,000 pounds GVW.**
- I.R.C. § 179(b)(5) limits the maximum section 179 deduction for a sport utility vehicle (SUV) placed in service after October 22, 2004, to $25,000.
- Adjusted for inflation, **this limit is $28,900 in 2023.**

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Not SUVs Subject to Limits

- The SUV definition specifically excludes vehicles that are buses, pickup trucks, and cargo vans meeting the following definitions:
  - A bus is a vehicle designed to have a seating capacity of more than nine persons behind the driver's seat.
  - A pickup truck is a vehicle equipped with a **cargo area at least six feet in interior length that is an open area or is designed for use as an open area** but is enclosed by a cab and not readily accessible directly from the passenger compartment.
  - A cargo van is a vehicle that has an integral enclosure fully enclosing the driver compartment and load-carrying device. It does not have seating rearward of the driver's seat and has no body section protruding more than 30 inches ahead of the leading edge of the windshield.

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Example

- Len acquired and placed into service an SUV in February of 2023 (bought for $64,000) as his primary farming vehicle. He is able to document 100 percent business use through travel logs. The SUV has a GVW of 8,000 lbs.
- In 2023, James can expense $28,900 under IRC § 179 and then apply 80 percent bonus depreciation to the remaining basis of $35,100 for an additional deduction of $28,080. He can then use MACRS to depreciate the $7,020 balance over the vehicle's five-year life.

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Example

- Alternatively, in 2023, Len could depreciate 80 percent of the vehicle (51,200) and then depreciate the remaining basis (12,800)over its five-year life.

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Example

- Lucy acquired and placed into service a used light-duty pickup truck (weighing less than 6,000 pounds) for $25,000 in January 2023.
- She is using the truck 100% in her business. Her purchase is eligible for bonus depreciation and I.R.C. § 179, but subject to passenger vehicle limits. Her maximum deduction in 2023 is $20,200 if she does not elect out of bonus depreciation. If she elects out of bonus depreciation, Lucy's first-year deduction (including I.R.C. § 179) is limited to $12,200.
- She can take a **$12,200** Section 179 deduction and an **$8,000** bonus depreciation deduction.
- 25,000 – 12,200 (Section 179) = <u>12,800</u> [(*.80) = 10,240] - $8,000 bonus (upper limit) = $4,800 depreciate over five-year life of asset.

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Planning Questions

- Do you expect to have more income or be taxed at a higher rate next year?
  - Consider accelerating or increasing AGI this year
    - Opt out of installment agreements
    - Don't prepay any expense this year
    - Don't defer income
    - Sell capital gain property if you are in a lower rate
    - Smart depreciation and expensing decisions

Planning Questions

- Do you have unexpectedly high AGI this year and expect it will go back down next year?
- Consider decreasing AGI this year
  - Preserve farm program payment eligibility
  - Preserve benefits like child tax credit, QBI, AOTC, Deduction for traditional IRAs, etc.
  - Preserve lower tax bracket
  - Less Social Security will be taxable
  - Medicare Parts B and D premium surcharges 2 years later
  - NIIT kicks in (3.8%)
  - Avoid additional Medicare Tax (2.9%)

Planning Considerations

- Reducing AGI:
  - Installment Sales/Deferred Payment Contracts
  - Like Kind Exchange
  - Prepaying Expenses (Can use vendor financing)
  - Contributing to Retirement Plans or HSAs
  - Selling loss property
  - Gifts of Grain
    - If non-charitable wait until year after harvest
  - Income Averaging
  - Smart depreciation and expensing decisions

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Constructive Receipt

- Income is constructively received when an amount is credited to taxpayer's account or made available without restriction.
- Taxpayer does not need to have possession of the income for it to be treated as income for the tax year.
  - Just need to have the *ability to receive* the income.
- Cannot authorize someone else to be your agent.
- Income is not constructively received if receipt of the income is subject to substantial restrictions or limitations.

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Deferred Payment Contracts

- Cash-basis farmers are eligible to use installment sale reporting because the commodity is not required to be inventoried. [Treas. Reg. §15A.453-1(b)(4)].
- If a sale qualifies for the installment sales method of accounting for gain, the producers must use it **unless they elect out**

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Avoid Constructive Receipt

- A qualified deferred payment contract must avoid terms that result in the farmer's having constructive receipt of income.
- The contract should be in place **before the grain or other commodity is delivered to the buyer**.
- The contract must be in writing.
- The contract should state clearly that the seller **will not** be entitled to sales proceeds until a specific date.
- Such contracts can be used for grain or livestock because rules exclude farm products from dealer rules.

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Deferred Payment Contracts

- I.R.C. §§ 483 and 1274 generally require a buyer to pay interest on an installment-sale contract.
- However, I.R.C. §§ 483 and 1274 do not apply to installment-sale contracts in two separate situations:
  - All payments are due within 6 months of the contract sale date [I.R.C. §§ 483(c)(1)(A) and 1274(c)(1)(B)] OR
  - The total sales price is $3,000 or less [I.R.C. §§ 1274(c)(3)(C) and 483(d)(2)].

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Electing Out

- Taxpayers may elect not to use the installment method, by reporting the entire gain in the year of sale, even though they don't receive the sales proceeds in that year.
- To make this election, don't report the sale on Form 6252.
  - Instead, report it on Schedule F (Form 1040) or Form 4797.
- The election is by contract (all or nothing within that contract)
  - Good reason for entering into multiple contracts.

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Consider Risk

- Iowa does not allow payments from grain indemnity fund for deferred payment contracts.
  - If grain dealer or warehouse fails, farmer bear the risk.
  - Deferred payment contracts are cash contracts to be paid **more than 30 days after** the delivery of the grain to the buyer.
  - Fund coverage is also limited to sales that took place within six months of the incurrence date (the date the license was revoked).

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Cash Method

- Under the cash method, farmers must deduct expenses in the year they are paid.
- Farmers generally cannot deduct expenses paid in advance under the cash method.
  - However, there are special rules for prepayment of farm supplies and livestock feed.

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Prepaying Expenses

- Cash basis farmers are generally allowed to deduct the cost of farm supplies such as feed, seed, and fertilizer, even though they will not use the supplies until the following year.
- This allows farmers to shift deductions to an earlier tax year.
- I.R.C. § 464 limits the amount of the allowable deduction for prepaid expenses. Farm supplies are amounts paid during the tax year for the following items:
  - Feed, seed, fertilizer, and similar farm supplies not used or consumed during the year
- **A deposit does not count toward a prepaid expense**

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Prepaying Expenses

- Prepaid farm expenses **cannot exceed 50%** of other deductible farm expenses (including depreciation), unless the taxpayer meets one of the following two exceptions:
  - The prepaid farm supplies expense is more than 50% of the other deductible farm expenses because of a change in business operations caused by unusual circumstances **OR**
  - The total prepaid farm supplies expense for the **preceding 3 tax years is less than 50% of the total other deductible farm expenses for those 3 tax years.**

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Prepaying Expenses

- To qualify for an exception, the taxpayer must be farm-related. A taxpayer is farm related if:
  - the taxpayer's principal residence is on a farm,
  - the taxpayer's principal occupation is farming, or
  - the taxpayer is a member of the family of a taxpayer who meets one of the preceding requirements.
- [I.R.C. § 464(d)(2)(B)]

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Other Requirements

- In addition to the 50% limitation, the cost of supplies purchased in the current year for use in the following year is deductible by a cash basis taxpayer in the current year only if
  - the expenditure is a payment for the purchase rather than a mere **deposit**,
  - the prepayment is made for a business purpose and not merely for **tax avoidance** (i.e. often receive discounts), and
  - the deduction in the tax year of prepayment does not result in a **material distortion of income**.
- [Rev. Rul. 79-229, 1979-2 C.B. 210; and *Heinold v. Commissioner*, T.C. Memo. 1979-496]

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Material Distortion of Income

- The following are some factors considered in determining whether deducting prepaid supplies **materially distorts** income:
  – Customary business practice in conducting the operations
  – The expense in relation to past purchases
  – The time of year of the purchase
  – The expense in relation to income for the year
- Although Rev. Rul. 79-229 specifically discusses prepaid livestock feed expenses, **the IRS applies these requirements to prepayments for all farm supply expenses.**

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Other Requirements

- If the prepaid farm supply expenses exceed 50% of all other expenses (and an exception does not apply), the taxpayer must deduct the excess amount when the supplies are used or consumed.
- Farm syndicates are not eligible to prepay expenses.

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Prepaid Rent?

Cash rent tenants can deduct the cost of prepaid rent in the tax year of payment if the prepayment benefit does not extend beyond the earlier of

- 12 months after the taxpayer first realizes the right or benefit, or
- the end of the tax year following the year in which the payment occurs.
  - [Treas. Reg. § 1.263(a)-4(f)(iii), Example 10]

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Prepaid Interest and Insurance?

Insurance, **YES**, if benefit does not extend beyond 12 months.

Interest, **NO**. *See* IRC 461(g).

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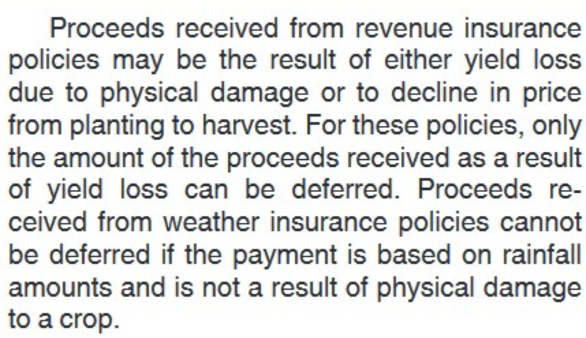
Crop Insurance and Disaster Proceeds

- Insurance proceeds for disaster-related damage are included in gross income.
- Cash basis farmers generally include payments in income in year of receipt.
- Election to defer may be an option.

Publication 225 Statement Fixed



Proceeds received from revenue insurance policies may be the result of either yield loss due to physical damage or to decline in price from planting to harvest. For these policies, only the amount of the proceeds received as a result of yield loss can be deferred. Proceeds received from weather insurance policies cannot be deferred if the payment is based on rainfall amounts and is not a result of physical damage to a crop.

Deferral Election – Generally

- Under IRC § 451(f), cash basis farmers can *elect* to include crop insurance proceeds in gross income for the tax year **following the tax year of the destruction or damage**.
- Prevents income bunching where farmers have typically sold crops in following tax year.
- Election is not available if the proceeds are received in the year following the year of damage.

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What Payments Qualify for Deferral?

- Applies to insurance payments received as a result of destruction or damage to crops.
- It also applies to disaster payments received from the federal government.
  - Treas. Reg. §1.451-6(a) extends federal election to all federal payments received ***as a result of destruction or damage to crops*** caused by natural disasters or the ***inability to plant*** crops because of such a natural disaster.
  - **Election to defer is not available to Economic Relief Program (ERP) payments.**

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Deferral Requirements

- Must use cash method of accounting.
- Establish that, ***under normal business practices***, income from the sale of the crops would have been included in gross income in a tax year following the year of destruction.
- Election is made for ***entire trade or business***.
  - Must treat disaster and crop insurance payments the same.
  - Must generally elect to defer ***all or none***.

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Normal Business Practice

- Taxpayer establishes its normal business practice to include income from the crops in a subsequent year by a declaration on the election statement.
- Must show he or she would have reported a ***substantial portion*** of the income in the year following damage or destruction.
  - Probably ***more than 50 percent*** for ***each crop*** in the Eighth Circuit.
  - Does not apply to crops for which farmer is not receiving damage payments.

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Example

- Cate usually sells 60 percent of corn and 35 percent of soybeans in year of harvest.
- Cate received an insurance payment for damage to both crops.
  - Deferral likely not available under Eighth Circuit's *Nelson* test because *substantial portion test* must be made for *each crop* for which a disaster payment was made.
    - Outside of Eighth Circuit, better argument for deferral.

Making the Election

- Must attach a separate, signed statement to the return or amended return for the year of damage or destruction. The items that must be included in the statement are on the next slide.
- Elections, once made, cannot be revoked absent consent by the IRS district director.
  - Requests are made through a letter to the director.

5a	Commodity Credit Corporation (CCC) loans reported under election					5a	
b	CCC loans forfeited	5b		5c	Taxable amount	5c	
6	Crop insurance proceeds and federal crop disaster payments (see instructions):						
a	Amount received in 2019	6a		6b	Taxable amount	6b	
c	If election to defer to 2020 is attached, check here ▶ ☐			6d	Amount deferred from 2018	6d	

Revenue Protection Insurance

- To qualify for deferral, payments must be made for ***damage or destruction to crops***.
  - Payments under policies for reduced revenue or losses unrelated to destruction don't qualify for deferral.
- What about revenue protection policies that cover both?

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Residual fertilizer deduction on purchased farmland

- 1. establish the presence and extent of the fertilizer
- 2. show the level of soil fertility attributable to fertilizer applied by the previous owner
- 3. provide a basis upon which to measure the increase in fertility in the land
  - This is likely to be the most difficult requirement for the buyer to satisfy. While taxpayers have found agronomists who will establish a base fertility for land and compare that base fertility with the fertility at the time of the purchase, the IRS can find other agronomists and soil scientists who will establish a different level of base fertility
- 4. provide evidence indicating the period over which the fertility attributable to the residual fertilizer will be exhausted
  - The period over which fertilizer is exhausted varies dramatically by the type of nutrient, soil type, and crop rotation. Therefore, it could be very difficult and expensive for a buyer to prove the period over which each nutrient in the residual fertilizer supply is exhausted.

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Thank You!

Have a safe and prosperous year!

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