

Planning Considerations: 2022 Capital Gain

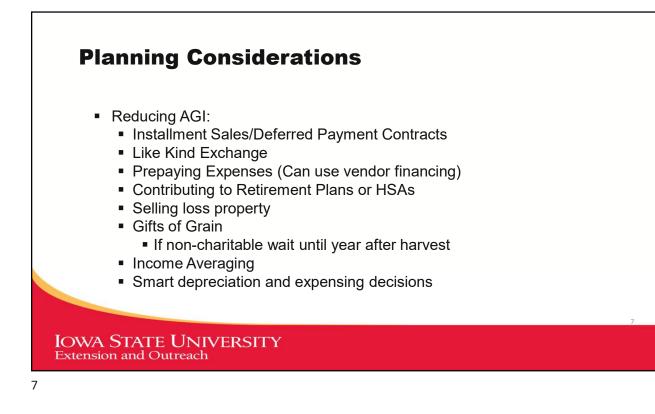
Single Taxable Income	MFJ Taxable Income	Capital Gain Tax Rate	
0-\$41,675	0-\$83,350	0%	
\$41,676-\$459,750	\$83,351-\$517,200	15%	
\$459,751+	\$517,201+	20%	

- In 2023, these thresholds jump as follows:
- MFJ: \$0 to \$89,250 = 0 tax
- Single: \$0 to \$44,625 = 0 tax

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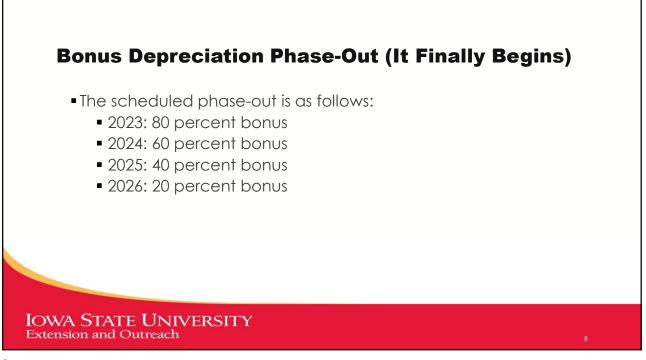
Planning Questions

- 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%)

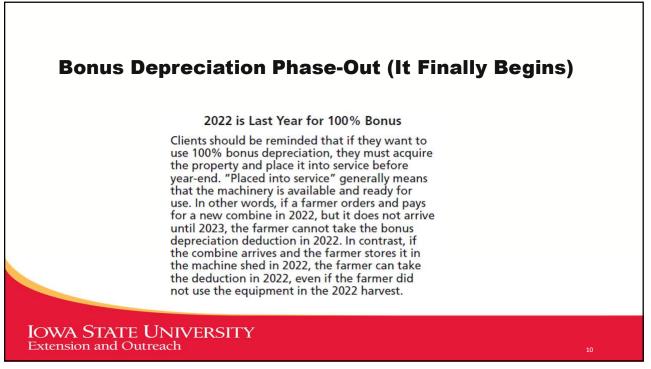


Bonus Depreciation

- Also called additional first-year depreciation, farmers may deduct 100% of the basis of depreciable property if the taxpayer places the property into service in 2022.
- 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.
- Beginning in 2023, bonus depreciation will begin to phase out. It is scheduled to end entirely in 2027.







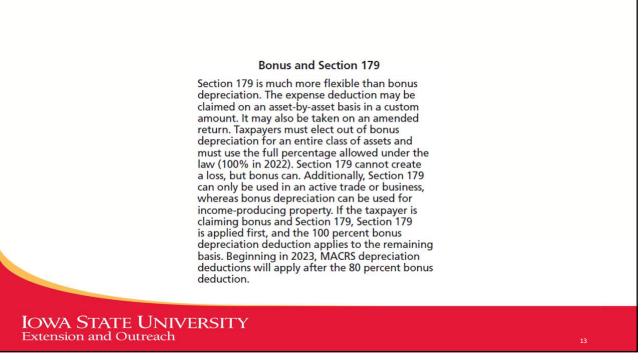
Section 179

- 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 2022 is **\$1,080,000**, reduced \$1 for every \$1 over the **\$2,700,000 investment limit**.

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Property	GDS	ADS	179?	Туре	
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	



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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.

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.

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

 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.

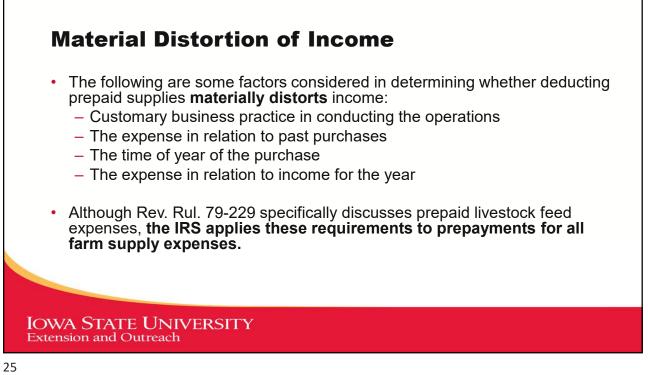
Prepaying Expenses To qualify for an exception, the taxpayer must be farm-related. A taxpayer is farm related if: the taxpayer's principal residence is on a farm, the taxpayer's principal occupation is farming, or the taxpayer is a member of the family of a taxpayer who meets one of the preceding requirements. [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]



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.

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

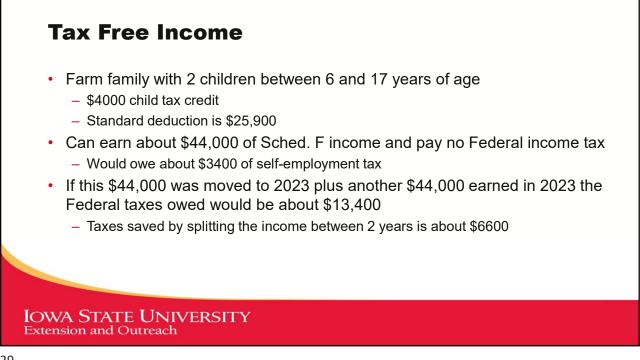
- 12 months after the taxpayer first realizes the right or benefit, or
- the end of the tax year following the year in which the payment occurs.
 - [Treas. Reg. § 1.263(a)-4(f)(iii), Example 10]

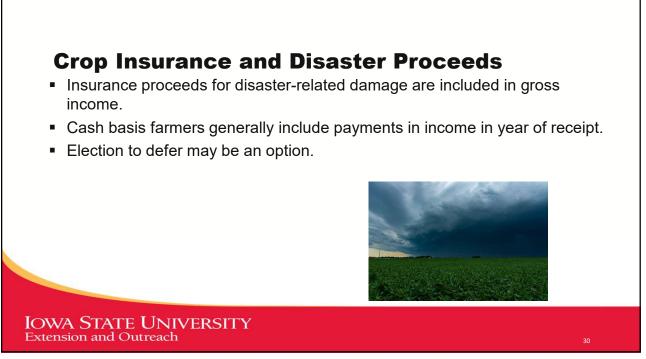
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Prepaid Interest and Insurance?

Insurance, **YES**, if benefit does not extend beyond 12 months. Interest, **NO**. *See* IRC 461(g).







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.

