

# 2024 Federal Income Tax Webinar

IOWA FARM BUREAU  
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# CONTACT INFORMATION

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**REMEMBERING  
CHARLES BROWN  
1951-2024**





# ENTITIES MUST REPORT BENEFICIAL OWNERS IN 2024 AND BEYOND



# WHAT IS BENEFICIAL OWNERSHIP INFORMATION REPORTING?

- The Corporate Transparency Act (CTA), Pub. L. 116-283 § 6401, et seq., requires all non-exempted companies to report information about their company AND their beneficial owners to FinCEN, a federal agency, beginning in 2024.



Beneficial Ownership Information (BOI) Reporting

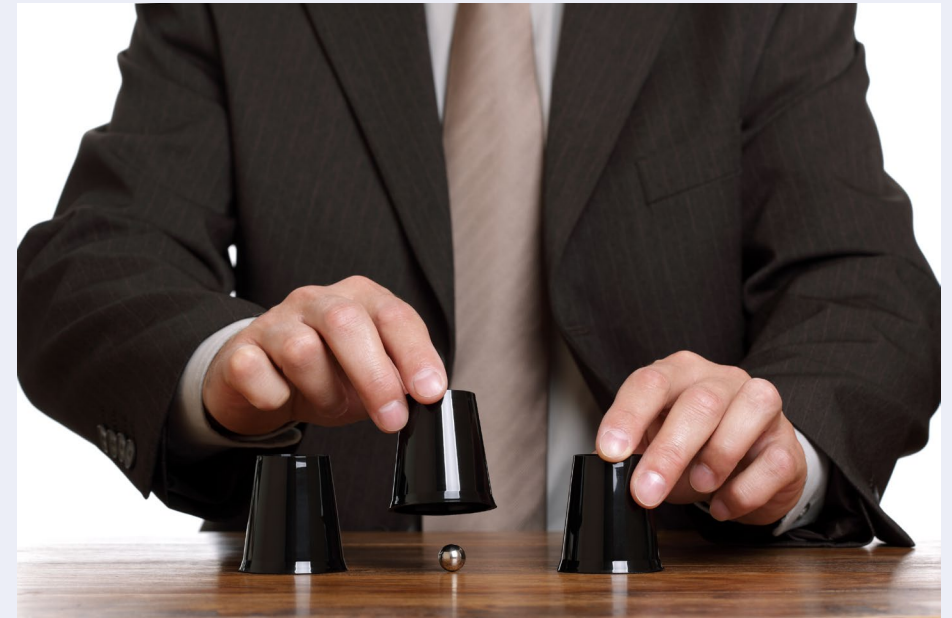
Need to file a BOIR? Click here!

**GET STARTED**

## Who Owns or Controls This Entity?

# IT WAS A LONG TIME IN THE MAKING

- Many in Congress had been attempting for many years to pass legislation to address the problem of shell corporations contributing to financial crimes: money laundering, tax fraud, human and drug trafficking, foreign corruption, etc.
- Both chambers passed this law in 2020, but it was vetoed by the President.
- Two-thirds of Congress voted to override the veto, and it was enacted January 1, 2021.



# WHO ARE BENEFICIAL OWNERS?

- In general, **beneficial owners** are individuals who:
  1. directly or indirectly exercise “**substantial control**” over the reporting company, or
  2. directly or indirectly **own or control 25%** or more of the “ownership interests” of the reporting company.



# IMPACT OF BENEFICIAL OWNERSHIP INFORMATION REPORTING

- There was little fanfare at the time, but the impact of law is **seismic**.
  - States are responsible for business registrations. This law introduces **new federal requirements**.
- This law impacts SMALL businesses, not large entities.
- This law requires **more than 32 million businesses**, including small LLCs, corporations, and limited partnerships, to file reports to disclose their beneficial owners in 2024 (+ 5 million new).



# DOMESTIC REPORTING COMPANIES

**Applies to entities created by the filing of a document with a secretary of state or any similar office under the law of a state or Indian tribe.**

<b>Entity Type</b>	<b>Reporting Entity (unless exempted)</b>
LLC	Yes
SMLLC	Yes
General Partnership	No
Sole Proprietorship	Not unless corporation or LLC
Limited Partnership	Yes
S Corporation	Yes
C Corporation	Yes
Trust	Not unless required to file with Secretary of State, but trustees or beneficiaries may be beneficial owners of other reporting entities

# EXCEPTIONS TO REPORTING

- The FinCEN rule lists 23 types of entities that are specifically **excepted** from reporting requirements.
- These are generally excluded from the reporting requirements because other laws regulate these entities and separately require disclosure of BOI.
- Be very careful about looking just at categories. Devil is in the details.

Exemption No.	Exemption Short Title
1	Securities reporting issuer
2	Governmental authority
3	Bank
4	Credit union
5	Depository institution holding company
6	Money services business
7	Broker or dealer in securities
8	Securities exchange or clearing agency
9	Other Exchange Act registered entity
10	Investment company or investment adviser
11	Venture capital fund adviser
12	Insurance company
13	State-licensed insurance producer
14	Commodity Exchange Act registered entity
15	Accounting firm
16	Public utility
17	Financial market utility
18	Pooled investment vehicle
19	Tax-exempt entity
20	Entity assisting a tax-exempt entity
21	Large operating company
22	Subsidiary of certain exempt entities
23	Inactive entity



# COMMON EXEMPTION ISSUES - LARGE

- **Large Operating Companies** are exempt if:
  - They employ more than 20 full-time employees in the United States.
  - They have filed a Federal U.S. income tax return for the previous year that showed more than \$5,000,000 in gross receipts or sales.
  - They operate from physical premises in the United States.

**L.4. If I own a group of related companies, can I consolidate employees across those companies to meet the criteria of a large operating company exemption from the reporting company definition?**

No. The large operating company exemption requires that the entity itself employ more than 20 full-time employees in the United States and does not permit consolidation of this employee count across multiple entities.

*FinCEN's [Small Entity Compliance Guide](#) includes a checklist for this exemption (see exemption #21).*

[Issued November 16, 2023]

# COMMON EXEMPTION ISSUES – DISSOLVED

- If a company completely, formally, **and** irrevocably dissolved before January 1, 2024, it is exempt from BOI reporting.
- If, however, a reporting company continued to exist as a legal entity for any period on or after January 1, 2024, it must report its BOI, even if it wound up its affairs before 2024.

## **C. 13. Is a company required to report its beneficial ownership information to FinCEN if the company ceased to exist before reporting requirements went into effect on January 1, 2024?**

A company is not required to report its beneficial ownership information to FinCEN if it ceased to exist as a legal entity before January 1, 2024, meaning that it entirely completed the process of formally and irrevocably dissolving. A company that ceased to exist as a legal entity before the beneficial ownership information reporting requirements became effective January 1, 2024, was never subject to the reporting requirements and thus is not required to report its beneficial ownership information to FinCEN.

# RESOURCES

<https://www.fincen.gov/boi/small-entity-compliance-guide>

<https://fincen.gov/boi-faqs>

## Small Entity Compliance Guide

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# DEADLINES FOR BOI REPORTS

- Reporting companies created or registered before January 1, 2024, have one year (**until January 1, 2025**) to file their initial reports.
- Reporting companies created or registered after January 1, 2024, but before January 1, 2025, have **90 days after creation to file their first report**.
- Reporting companies created on or after January 1, 2025, will have **30 days after creation or registration** to file their initial reports.

# UPDATING BOI REPORTS

- Once the initial report has been filed, both existing and new reporting companies will have to file updates within 30 days of a change in their beneficial ownership information.
- The 30 days begins after the company becomes aware of or has reason to know of an inaccuracy in a prior report. Any reporting company that no longer meets the requirements of an exemption from reporting shall file its report within 30 calendar days after it no longer qualifies for the exemption.

# HOW TO FILE

<https://boiefiling.fincen.gov>

## File the Beneficial Ownership Information Report (BOIR)

Select the filing method that works best for you:



### File PDF BOIR

- Adobe Reader is required
- Prepare report offline at your own pace, save as you go
- Reuse PDF BOIR when filing updates/corrections
- Download BOIR transcript upon submission

**Prepare BOIR**

**Submit BOIR**



# INFORMATION THAT MUST BE REPORTED

- A **reporting company** must disclose:
  - its full legal name and any trade name or DBA;
  - a complete address, including the street address of the principal place of business for U.S. companies and primary U.S. location for other businesses;
  - the State, Tribal, or foreign jurisdiction in which it was formed or first registered, depending on whether it is a U.S. or foreign company; and
  - its Taxpayer Identification Number (TIN)(i.e., EIN)

# INFORMATION THAT MUST BE REPORTED

- For each **beneficial owner** and each **company applicant** (if required), the company must provide the individual's:
  - full legal name
  - birthdate
  - a complete address
    - For company applicants who form or register an entity, this includes the street address of the company applicant. For all individuals, beneficial owners and applicants, the address must be the residential street address of the individual.
  - an identifying number from a non-expired driver's license, passport, or other approved document for each individual, **as well as an image** of the document from which the document was obtained

# FINCEN IDENTIFIER

- An individual (beneficial owner or company applicant) or reporting company may obtain a **FinCEN identifier** by submitting an application at or after the time that the reporting company submits its initial report.
- Each identifier is specific to the individual or reporting company.
- If an individual has obtained a FinCEN identifier, the reporting company may use that identifier in its report instead of listing all of the required information for the individual.
- **A reporting company uses its FinCEN identifier to submit updated reports, as required.**

# PRINT TRANSCRIPT WHEN REPORTING



# PENALTIES FOR NONCOMPLIANCE

- It is unlawful for any person to willfully provide, or attempt to provide, false or fraudulent BOI, including a false or fraudulent identifying photograph or document, to FinCEN or to willfully fail to report complete or updated BOI to FinCEN in accordance with the new law.
- The CTA authorizes reporting failure penalties of not more than \$500 (\$591 in 2024, indexed for inflation) for each day that the violation continues or has not been remedied. The statute also calls for criminal penalties of up to two years' imprisonment and a \$10,000 fine.

# HOW DOES LITIGATION IMPACT FILING REQUIREMENTS?

- While court cases are ongoing, FinCEN will **continue to implement the Corporate Transparency Act as required by Congress.**
- FinCEN has said that it **will not enforce the CTA against the plaintiffs** in pending action where injunction was issued:
  - Isaac Winkles, reporting companies for which Isaac Winkles is the beneficial owner or applicant, the National Small Business Association, and members of the National Small Business Association (as of March 1, 2024)(approximately 65,000 members).
  - **Only those individuals and entities are not required to report beneficial ownership information to FinCEN at this time.**



# NEED HELP?

- If you need assistance, reach out to the lawyer who helped you form your entity.
- If you do not have legal counsel, some tax professionals are assisting clients.
- General questions? You can call our office for education.
- <https://www.calt.iastate.edu/article/beneficial-ownership-information-reporting-update>





# ESTIMATED TAX

# Ag Docket

*Perspective on Agricultural Law & Taxation*

## Does a Farmer Have to File and Pay Taxes by March 1?

📅 February 28, 2024 | 👤 Kristine A. Tidgren

As March 1 approaches, we review the estimated tax rules for farmers.

Generally, self-employed taxpayers are required to make quarterly estimated tax payments or pay a penalty. IRC § 6654(e)(1). A special rule applies to the payment of estimated tax by individuals who are “farmers” or “fishermen.” This special rule protects farmers—whose income is often unpredictable and sporadic—from the burden of attempting to calculate and make quarterly estimated tax payments. IRC § 6654(i).



# BACKGROUND

- Generally, self-employed taxpayers are required to make quarterly estimated tax payments or pay a penalty. IRC § 6654(e)(1).
- A special rule applies to the payment of estimated tax by individuals who are **qualifying farmers**.
- This special rule protects farmers—whose income is often unpredictable and sporadic—from the burden of attempting to calculate and make quarterly payments. IRC § 6654(i).

# DEFINITION OF “FARMERS”

- Taxpayers are qualifying “farmers” for purposes of this special rule if:
  - The individual’s “gross income from farming” is at least  $66\frac{2}{3}$  percent of their “total gross income” from all sources **for the taxable year** OR
  - The individual’s gross income from farming shown on the return for **the preceding taxable year** was at least  $66\frac{2}{3}$  percent of their total gross income from all sources



# GROSS INCOME FROM ALL SOURCES

- Wages, salaries, tips, etc.
- Taxable interest.
- Ordinary dividends.
- Taxable refunds, credits, or offsets of state and local income taxes.
- Gross business income from Schedule C (Form 1040).
- Capital gains from Schedule D (Form 1040). Losses are not netted against gains.
- Gains on sales of business property from Form 4797.
- Taxable IRA distributions, pensions, annuities, and social security benefits.
- Gross rental income from Schedule E (Form 1040).
- Gross royalty income from Schedule E (Form 1040).
- Income from a Real Estate Mortgage Investment Conduit reported on Schedule E (Form 1040).
- Gross farm rental income from Form 4835.
- Gross farm income from Schedule F (Form 1040).
- Your distributive share of gross income from a partnership, or limited liability company treated as a partnership, from Schedule K-1 (Form 1065).
- Your pro rata share of gross income from an S corporation, from Schedule K-1 (Form 1120-S).
- Unemployment compensation.
- Other income not included with any of the items listed above.



# GROSS INCOME FROM FARMING

- 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.

# SPECIAL RULE FOR QUALIFYING FARMERS

- Calendar year taxpayers who are qualifying farmers are exempt from a penalty for failing to pay estimated taxes if they meet any of the following requirements:
  - They file their return and pay all tax due by March 1, OR
  - Their income tax withholding will be at least  $66\frac{2}{3}\%$  of the total tax shown on their current year tax return or 100% of the total tax shown on their prior year return OR
  - They make a single estimated tax payment by January 15 following the tax year.

# SPECIAL RULE FOR QUALIFYING FARMERS

- Qualifying farmers making one estimated tax payment by January 15 must pay the smaller of:
  - 66  $\frac{2}{3}$ % of tax from current year, or
  - 100% of the tax shown on the prior year's return
- Those who choose the January 15 option may file the return and pay the remainder of the tax due on the standard tax filing deadline, which is generally April 15.

## EXAMPLE - “PENALTY” IS AN INTEREST PAYMENT

- Larry is a qualified farmer who did not pay estimated taxes by January 16, 2024, for 2023 (January 15 was a holiday).
- He also missed the March 1 deadline to file his return and pay his taxes to avoid the underpayment penalty.
- For 2023, Larry had \$21,000 in overall tax liability.
- As a qualified farmer, his estimated tax liability was  $66\frac{2}{3}$  percent of that amount or \$14,000. The due date for this tax was January 16.
- He files his return and pays the tax due on April 15, 2024.

## EXAMPLE - “PENALTY” IS AN INTEREST PAYMENT

- Because the underpayment rate for the first quarter of 2024 is eight percent, Larry owes an eight percent underpayment penalty for the proportion of the year for which his payment was delinquent, calculated as follows:
- $\$14,000$  (estimated tax liability)  $\times$   $90/365$  (days delinquent / days in the year)  $= \$3,452 \times .08$  (underpayment rate)  $= \$276$ .

# IF YOU DO NOT QUALIFY AS A “FARMER”

- Those who do not qualify as farmers must attempt to estimate their taxable farm income and pay quarterly estimates **equaling 90 percent of their tax liability to avoid penalties.**





# **SECTION 179 AND OTHER COST RECOVERY METHODS**

## **COSTS THAT MAY BE EXPENSED UNDER SECTION 179**

- The Section 179 expense deduction is allowed for the entire cost or a portion of the cost of one or more items of Section 179 property placed in service during the tax year.
  - Individuals, C corporations, S corporations, and partnerships are eligible. Trusts and estate are not.
- The taxpayer may select the properties that are subject to the election as well as the portion of each property's cost to expense, subject to limitations.
- The Section 179 deduction is not prorated based upon the time of year the property is placed in service.

# EXAMPLE

- On December 24, 2024, David places into service three pieces of used equipment for his farm: a tractor for \$50,000, a combine for \$120,000, and an irrigation system for \$30,000.
- David elects to expense the entire cost of the tractor and the irrigation system, totaling \$80,000. For the combine, he decides to expense only a portion of the cost—\$90,000.
- David can manage his taxable income and plan for future deductions based on his farm's financial strategy.

# PLACED IN SERVICE

- The Section 179 deduction can be taken only in the tax year during which the asset is placed in service.
- If the property is purchased in one year, but placed in service in the next year, the taxpayer is not eligible for the Section 179 deduction in the year of purchase.
- The term “placed in service” means **the time when the taxpayer first places the asset in a condition or state of readiness and availability for a specifically assigned function.**

# EXAMPLE

- Jeri, a cash basis taxpayer, has some unexpected farm income in 2024. She decides it's a good year to purchase the baler she has been needing for her farm.
- She hopes to offset the unexpected income with an expense deduction for the baler.
- Jeri purchases the baler on December 27, 2024, but it is not delivered from the factory until January 6, 2025.
- Although Jeri purchased the baler in 2024, it was not placed in service until it was available for use. This did not occur until delivery, in 2025. Jeri cannot take the Section 179 deduction in 2024, but she will be able to take it in 2025.

### Common Farm Assets Eligible for Section 179

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



**What is NOT  
on this list?**

**Multi-  
purpose farm  
buildings  
(20-year  
property)**

**Common Farm Assets Eligible for Section 179**

<b>Property</b>	<b>GDS</b>	<b>ADS</b>	<b>179?</b>	<b>Type</b>
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

# ACQUIRED BY PURCHASE

- Section 179 property must be acquired by purchase, not inherited or received by gift.
- Property is not treated as acquired by purchase—even it is purchased with cash—if it is acquired from a related person or from another member of the same controlled group. [I.R.C. § 179(d)(2)(A)-(B)].
  - Related parties include spouse, ancestors, and lineal descendants (not siblings).

## EXAMPLE

- Cory purchased a planter from Talladega, Inc., a C corporation.
- Cory and his wife own 60 percent of the value of the corporation's stock.
- Cory cannot take the Section 179 deduction for the planter because Cory and the corporation are related persons under I.R.C. § 267(b)(2).

# EXAMPLE

- Rhonda purchased a used tractor from her brother, Brent, in 2024.
- She paid Brent \$50,000 for the tractor.
- Although Rhonda and Brent are siblings, they are not related persons under I.R.C. § 179(d)(2)(A)-(B).
- She may take a Section 179 deduction for the tractor.

# ACTIVE CONDUCT

- 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.
  - Most cash rent landlords are not eligible for Section 179.
  - Crop share landlords have to overcome the noncorporate lessor rule.

# SECTION 179 LIMITS

- When determining eligibility for the Section 179 deduction, taxpayers must apply several limits:
  - the **dollar limit** in effect during the tax year of the deduction,
  - the **investment limit**, designed to ensure that the Section 179 deduction is limited to small taxpayers, and
  - the **active business income limit**, which prevents taxpayers from taking a Section 179 deduction greater than their active trade or business income. These limits apply to entities, as well as individuals.

# DOLLAR LIMIT

- Section 179 limits the aggregate cost of eligible property that a taxpayer may elect to expense for any one taxable year.
- In 2018, the Tax Cuts and Jobs Act doubled the dollar limitation from \$500,000 to \$1,000,000, indexed for inflation.
- This increase was a permanent change not scheduled to sunset. The dollar limitation for the 2024 tax year is \$1,220,000. [Rev. Proc. 2023-34].



# EXAMPLE

- John, a calendar year taxpayer, placed into service the following new equipment for his farming business in December of 2024:
  - Combine: \$700,000
  - New Tractor: \$400,000
  - Used Tractor: \$200,000
- The total cost of John's equipment (\$1,300,000) exceeds the 2024 Section 179 limit (\$1,220,000) by \$80,000.

# EXAMPLE

- If John chooses to fully expense the combine and the new tractor, he may expense \$120,000 of the basis of the used tractor, leaving a basis of \$80,000.
- He may then take a \$48,000 additional first-year depreciation deduction (60 percent of the basis) in 2024 for the used tractor and depreciate the remaining basis (\$32,000) over seven years.
- Alternatively, he can elect out of bonus depreciation and depreciate the remaining \$80,000 over the used tractor's seven-year life.
- The \$80,000 of cost in excess of the 2024 Section 179-dollar limitation cannot be carried forward to be expensed in a future year.

# INVESTMENT LIMIT

- Taxpayers must also reduce their Section 179 deduction in the amount by which the cost of Section 179 property the taxpayer placed in service in the tax year exceeds the statutory investment limit.
- Congress has permanently set the investment limit at \$2.5 million, but this too is indexed for inflation.
- In 2024, the investment limit is \$3,050,000. This means that in 2024, the Section 179 deduction is phased out completely when a taxpayer purchases \$4,270,000 or more of Section 179 property.

# EXAMPLE

- ABC Farming, Inc., a C corporation, places \$3,300,000 of Section 179 property into service during the 2024 tax year.
- The statutory investment limit for 2024 is \$3,050,000. The Section 179 deduction must be reduced by the amount that the 2024 investment exceeds the limit ( $\$3,300,000 - \$3,050,000 = \$250,000$ ).
- ABC Farming, Inc. can take a Section 179 deduction of \$970,000 for the 2024 tax year, instead of the full \$1,220,000, due to the investment limit ( $\$1,220,000 - \$250,000$ ).

# BONUS DEPRECIATION

- Also called additional first-year depreciation, farmers may deduct 60% of the basis of depreciable property if the taxpayer places the property into service in 2024.
- Bonus depreciation, unlike section 179, applies to multi-purpose farm buildings, as well as other assets.
- Cash rent landlords may take bonus depreciation.
- Bonus depreciation 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 PHASE-OUT

- Bonus was 100% from the end of 2017 to 2022. Since then, it is subject to a scheduled phase-out, as follows:
  - 2023: 80 percent bonus
  - 2024: 60 percent bonus
  - 2025: 40 percent bonus
  - 2026: 20 percent bonus

# TAKING SECTION 179, BONUS, AND MACRS IN 2024

- 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 depreciation
  3. MACRS



# EXAMPLE

- On February 14, 2024, Josh purchased a new tractor for use in his farming operation. He placed it into service in 2024. 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 \$120,000 of the basis as additional first-year depreciation [ $.60 \times \$200,000$ ].
- He uses the remaining cost (\$80,000) to calculate his regular MACRS depreciation deduction for 2024 and later years. The tractor is five-year property.

# 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.

# 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.

# PASSENGER AUTOMOBILE LIMITS FOR 2024

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 depreciation allowance. Rev. Proc. 2024-13 provides the following section 280F limits for vehicles acquired after September 27, 2017, and placed in service in 2024:

Tax year 1	\$12,400
(\$20,400 if special depreciation allowance is claimed)	
Tax year 2	\$19,800
Tax year 3	\$11,900
Tax years 4 and after	\$7,160

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.

# EXAMPLE

- Len acquired and placed into service an SUV in February of 2024 (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 2024, James can expense \$30,500 under IRC § 179 and then apply 60 percent bonus depreciation to the remaining basis of \$33,500 for an additional deduction of \$20,100. He can then use MACRS to depreciate the \$13,400 balance over the vehicle's five-year life.

### **Substantiation of Use**

Determining business and person use of vehicles generally requires detailed allocation records. However, farmers can claim 75 percent of the use of a car or light truck as business use without specific allocation records if the farmer used the vehicle during most of the normal business day directly in connection with the business of farming [Temp. Treas. Reg. § 1.274-6T(b)].

# EXAMPLE

- Lucy acquired and placed into service a used light-duty pickup truck (weighing less than 6,000 pounds) for \$24,000 in January 2024.
- 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 2024 is \$20,400 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 \$12,400.
- She can take a **\$12,400** Section 179 deduction and up to an **\$8,000** bonus depreciation deduction.
- $24,000 - 12,400 \text{ (Section 179)} = \underline{11,600} [(*.60) = (11,600 - 6,960) = \$4,940$  depreciate over five-year life of asset.



## Comparison of Section 179 and Bonus Depreciation

	Section 179	Bonus Depreciation
General limitations	\$1,220,000, reduced \$1 for every \$1 over the \$3,050,000 investment limit	60 percent of basis in 2024 for any qualified property; no dollar limit
SUV limitations	\$30,500 maximum per SUV in 2024	60 percent of basis in 2024; no dollar limit
Business income limit	Section 179 expense is limited to active business income. Any excess is carried over to future years.	Can be used to offset nonbusiness income or create an NOL. Subject only to excess business loss limitation (\$305,000/\$610,000 in 2024)
Election	Election to expense any part of any qualifying asset	Automatically applies unless taxpayer elects out on a class-by-class basis
Qualifying property	Any tangible property qualifying as I.R.C. § 1245 property, computer software, and qualified real property	Depreciable property having a useful life of 20 years or less, water utility property (unless rate-regulated), computer software available to the general public, and qualified improvement property



# 2024 TAX PLANNING CONSIDERATIONS

# LOTS OF PROVISIONS SET TO EXPIRE

- In 2017, Congress passed the most impactful tax bill in 30 years.
- The Tax Cuts & Jobs Act signed into law December 22, 2017, provided lower tax rates for individuals, a new 20 percent deduction for qualified pass-through business income, a 21 percent flat tax rate for corporate income, and changes impacting depreciation, expensing and losses.
- Because it was passed via the budget reconciliation process, it had a shelf life. That expiration date is December 31, 2025.



# INDIVIDUAL TAX RATES

- Most farm businesses are sole proprietorships, partnerships, or S Corporations. This means that business income passes through to the owners, who pay taxes based upon individual income tax rates.
- From 2018 to 2025, the TCJA lowered individual income tax rates across the board.



# Ordinary Income Tax Rates

Tax Rate		Single		Married, Filing Jointly	
2024	2026	2024 Brackets*	2026 Brackets**	2024 Brackets*	2026 Brackets**
10%	10%	\$0-\$11,600	No change	\$0-\$23,200*	No change
12%	15%	\$11,601-\$47,150	No change	\$23,201-\$94,300	No change
22%	25%	\$47,151-\$100,525	\$47,151-\$114,200	\$94,301-\$201,050	\$94,301-\$190,325
24%	28%	\$100,526-\$191,950	\$114,201-\$238,250	\$201,051-\$383,900	\$190,326-\$290,050
32%	33%	\$191,051-\$243,725	\$238,251-\$517,875	\$383,901-\$487,450	\$290,051-\$517,875
35%	35%	\$243,726-\$609,350	\$517,876-\$520,025	\$487,451-\$731,200	\$517,876-\$585,050
37%	39.6%	Over \$609,350	Over \$520,025	Over \$731,200	Over \$585,050

# QUALIFIED BUSINESS INCOME DEDUCTION

- For tax years 2018 through 2025, the TCJA allows most individuals receiving income from a sole proprietorship or a pass-through business—including an S corporation or a partnership—to take a 20% qualified business income deduction (QBI deduction). [I.R.C. § 199A].
- Additionally, agricultural cooperatives are allowed to take a I.R.C. § 199A(g) deduction or pass that deduction through to their patrons, similar to the domestic production activities deduction (DPAD) under I.R.C. § 199.
- **Impact = tax rate \* 20 percent.**

# QUALIFIED BUSINESS INCOME DEDUCTION

- Section 199A is set to expire in 2026. This will significantly impact small businesses, as well as agricultural cooperatives and their patrons.
- The DPAD deduction provided by I.R.C. § 199, was permanently repealed by the TCJA in 2018.

## **Corporate Tax Rate Reduction Permanent**

In contrast to the pass-through tax deduction, the TCJA provision lowering the top corporate tax rate from 35% to a flat tax rate of 21% was a permanent change.



# CHILD TAX CREDIT

- The TCJA raised the child tax credit from \$1,000 to \$2,000 per qualifying child for tax years 2018 through 2025. [I.R.C. § 24(h)(2)].
- Of this credit, \$1,400 per child is refundable.
- The TCJA also created a new \$500 nonrefundable credit for each dependent who does not qualify for the child tax credit, including those over the age of 16.
- **Note: During COVID, this CTC was increased to \$3,000 - \$3,600 per child, with no earned income required and full refundability!**

# CHILD TAX CREDIT

- In addition to receiving a larger child tax credit, **many more families have qualified for the child tax credit** under the TCJA because the phase-out of the credit does not begin until a married filing jointly couple reaches an adjusted gross income of \$400,000 or a single taxpayer reaches an adjusted gross income of \$200,000.
- In 2026, the \$1,000 credit per child will begin to phase out when the married filing jointly couple has modified adjusted gross income above \$110,000 and the single taxpayer has modified adjusted gross income above \$75,000.

# CHILD TAX CREDIT (SOURCE: USDA-ERS)

	Pre-TCJA	TCJA	ARPA
Child tax credit amount	\$1,000	\$2,000	\$3,000 (\$3,600 for children under 6)
Eligible children	Children under age 17	Children under age 17	Children age 17 and under
Income limits	Full amount if MAGI is under \$110,000 on a joint return	Full amount if MAGI is under \$400,000 on a joint return	Full amount if MAGI is under \$150,000 on a joint return
Refundability	Up to \$1,000 but limited to 15 percent of earnings above \$3,000	Up to \$1,600 but limited to 15 percent of earnings above \$2,500	Fully refundable

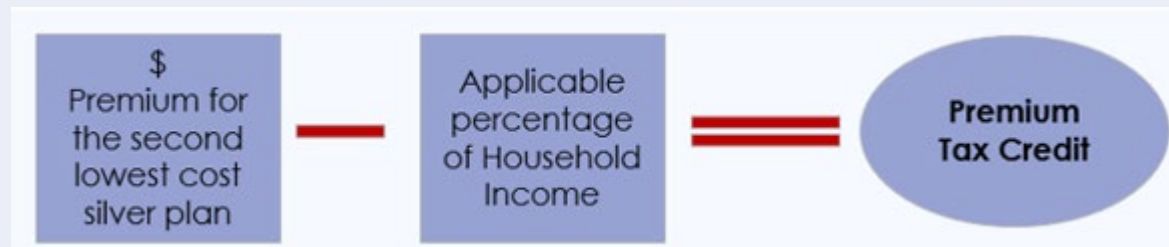
TCJA = Tax Cuts and Jobs Act; ARPA = American Rescue Plan Act; MAGI = modified adjusted gross income.

# INCREASED AFFORDABLE CARE ACT SUBSIDIES

- The American Rescue Plan Act of 2021 significantly expanded the availability of the Affordable Care Act's premium tax credit (PTC).
- This made healthcare acquired on the Health Insurance Marketplace more affordable in 2021 and 2022. On August 23, 2022, the Inflation Reduction Act extended these changes through 2025.
- Generally, the extended law allows many higher income individuals to qualify for a PTC. It also increases the amount of the premium tax credit available to those with lower incomes.
- Additionally, IRS issued final regulations at the end of 2022 to eliminate the "family glitch." These regulations mean that more families qualify for subsidized coverage on the Marketplace.

# Expanded Premium Tax Credit

The ACA originally created the PTC for taxpayers whose household income was between 100 and 400 percent of the federal poverty level (FPL), but this rule has been modified **through 2025**. The PTC is generally paid in advance through an “advance premium tax credit” (APTC), which reduces or eliminates the premium that an individual enrolled in a Marketplace plan must pay.



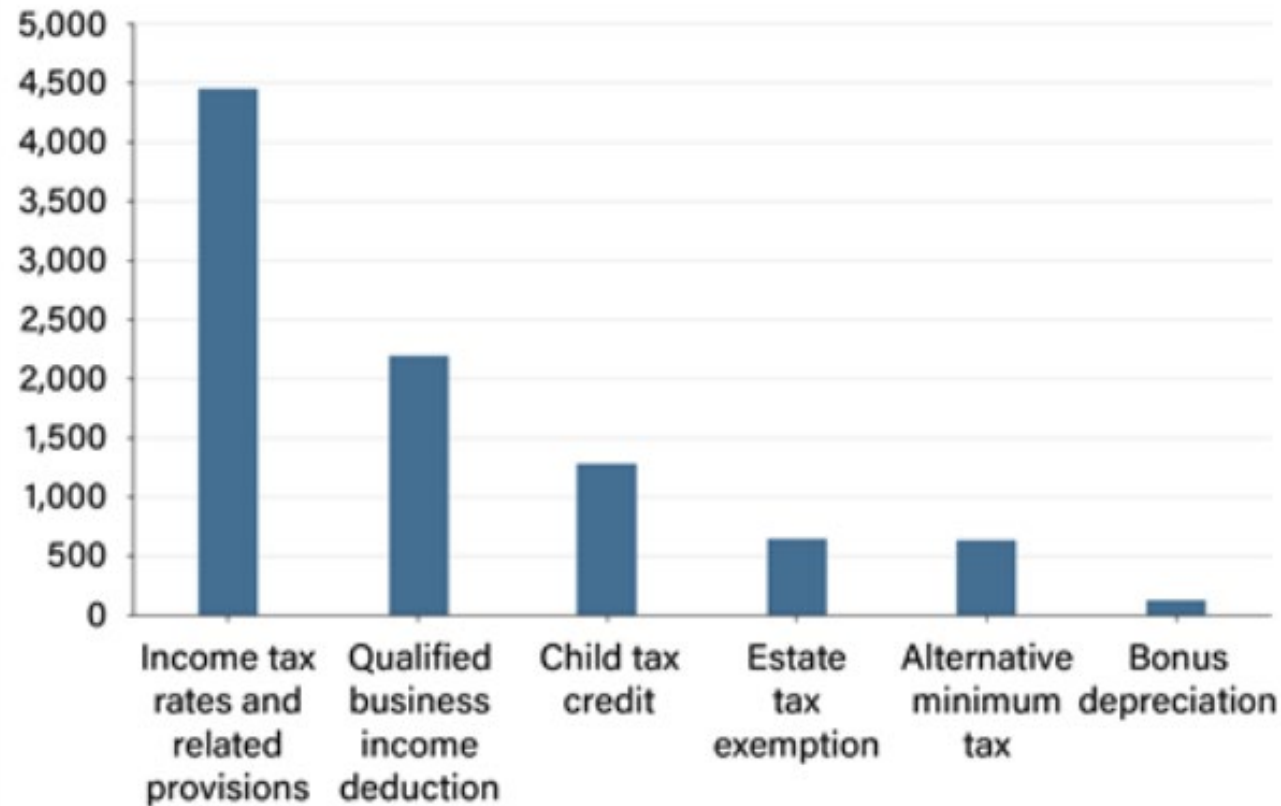
# EMPLOYER PROVIDED MEALS

- The TCJA reduced the deduction for meals provided for the convenience of the employer from 100% to 50% through 2025. In 2026, the deduction is fully eliminated.



### Potential change in family farm households' tax liability after Tax Cuts and Jobs Act provisions expire

U.S. dollars (millions)



Note: All data adjusted to 2021 values. Baseline excludes American Rescue Plan Act's child tax credit expansions, which expired in 2022.

Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2018–2021 Agricultural Resource Management Survey.

# PERMANENT CHANGES

- **Like-Kind Exchange:** Real property only
- **Vehicle Depreciation:** increases for passenger automobiles
- **Net Operating Losses:** Two-year carryback for farms, limit of 80% of taxable income.
- **Cash Accounting:** Expanded cash accounting to farm C corporations with gross receipts of \$30M or less.
- **Farm Machinery Depreciation:** 5 years for new, 200% DBM



# CAPITAL GAIN

- The TCJA did not modify capital gains tax rates or the income brackets that apply to capital gain. In other words, capital gain continues to be taxed under pre-2018 rules.
- Assuming no congressional intervention, the tax brackets for ordinary income and capital gain will again be aligned.
- Figure 2.6 shows 2024 capital gain tax rates. The income brackets will continue to adjust for inflation each year, but otherwise, the rates will remain the same in 2026, assuming no change in law.



# CAPITAL GAIN

## Long-Term Capital Gain Rates by Filing Status and Income

Status	0%	15%	20%
Single	Up to \$47,025	\$47,026 to \$518,900	Over \$518,900
Married filing jointly	Up to \$94,050	\$94,051 to \$583,750	Over \$583,750
Married filing separately	Up to \$47,025	\$47,026 to \$291,850	Over \$291,850
Head of household	Up to \$63,000	\$63,000 to \$551,350	Over \$551,350

# NET INVESTMENT INCOME TAX

- The TCJA did not modify the provisions of the net investment income tax. It remains a 3.8 percent tax on net investment income for taxpayers with income that exceeds a statutory threshold amount. The income threshold for the NIIT is not adjusted for inflation.

Filing Status	Threshold Amount
Married filing jointly	\$250,000
Married, filing separately	\$125,000
Single	\$200,000
Head of household (with qualifying person)	\$200,000
Qualifying widow(er) with dependent child	\$250,000

# INCOME TAX PLANNING CONSIDERATIONS

- Although these provisions are scheduled to expire, Congress could revive any or all of them.
- In addition to possible increased tax rates down the road, many farmers in 2024 are facing lower income.

# TIMING OF TAXABLE INCOME

- Taxpayers expecting tax rates or income to rise in the future may choose some strategies to accelerate farm income. Common strategies may include:
  - ☐ delaying expenses or purchases where possible
  - ☐ slowing down depreciation deductions
  - ☐ electing out of bonus depreciation
  - ☐ trading or selling equipment subject to ordinary income recapture
  - ☐ planning to maximize income averaging benefit in future years with higher tax rates.
  - ☐ choosing to **amortize** fertilizer deductions instead of expensing them under I.R.C. § 180.

# TIMING OF TAXABLE INCOME

- ☐ accelerating bonuses or exercising stock options
  - ☐ electing out of the installment method for deferred payment contracts
  - ☐ choosing not to prepay supplies (consider the cost of forgoing prepay discounts)
  - ☐ delaying the sale of loss property
- 
- Those weighing the benefit of accelerating income or delaying deductions should also consider the impact of state income tax and the \$10,000 SALT limit deduction on their choices. Where income arises from a pass-through entity and the state has enacted a PTET option, the impact is minimal.

# CHARITABLE CONTRIBUTIONS

- Taxpayers should consider the best timing for charitable contribution deductions, considering itemized deduction rules, AGI limits, and overall tax rates that will be offset with the deduction.
- Strategies may include delaying large charitable contributions, including contributions to donor advised funds, until after 2025.
- At any time, taxpayers aged 70 1/2 and older may continue to donate their RMDs through qualified charitable distributions.
- Gifts of grain are always a helpful charitable strategy for farmers.
  - Expenses remain deductible. Income from the grain is not recognized.
  - Only available for **cash method farmers**. Does not work for landlords, including crop share landlords.
  - Make sure title is transferred BEFORE the grain is sold.





# **ESTATE & GIFT TAX EXEMPTION SCHEDULED TO BE CUT IN HALF**

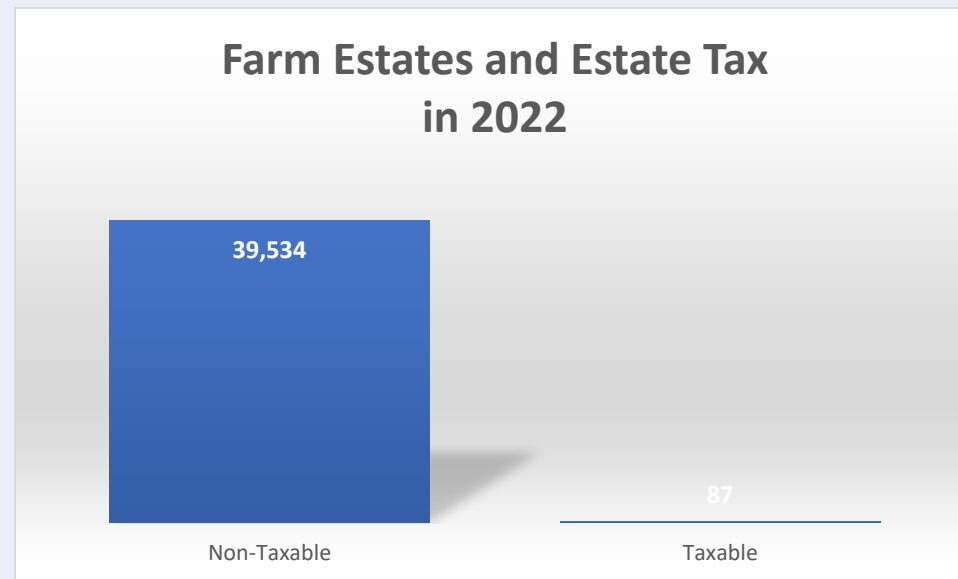


# EXEMPTIONS OVER TIME

1997 = \$600,000  
1998 = \$625,000  
1999 = \$650,000  
2000 and 2001 = \$675,000  
2002-2009 = \$1.0 million  
2010 = \$5 million or opt out with no step up  
2011 = \$5.0 million  
2012 = \$5.12 million  
2016 = \$5.45 million  
2017 = \$5.49 million  
2018 = \$11.2 million  
2019 = \$11.4 million  
2020 = \$11.58 million  
2021 = \$11.7 million  
2022 = \$12.06 million  
2023 = \$12.92 million  
2024 = \$13.61 million

# VERY FEW FARM ESTATES PAY IT TODAY

- The USDA-ERS recently estimated that of the projected 39,534 estates created from principal farm operator deaths in 2022, only 305 (0.77 percent) will be required to file an estate tax return, and only 87 (0.22 percent) will likely owe Federal estate tax.



# BUT HIGHER EXEMPTION IS ENDING SOON...

- Increased exemption amount was created by the TCJA.
  - It was only temporary, through December 31, 2025.
- **In 2026, the exemption resets to \$5 million, indexed for inflation (~\$7 million).**



# ESTATE AND GIFT TAX RATE

- Although estate and gift tax rates are graduated, transfers in excess of the exemption are currently taxed at **40%** because the present exclusion exceeds the top rate threshold of \$1 million.

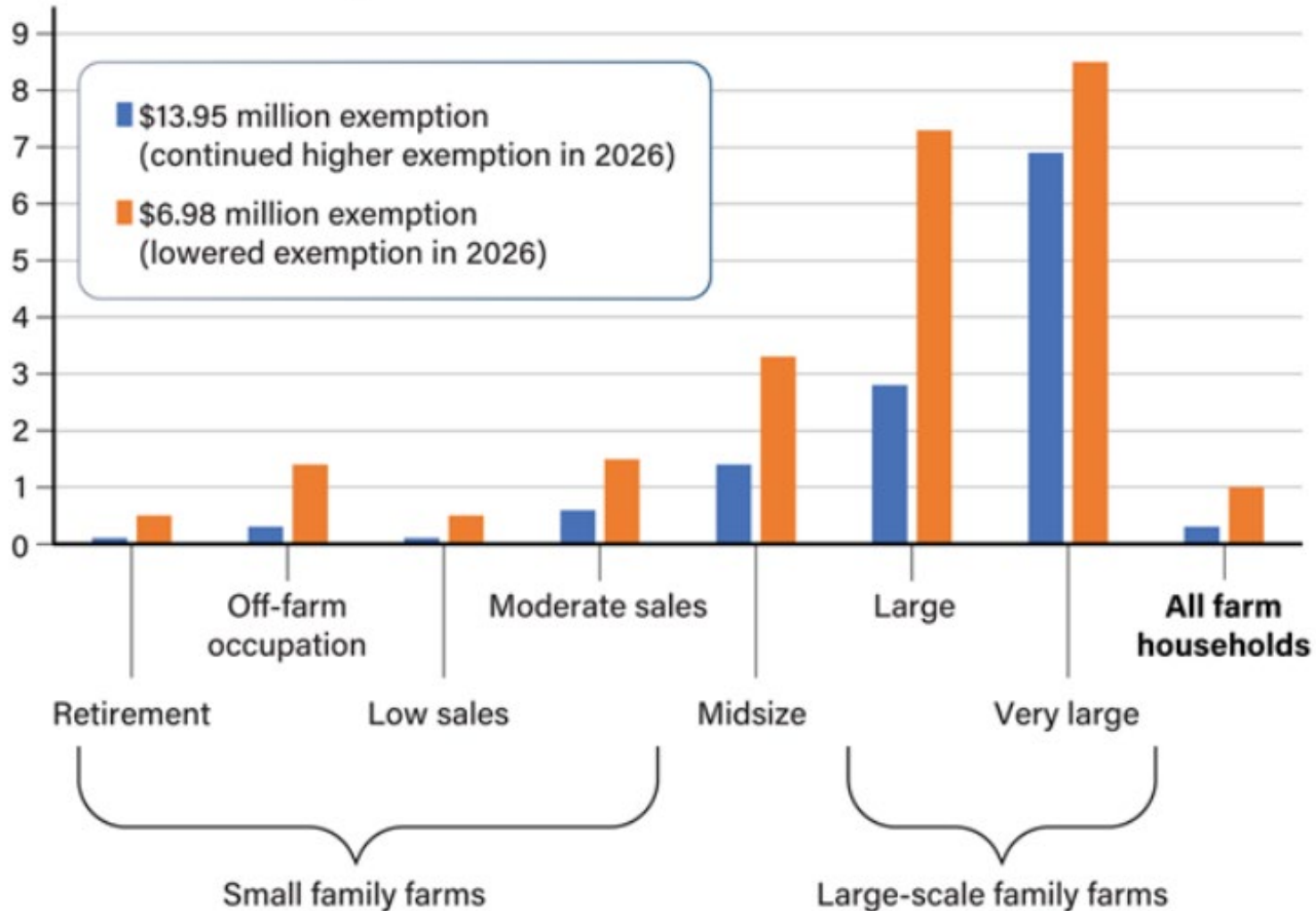
A large, three-dimensional red graphic of the text "40%" is centered on a white background. The numbers and the percentage symbol are rendered in a bold, sans-serif font with a slight shadow beneath them, giving them a 3D appearance.

## Forecast results of sunseting the increased estate tax exemption, 2026



Economic Research Service  
U.S. DEPARTMENT OF AGRICULTURE

Percent of estates owing estate tax





# PLANNING FOR THE LOWER EXEMPTION

- It now appears more likely that the increased exemption will be extended, but CONGRESS HAS TO ACT TO DO IT.



# GENERALLY, NO CLAWBACK FOR PRE-2026 GIFTS

- In T.D. 9884 (2019), IRS said there would be no clawback for lifetime gifts made before the exemption declines.
- Existing regulations would also apply DSUE in place at time of first spouse to die.
  - **This makes portability election more, not less, important.**
  - Would (in the absence of contrary future guidance) lock in the higher amount of exclusion for future years, even if exclusion decreases.



# PORTABILITY

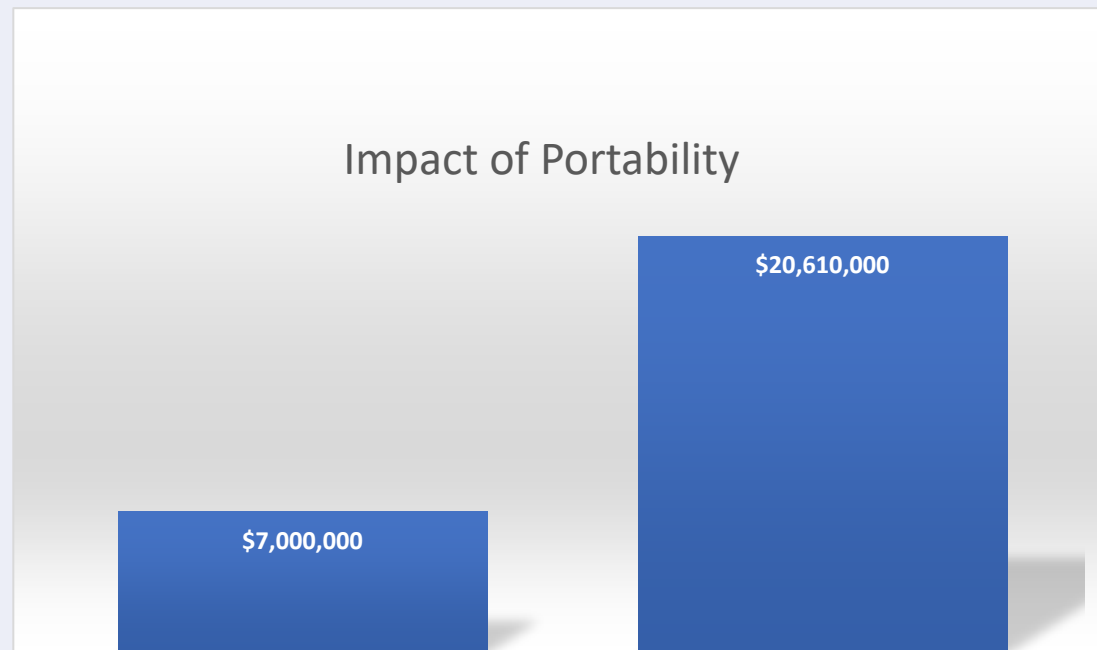
- Unused exclusion amount of spouse dying after 12/31/2010 may be used by surviving spouse
- Only available if election made on timely filed estate tax return (**Form 706**) of predeceased spouse – whether or not estate tax return is otherwise required.
- Spouses could apply up to \$27.22 exemption in 2024.

# EXAMPLE

- Sharon dies in 2024, leaving a \$13.61 million deceased spouse unused exclusion. Sharon's surviving spouse, Dale, acting as her executor, elects portability. Dale dies in 2026 after the exemption resets to ~\$7 million.
- Current regulations would allow Sharon's \$13.61 million DSUE to apply to Dale's estate. Dale would therefore have a ~\$20.61 million exemption. If Dale had not elected portability when Sharon died, Dale would have only a ~\$7 million exemption at his death.

# EXAMPLE – PORTABILITY

- If Dale had not elected portability when Sharon died, Dale would have **only a ~\$7 million exemption** at his death.



# LATE PORTABILITY ELECTION EXTENDED TO FIVE YEARS

- Rev. Proc. 2022-32

- Under the recent procedure, which supersedes Rev. Proc. 2017-34, an extension request must be made **on or before the fifth anniversary of the decedent's death.**
- This simplified method, which doesn't require a user fee, should be used in lieu of the letter ruling process.

# MECHANICS OF LIFETIME GIFTS IN 2024

- If death occurs *after* sunset, any original basic exclusion used during lifetime supplants post-2025 exclusion.
- If additional basic exclusion was used pre-2026, it should not be clawed back.
- Remember DSUE survives remarriage, just not death of replacement spouse.
- Gift tax paid will increase basis in proportion to amount attributable to unrealized gain.

DSUE is  
used  
first.

Original  
Basic  
Exclusion is  
used next.

Additional  
Basic  
Exclusion is  
used next.

# EXAMPLE

- Margie made a \$13 million lifetime gift in 2024.
- She filed Form 709 but applied the basic exclusion. Margie dies in 2026, after the exemption has reset to ~\$7 million.
- **Under T.D. 9884, Margie's full gift remains sheltered by the exemption in place in 2024.**

# EXAMPLE

- Monty gave a \$7 million gift in 2024. He filed Form 709.
- Monty dies in 2026 after the exemption resets to ~\$7 million.
- Although Monty could have gifted up to \$13.61 million in 2024, he has no exclusion remaining at his death.
- **Any property passed to his heirs at death will be subject to a 40% estate tax.**
- Monty has *some* benefit from the gift if the asset appreciated in the years after the gift was made.



# GIFTING CONSIDERATIONS

- Must compare the income tax benefit traded (giving up basis adjustment) to the estate tax benefit gained.
- What is the full value of the basis adjustment (capital gain, NIIT, recapture, etc.)? Higher the built-in gain, less efficient the gift.
- Does client need those assets during lifetime?
- How old is client. Will assets appreciate during lifetime?



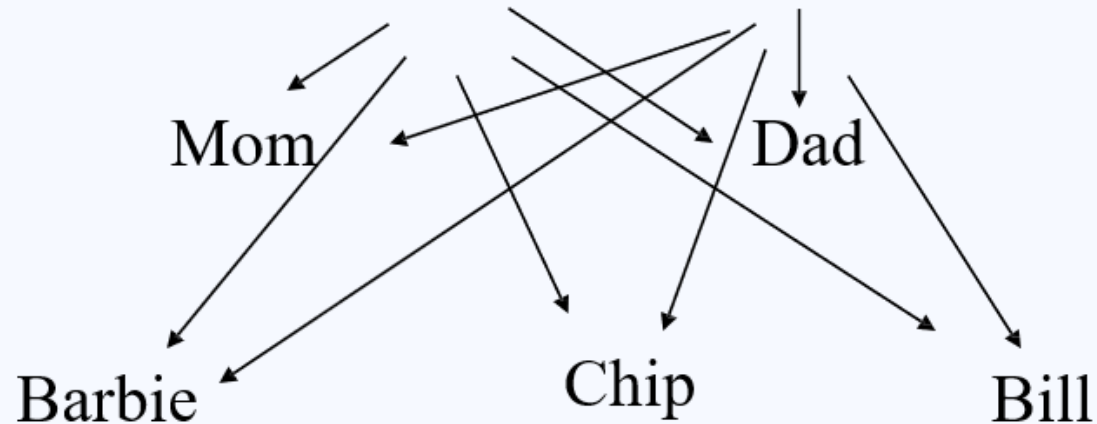
# CONSIDER ANNUAL GIFTING

- For clients near or above the estate tax limit, annual gifting is generally efficient.
- In 2024, the annual exclusion amount is \$18,000. Combined exclusion for split gift is \$36,000. Increases to \$19,000/\$38,000 in 2025.
- Gifts of fractional interests of LLCs is sometimes possible.
- Must be a present interest gift: donee must benefit from the gift.
- Consider gift tax return to lock in valuation.
- Remember unlimited exclusion for college tuition and medical expenses paid directly to the institutions.



# ANNUAL GIFTING

## Grandpa and Grandma



**\$180,000/year**

# PLANNING WITH TRUSTS - CHARITABLE REMAINDER TRUSTS

- Charitable remainder trusts (CRTs) may be beneficial to a charitable-minded farmer facing a large influx of taxable income from highly appreciated property or property that would trigger high tax liability if sold.
- For example, a retiring farmer, a farmer holding a large amount of stored grain or machinery, or a farmer liquidating a dairy herd or farmland may be able to use a CRT to spread out income across multiple tax years, lowering overall tax liability, while also benefitting a charity.

## EXAMPLE

- At the end of 2023, Rodney retired from farming. He had \$1 million in fully depreciated machinery and grain on hand that he wanted to sell. If he sold the property outright, however, he would have paid more than \$400,000 in tax, leaving \$600,000 to invest for retirement. Rodney also wanted to donate to his favorite charity.

Amount transferred to CRT	\$1,000,000
Annuity trust payout (AFR Dec 2023 = 5.8%)	\$91,400 for 15 years
Present value of annuity	\$899,413
Present value remainder	\$100,587

# BEWARE OF PROMOTERS

- In *Furrer v. Comm'r*, T.C. Memo 2022-11 (Sept. 28, 2022), an Indiana farm couple was encouraged to transfer into a CRAT 100,000 bushels of corn and 10,000 bushels of soybeans grown on their farm. They received a yearly annuity payment.
- On their tax returns for the three audited years, the taxpayers **did not report the annuity payments as income**. Instead, they argued that the payments constituted a nontaxable return of corpus.





# RESIDUAL FERTILIZER DEDUCTION





# AMORTIZING RESIDUAL FERTILIZER

- Lots of activity, little guidance.



# AMORTIZING RESIDUAL FERTILIZER

- **TAM 9211007** denied the corporation the amortization deductions because it was not the beneficial owner of the fertilizer. However, the TAM stated that **in order to amortize the cost of fertilizer** acquired with land, the taxpayer must:
  - establish the presence and extent of the fertilizer;
  - show the level of soil fertility attributable to fertilizer applied by the previous owner;
  - provide a basis upon which to measure the increase in fertility in the land; and
  - provide evidence indicating the period over which the fertility attributable to the residual fertilizer will be exhausted.

# WEIGHING THE RISKS

- While there is likely substantial authority to take reasonable amortization or I.R.C. § 180 deductions for excess fertilizer acquired on certain inherited or purchased land, taxpayers must understand that there is no authoritative guidance supporting these deductions.
- If the IRS challenges a position taken on a return, it may assess a 20 to 40% penalty against the underpayment, and up to a 75% penalty for civil fraud.
- State revenue agencies have been more active in challenging these deductions. State penalties could accrue as well.

# WEIGHING THE RISKS

- In recent years, some purchasers of farmland have been counseled to take very aggressive excess soil fertility deductions. Clients should be cautioned against such an approach. Those wishing to take these deductions must take steps to justify their deduction

# WEIGHING THE RISKS – CONSIDERATIONS

- Pay for expert analysis to prove that the soil at issue has nutrient levels **in excess of standard or baseline levels.**
  - Anything below that is just soil.
- Demonstrate through their experts that the excess fertility has a useful life that is depleting or being exhausted over a certain period of time (generally two-three years).
- Be consistent in approach. Taking a deduction for excess fertility must be reflected in the amount of fertilizer applied in the year of the deduction.
- Use due diligence in reviewing and submitting data provided by outside consultants.



# IOWA UPDATES



# RESTORING THE CAPITAL GAIN EXCLUSION FOR THE SALE OF BREEDING AND DAIRY LIVESTOCK (HF 2649)

- HF 2317, passed in 2022, limited the Iowa capital gain deduction to apply to gain from the sale of “Real property used in a farming business,” beginning in tax year 2023.
- The law eliminated the long-standing capital gain exclusion for the sale of livestock for non-retired farmers.





# RESTORING THE CAPITAL GAIN EXCLUSION FOR THE SALE OF BREEDING AND DAIRY LIVESTOCK (HF 2649)

- New 2024 law restored prior law, allowing those who cull dairy or breeding livestock that have been held for the required period to exclude capital gain from the sale of that livestock from Iowa income.
- This law applies to those farmers who earn more than 50 percent of their gross income from farming. The bill applies retroactively to include the 2023 tax year.
  - **Note:** Another bill related to HF 2317, HF 2666, was not enacted. This bill would have allowed retired farmers whose land is owned by an LLC, partnership, trust, or S corporation to qualify for the retired farmer rental income exclusion.

# INDIVIDUAL INCOME TAX RATE CUTS (SF 2442)

- The maximum Iowa individual income tax rate is currently 5.70 percent for 2024. It was scheduled to be 4.82 percent for 2025, and 3.9 percent for 2026 and beyond.
- New law passed in 2024 accelerates the scheduled rate cuts by changing the tax rate for all income in tax years 2025 and beyond to 3.8 percent. The bill also lowers the alternate income tax rate from 4.4% to 4.3% beginning in tax year 2025.



# RETIRED FARMER LEASE INCOME EXCLUSION

- Beginning in 2023, Iowa Code § 422.7 allows **“eligible individuals”** to **elect to exclude from Iowa income:**
  - the net income received from a **“farm tenancy agreement”**
  - covering real property **“held”** by the **“eligible individual”** for 10 or more years
  - if the eligible individual **“materially participated”** in a **“farming business”** for 10 or more years.

# RETIRED FARMER – “ELIGIBLE INDIVIDUAL”

- An individual who is:
  - **Disabled or 55 years of age or older** at the time the election is made
  - **Who no longer materially participates in a farming business** at the time the election is made, and
  - **Who, as an owner-lessor, is a party to a “farm tenancy agreement”**

# RETIRED FARMER LEASE INCOME EXCLUSION SUMMARY

- It's an **election**
- Must be an **individual**
- Must be **disabled** or **55 years old** or older
- Must **no longer materially participate** in a farming business
- Must **have materially participated** in a farming business for 10 years or more
- Must **have held the property** covered by the farm tenancy agreement for 10 years or more
- Must be a **party to the farm tenancy agreement** as an **owner-lessor**
- The agreement **must be in writing**
- Must not have made an election for a **single lifetime exemption** to exclude capital gain from Iowa income
- Will not be eligible for the **Beginning Farmer Tax Credit** or the **Iowa Capital Gain Deduction** in future years

# MATERIAL PARTICIPATION (302.87(2)) HIGHLIGHTS

- In determining whether a particular taxpayer has material participation in a business, **participation of the taxpayer's spouse in a business must also be taken into account.**
  - Activity done by a taxpayer's spouse is considered activity done by the taxpayer. The spouse's participation in the business must be taken into account even if the spouse does not file a joint state return with the taxpayer or if the spouse has no ownership interest in the business.
- The activities of other family members, employees, or consultants are not attributed to the taxpayer to determine material participation
- **Participation of the spouse does *not* count to prevent someone from being “retired.”**

# MATERIAL PARTICIPATION (302.87(2)) – CASH RENT

- A farmer who rents out farmland on a cash basis as the only activity in the farming business will generally **not be considered to be materially participating** in the farming activity.
- The burden is on the farmer landlord to show that the farmer landlord materially participated in the cash-rent farm activity.



# MATERIAL PARTICIPATION (302.87(2)) – CROP SHARE

- **A farmer landlord is subject to self-employment tax on net income from a crop-share arrangement with a tenant.** The landlord is considered to be materially participating with the tenant in the crop-share activity if the landlord meets one of the four following tests:

TEST 1: The landlord does any three of the following: (1) pays or is obligated to pay for at least half the direct costs of producing the crop; (2) furnishes at least half the tools, equipment, and livestock used in producing the crop; (3) consults with the tenant; and (4) inspects the production activities periodically.

TEST 2: The landlord regularly and frequently makes, or takes part in making, management decisions substantially contributing to or affecting the success of the enterprise.

TEST 3: The landlord worked 100 hours or more spread over a period of five weeks or more in activities connected with crop production.

TEST 4: The landlord has done tasks or performed duties which, considered in their total effect, show that the landlord was materially and significantly involved in the production of the farm commodities.

# MATERIAL PARTICIPATION (302.87(2)) – CRP

- **Final Rule:** if an individual's only activity was participation in a conservation reserve program, then that activity will not be considered to make someone a farmer.
  - **It does not meet the definition of “farming business.”**
- Likewise, if CRP is only activity once retired, it will not prevent someone from being retired (even if reported on Schedule F).

# RESTRICTIONS: INCOME PASSED THROUGH FROM ENTITIES

- Net income from a farm tenancy agreement earned, received, or reported by an entity **taxed as a partnership for federal tax purposes**, an **S corporation**, or a **trust or estate** is not eligible for the election and deduction in this subsection, even if such net income ultimately passes through to an eligible individual.
  - **Disregarded** entities like SMLLCs and RLTs should not prevent retired farmer from qualifying.

# SINGLE LIFETIME ELECTION - RULES

- Individuals who make an election (on the form prescribed by the Department) under this section **may not**:
  - Apply the Iowa Capital Gain Deduction to proceeds from the sale of real property or livestock **in the current or succeeding tax years**
  - Take the Beginning Farmer Tax Credit **in the current or succeeding tax years**
    - A retired farmer may not utilize an **unclaimed amount** of a beginning farmer tax credit in the same tax year the retired farmer is making an election or in any subsequent tax year
- Election is irrevocable once made.

# JOINT OWNERSHIP WITH A SPOUSE

- A retired farmer who owns real property used in a farming business jointly with a spouse and makes the election described in this subrule or the election described in subrule 302.88(3) may only exclude qualifying income from that real property to the extent of the retired farmer's ownership interest held in that real property.
- **The retired farmer's ownership interest does not include the ownership interest of the retired farmer's spouse.**
- If each spouse qualifies as a retired farmer, each spouse may make different elections on the property they jointly own to the extent of their respective ownership interests.

[HTTPS://TAX.IOWA.GOV/SITES/DEFAULT/FILES/2023-11/IA125%2841187%29.PDF](https://tax.iowa.gov/sites/default/files/2023-11/IA125%2841187%29.pdf)

Iowa Department of  
**REVENUE**

**2023 IA 125**

Farm Tenancy Income Exclusion

tax.iowa.gov

Name(s):  Social Security Number:

**Purpose of form:** This form is for taxpayers who are eligible individuals and want to make the lifetime election to exclude their net income from a farm tenancy agreement covering real property.

**Part I: Eligible Individual Election**

1. Is the taxpayer an eligible individual? See instructions for definition.  
No ☐.....Continue to Part II, line 1  
Yes ☐.....Continue to Part I, line 2. If the taxpayer is both an eligible individual and a surviving spouse, the taxpayer must complete Part II.
2. Is the taxpayer making a lifetime election to exclude net income from a farm tenancy agreement covering real property? This will disqualify the taxpayer from claiming the beginning farmer tax credit or electing to deduct capital gains from the sale of real property used in a farming business, cattle, horses, or other breeding livestock in this tax year or in any subsequent tax year.  
No ☐.....The taxpayer is not eligible to take this exclusion. Stop.  
Yes ☐.....Continue to Part I, line 3
3. Did the taxpayer claim the beginning farmer tax credit this tax year?  
No ☐.....Continue to Part I, line 4

# IOWA CAPITAL GAIN DEDUCTION

- Net capital gains from the sale of real property used in a farming business may be excluded from the owner's Iowa net income if the owner held the real property used in a farming business for ten or more years and materially participated in a farming business for at least ten years.
- If the taxpayer is a retired farmer, the taxpayer must make the single lifetime election to exclude qualifying capital gains. It is not required that the property be located in Iowa for the owner to qualify for the deduction.

OR

- The taxpayer has held the **real property used in a farming business** which is sold to a relative of the taxpayer (holding period and material participation do not matter).



# RELATIVE (THREE WAYS TO QUALIFY)

- A. The individual is related to the taxpayer by consanguinity or affinity within the second degree as determined by common law.
  - Brother, sister, grandparent, grandchild, daughter-in-law, son-in-law, parent-in-law (watch for rules)
- B. The individual is a lineal descendent of the taxpayer.
  - Children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendent of the taxpayer.
- C. An entity in which an individual who satisfies the conditions of either A or B has a legal or equitable interest as an **owner, member, partner, or beneficiary**.
  - No percentage requirement!

# RETIRED FARMER

- An individual who is disabled or who is 55 years of age or older and who **no longer materially participates** in a farming business when an exclusion and deduction is claimed under this subsection.
- 5/10 years rule and participation of spouse do not count when determining whether farmer is **retired**.
- If the taxpayer is a retired farmer and materially participated in a farming business for ten or more years **in the aggregate**, then the taxpayer will meet the material participation requirements.

# IOWA CAPITAL GAIN DEDUCTION – RETIRED OR DISABLED FARMERS

- The law also allows retired or disabled farmers to deduct gain from the sale of breeding, draft, dairy or sport cattle or horses (held for 24 months or more) if the taxpayer:
  - **Materially participated in the farming business for five of the eight years preceding retirement or disability, and**
  - **Sold all or substantially all of the taxpayer's interest in the farming business when the election is made.**
    - For purposes of this subrule and subrule 302.87(6), “substantially all” means 90% of the interest in the farming business.
    - Proper records should be kept showing purchase and birth dates of breeding livestock. The absence of records may make it impossible for the owner to show that the owner held a particular animal for the necessary holding period.
- The same rule applies to the sale of other breeding livestock held for a period of 12 months or more.

# SINGLE LIFETIME ELECTION

- A retired farmer may make a single lifetime election on a form prescribed by the department to exclude all qualifying capital gains from the sale of real property used in a farming business and the sale of certain livestock described in subrules 302.87(5) and 302.87(6).
- If a retired farmer makes the election described in this subrule, the retired farmer is not eligible to make the election to exclude the net income received pursuant to a farm tenancy agreement or claim the beginning farmer tax credit under Iowa Code section 422.11E in the same tax year or any subsequent tax year.
- The election is irrevocable once made.

Name(s): \_\_\_\_\_ Social Security Number: \_\_\_\_\_

**Purpose of form:** This form is for taxpayers who are retired farmers and want to make the lifetime election to claim the capital gain deduction from the sale of real property, cattle, horses, or other breeding livestock used in a farming business. This form should be used for sales occurring on or after January 1, 2023. Taxpayers who are not retired farmers or surviving spouses of retired farmers, or are not making the lifetime election should use form IA 100H instead of this form.

**Part I: Retired Farmer Election**

1. Is the taxpayer a retired farmer? See instructions for definition.  
No ☐..... Continue to Part II, line 1  
Yes ☐..... Continue to Part I, line 2. If the taxpayer is both a retired farmer and a surviving spouse, the taxpayer must complete Part II.
2. Is the taxpayer making a lifetime election to exclude qualifying capital gains from the sale of cattle, horses, breeding livestock, or real property used in a farming business? This will disqualify the taxpayer from claiming the beginning farmer tax credit or electing to deduct income from a farm tenancy agreement in this tax year or in any subsequent tax year.  
No ☐..... Complete form IA 100H, if eligible. Stop.  
Yes ☐..... Continue to Part I, line 3

# MUTUALLY EXCLUSIVE ELECTION

Retired Farmers who did not make an election last year must decide when filing 2024 returns:

**Farm Tenancy  
Income Exclusion**

**OR**

**Iowa Capital Gain  
Deduction**

**No Election**

# SURVIVING SPOUSE – APPLIES TO BOTH ELECTIONS

- If a retired farmer made an election prior to death, the surviving spouse of the deceased retired farmer may exclude the qualifying income pursuant to the election made by the retired farmer prior to death.
- A surviving spouse cannot change the election the deceased retired farmer made. Any election made by the retired farmer prior to death is binding on all **real property used in a farming business** owned by the retired farmer at the time of death.
- This election is only binding on the retired farmer and the surviving spouse.



# SURVIVING SPOUSE – DISCLAIMER

- A surviving spouse of a deceased retired farmer **may disclaim the election made by the retired farmer.**
- If a surviving spouse of a deceased retired farmer makes this disclaimer, the surviving spouse is not eligible to deduct qualifying income pursuant to an election made by the retired farmer prior to death.
- A surviving spouse of a deceased retired farmer shall make this disclaimer on a form prescribed by the department and file the form with the surviving spouse's income tax return.

