HERE'S HOW TAX REFORM AFFECTS FARMERS AND RANCHERS

IRS Tax Reform Tax Tip 2018-169 October 31, 2018

Many farmers and ranchers will benefit from tax law changes brought about by last year's Tax Cuts and Jobs Act. Here are some of those changes along with details about how they will affect farmers and their bottom line:

Net Operating Losses:

- These can now be carried forward indefinitely. Under prior law, they could only be carried forward 20 years.
- NOL deductions are limited to 80 percent of taxable income.
- They can be carried back for two years for farm and ranch businesses. Under prior law, NOLs could be carried back five years.

Qualified Business Income Deduction:

- For tax years beginning after Dec. 31, 2017, taxpayers other than corporations may be entitled to a deduction of up to 20 percent of their qualified business income from a qualified trade or business, including income from a passthrough entity, but not from a C corporation, plus 20 percent of qualified real estate investment trust dividends and qualified publicly traded partnership income.
- The deduction is subject to multiple limitations such as the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid with respect to the trade or business, and the unadjusted basis immediately after acquisition of qualified property held by the trade or business.
- The deduction can be taken in addition to the standard or itemized deductions. In some cases, patrons of horticultural or agricultural cooperatives may be required to reduce their deduction. The IRS will be issuing separate guidance for co-ops.

Accounting method changes:

- Under the new law, more farm corporations and partnerships can now use the cash basis of accounting for tax purposes. This includes small business taxpayers, such as:
  - Farmers and ranchers with average annual gross receipts of $25 million or less in the prior three-year period.
- Farmers can refer to IRS guidance for more information about the process that eligible small business taxpayers may use to change accounting methods.

TAX REFORM CHANGES TO DEPRECIATION DEDUCTION AFFECT FARMERS' BOTTOM LINE

IRS Tax Reform Tax Tip 2018-170 November 1, 2018

Last year's Tax Cuts and Jobs Act made changes to how farmers and ranchers depreciate their farming business property.

Depreciation is an annual income tax deduction. It allows a taxpayer to recover the cost or other basis of certain property over the time that they use it. When figuring depreciation, taxpayers consider wear and tear, and deterioration of the property, as well as whether it's now obsolete.

Here is information about how the tax law changes to depreciation affect farmers and their bottom line:

- New farming equipment and machinery is five-year property. This means that for property placed in service after Dec. 31, 2017, the recovery period is shortened from seven to five years for machinery and equipment.

- The shorter recovery period does not apply to grain bins, cotton ginning equipment, fences and other land improvements.

- Used equipment remains seven-year property.

- Property used in a farming business and placed in service after Dec. 31, 2017, is not required to use the 150-percent declining balance method. Farmers and ranchers must continue to use the 150-percent declining balance method for property that is 15 or 20 years old to which the straight-line method does not apply and for property that the taxpayer elects.

- New and certain used equipment acquired and placed in service after September 27, 2017, qualifies for 100 percent first-year bonus depreciation for the tax year in which the property is placed in service.

- A taxpayer may elect to expense the cost of any section 179 property and deduct it in the year the property is placed in service. The new law increased the maximum deduction from $500,000 to $1 million. It also increased the phase-out threshold from $2 million to $2.5 million. For taxable years beginning after 2018, these amounts of $1 million and $2.5 million will be adjusted for inflation.

- The new law increases the bonus depreciation percentage from 50 percent to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017. The bonus depreciation percentage for qualified property that a taxpayer acquired and placed in service before Sept. 28, 2017 remains at 50 percent. Special rules apply for longer production period property and certain aircraft.

- The definition of property eligible for 100 percent bonus depreciation was expanded to include used qualified property acquired and placed in service after Sept. 27, 2017, if several factors are met.

- Farming businesses that elect out of the interest deduction limit must use the alternative depreciation system to depreciate any property with a recovery period of 10 years or more. This is property such as single purpose agricultural or horticultural structures, trees or vines bearing fruit or nuts, farm buildings and certain land improvements. This provision applies starting in tax year 2018.