Managing Taxes After Year-End

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Content:
Management strategies
+ / - Expenses
+ / - Revenues
Other options
1099s
Disclaimer

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Disclaimer

• None of what is presented should be considered formal legal or tax advice

• This presentation is for educational purposes

• Consult with trusted professionals on your individual situation
Oh...Shoot

- We’ve completed the year

- Tax situation is different than anticipated!
Oh...Shoot

- What can we do?
- What options are available?
- Our goal is to prepare you for discussions with your preparer
A couple notes

- Farming / Sch. F is one part of an overall return
- Deferring tax does not eliminate tax
- What helps your family / business thrive?
Single Filing Status
2023 tax rate bracket income ranges

• 10% – $1 to $11,000;
• 12% – $11,001 to $44,725;
• 22% – $44,726 to $95,375;
• 24% – $95,376 to $182,100;
• 32% – $182,101 to $231,250;
• 35% – $231,251 to $578,125; and,
• 37% – $578,126 or more.

*Typically, + 15.3% for self-employment*
Ima Farmer is single and has a taxable federal income of $75,000 for 2023.

- **10% Tax Rate** for income up to $11,000: $1,100
- **12% Tax Rate** for income above $11,000 and below $44,725: $4,047
- **22% Tax Rate** for income above $44,725: $6,661

Total Marginal Taxes: $11,808
Single Filing Status
2023 tax rate bracket income ranges
$75,000

• 10% – $1 to $11,000; $1,100
• 12% – $11,001 to $44,725; $4,047
• 22% – $44,726 to $95,375; $6,661

$11,808 / $75,000 = 15.7% effective rate

Total Tax / Taxable Income = Effective Tax Rate
Minimize income tax
• Prepay expenses, maximize depreciation, defer crop insurance

Optimize after tax income
• Maximize marginal brackets & review effective tax rate
In the long run:

Net farm income + Non-farm income

Should Be Greater Than

Family living expense + Income tax liability + Land principal payments
Equipment purchases should be based on need, not income tax savings
Tax Planning

- Ag producers have unique options for income tax planning
  - Many tools or options not available to main street businesses
- Working with your tax professional before year end is your most effective tool!
- Leave yourself some wiggle room if possible
- Sometimes, things just happen….
Depreciation Options

- Accelerate depreciation (§179 or bonus)

- Accelerating depreciation does not provide more depreciation, it simply changes the timing of the depreciation deduction

- Trade-off between current expense vs. later

- Taking §179 or bonus depreciation on financed equipment is deducting an expense that hasn’t been paid for yet
§179 Depreciation

- Allows businesses to deduct elected cost of qualifying assets in the first year

- What property qualifies?
  - Used primarily in a trade or business (>50% business use)
  - Acquired by purchase
  - Generally, 15-year tangible personal property or less
  - Machinery & equipment, breeding livestock, single purpose agricultural or horticulture structures, certain business vehicles, computers, software, office furniture
§179 Depreciation Limits

- Maximum deduction limited to $1,160,000 (2023)

- Investment in qualified property limited to $2,890,000 (2023)
  - Each $1 over investment limit reduces deduction limit by $1
  - Investment of $4,050,000 or more = no §179 deduction

- §179 deduction cannot exceed business income
  - W2 wages, income from farm business (Schedule F), non-farm business (Schedule C), certain pass-through income (Schedule E, page 2), gain on certain business property (Form 4797)
§168 Special Depreciation

- Special “bonus” depreciation allowance is an additional deduction before calculating regular depreciation
  - 80% for 2023, 60% for 2024

- What property qualifies?
  - Tangible personal property with a life of 20-years or less
  - Acquired by purchase
  - Generally, the same assets as with §179 plus farm buildings
“Bonus” depreciation is default, must elect to not take
- Election applies to all property within a class

No investment or deduction limits, bonus can create a business loss
§179 vs §168

- §179 allows taxpayer to choose the deduction amount, up to the cost of the property, election made for each eligible item
- §168 is all-or-none for all property within a class
- §168 allowed for farm shops, machine sheds, etc
Other Depreciation Options

- Elections available to slow down depreciation, reducing depreciation expense and increasing taxable income
  - Default farm depreciation is MACRS 200DB
  - Elect to use MACRS 150DB
  - Elect to use straight-line (SL)
  - Elect to use SL and use Alternative Depreciation System (ADS)
    - ADS increases depreciable life (usually)
### Other Depreciation Options

- IRS Pub 225 page 44

#### Table 7-1. Farm Property Recovery Periods

<table>
<thead>
<tr>
<th>Assets</th>
<th>GDS</th>
<th>ADS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural structures (single purpose)</td>
<td>10</td>
<td>15</td>
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<tr>
<td>Automobiles</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Calculators and copiers</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Cattle (dairy or breeding)</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Communication equipment¹</td>
<td>7</td>
<td>10</td>
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<tr>
<td>Computer and peripheral equipment</td>
<td>5</td>
<td>5</td>
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<tr>
<td>Drainage facilities</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Farm buildings²</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>New farm machinery and equipment³</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Used farm machinery and equipment</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Fences (agricultural)</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Goats and sheep (breeding)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Grain bin</td>
<td>7</td>
<td>10</td>
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<tr>
<td>Hogs (breeding)</td>
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<td>3</td>
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</table>

¹ Communication equipment includes telephone lines, telephone exchange equipment, and communication equipment used for farm or ranch purposes.

² Farm buildings include farm buildings, materials, and structures that are not included inGDS, but are used for farm or ranch purposes.

³ New farm machinery and equipment include farm machinery and equipment that is new or substantially improved.
Other Depreciation Options

Depreciation Methods Over Time

<table>
<thead>
<tr>
<th>Percent of Original Cost</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
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<tbody>
<tr>
<td>200DB</td>
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<tr>
<td>150DB</td>
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<tr>
<td>SL</td>
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<td>ADS SL</td>
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</tr>
</tbody>
</table>

info@RuralTax.org RuralTax.org
CCC Loan Election

- Loan from CCC on grain in storage (commercial or home storage)
- Election allows loan proceeds to be treated as income
- Requires work before year end, but allows flexibility after-the-fact
- 2023 National loan rate
  - Wheat = $3.38/bu, Corn = $2.20, Grain Sorghum = $2.20, Soybeans = $6.20
- Requires accurate accounting records
Constructive Receipt

- Constructive receipt is the point where the taxpayer has control of funds

- You have control of funds if you have received a check even if not deposited in the bank

- You have control of funds if you have the ability to receive a check even if you have not received it
Deferred Payment Contract

- Sale of grain or livestock in the current year with a contract for payment sometime in the future (usually the next tax year)

- Written contract with purchaser (elevator or sale barn)
  - Specifies quantity, price, grade and time of payment in following year
  - Seller has no right to the proceeds until the date specified

- Common method of taking advantage of a price but delaying recognition of income

- May be a risk of non-payment as an unsecured creditor
Deferred Payment Contract

- Option to elect out of installment treatment on deferred payment contracts
  - Recognize income in the year of sale even though payment is not received until a future year
  - Effective tax planning tool if there is uncertainty
  - Election is all or none on a contract-by-contract basis
  - Plan for flexibility by selling in multiple contracts in varying amounts
Defer Crop Insurance

- Potential to defer crop insurance proceeds, from crop damage or destruction, to the year following production
  - Available if you normally sell > 50% of grain the following year
  - Cash basis taxpayers only
  - If qualified, all crop insurance proceeds must be deferred even if from different crops

- Revenue policies may have both a revenue and yield loss
  - Revenue portion of crop insurance cannot be deferred

- Rainfall or weather insurance proceeds cannot be deferred
Drought Related Livestock Sales

- Two elections available when weather conditions lead to sales in excess of normal practices

- §451(g)
  - Applies to market animals or breeding stock
  - Applies only to sales in excess of normal
  - Requires federal disaster declaration
  - Defer recognition to the following tax year
Drought Related Livestock Sales

- §1033(e)
  - Applies only to breeding livestock
  - Applies only to sales in excess of normal
  - Does not require federal disaster declaration
  - Gain is “held” until replacement is purchased or 2 years later (may be extended in certain conditions)
  - When replacement stock is purchased, basis of replacements is decreased by deferred gain
Drought Related Livestock Sales

https://extension.usu.edu/ruraltax/tax-topics/weather-related-sales-of-livestock
Income Averaging

- Special election available to farmers and fishermen (reported on Schedule J) to utilize unfilled brackets in previous years.

- Elected Farm Income (2023 total amount to average) divided equally over the three prior base years (2020, 2021, 2022); overall tax is recalculated and compared.

- Does not amend or change prior year returns.

- Income averaging just about tax rates; goal is to fill lower brackets of the base years.
Income Averaging

- Does not impact income subject to self-employment tax

- Can elect any amount as *Elected Farm Income* up to the total of:
  - Farm income reported on Schedule F or Form 4835
  - Gain from machinery or breeding livestock sales on Form 4797
  - Certain farm pass-through income
  - Wages from farming S corp. for >2% shareholder
  - Gain on land sales NOT eligible
## Income Averaging

### 2020 - 2023

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Averaging</th>
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<tbody>
<tr>
<td>2020</td>
<td>171,050</td>
</tr>
<tr>
<td>2021</td>
<td>172,750</td>
</tr>
<tr>
<td>2022</td>
<td>178,150</td>
</tr>
<tr>
<td>2023</td>
<td>190,750</td>
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<table>
<thead>
<tr>
<th>Bracket</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>22%</td>
<td>80,250</td>
<td>81,050</td>
<td>83,550</td>
<td>89,450</td>
</tr>
<tr>
<td>12%</td>
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</tr>
<tr>
<td>10%</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

### 2020 - 2023 Bar Chart

- **22% Bracket**
- **12% Bracket**
- **10% Bracket**

Source: RuralTax.org
Income Averaging

Income Averaging

2020  2021  2022  2023

$50,000  $100,000  $150,000  $200,000  $250,000

22% Bracket  12% Bracket  10% Bracket

80,250  81,050  83,550  89,450

171,050  172,750  178,150  190,750
**Income Averaging**

- **Original:**
  
  $30,000 taxed at 22%

  tax = $6,600

- **With Averaging:**

  $10,000 taxed at 22%
  $20,000 taxed at 12%

  tax = $4,600

  Tax savings: $2,000
Tax Planning – Income Averaging

- Can be utilized in high earning years

- The current benefit of income averaging is maximized when - the average marginal tax rate for the base years (including EFI) equals the marginal tax rate on the residual election year income
Tax Planning – Income Averaging

- Could also be beneficial to create ‘gaps’ for future years
  - Base years drop off after 3 years; 2024

- Income tax for each year used as a future base-year will be calculated after any earlier year election
Retirement Plan Contributions

- Traditional IRA contribution
  - Requires earned income to contribute
  - Maximum contribution of $6,500 per individual for 2023 ($7,500 if 50 or older)
  - Maximum contribution may be limited if you, or your spouse, participate in a qualified retirement plan
  - Plan may be established as late as tax filing deadline
  - Contribution deadline is 4/15/2024
  - Schedule 1
Retirement Plan Contributions

- Simplified Employee Pension (SEP)
  - Maximum contribution ≈20% of self-employed income or 25% of an employee’s earnings
  - Maximum contribution $66,000 in 2023
  - Plan may be established as late as tax filing deadline
  - Contribution deadline is 4/15/2024 or 10/15/24 with extension
  - Cannot discriminate against eligible employees
  - IRS Pub. 560
Retirement Plan Contributions

- Savings Incentive Match Plan for Employees (SIMPLE)
  - Both employee contribution and employer contribution
    - Self-employed individual is both employer and employee
  - Plan must be established by October 1 of prior year
  - Contribution deadline
    - For employee portion, within 30 days of withholding
    - For employer contribution, 4/15/2024 or 10/15/24 with extension
  - Cannot discriminate against eligible employees
Health Savings Account (HSA)

- Must participate in eligible health plan, usually a HDHP

- Contributions are deductible
  - $3,850 for single coverage
  - $7,750 for family
  - Additional $1,000 if 55 and older
  - Contribution deadline is 4/15/2024

- Distributions are tax-free if for qualified medical expenses

- Schedule 1
Tax Planning

- Taxes paid as you go, if no or low withholding, may need to make estimated tax payments during the year
  - Underpayment of estimated tax penalties may apply if late or estimated tax is underpaid

- Qualified farmers not subject to underpayment penalty if:
  - One estimated tax payment is made by January 15, or
  - Income tax return is filed, and all tax paid, by March 1

- Qualified farmer if 2/3 of gross income from farming

1099 Filing Requirements

- Prior webinar
- Payments of $600 or more for rent or services
  - Rents (land, equipment, etc.) (1099-MISC)
  - Non-employee compensation (1099-NEC)
  - Veterinarian (1099-MISC)
  - Accounting / legal (1099-NEC)
Common Situations

- **Received:**
  - Crop insurance proceeds (1099–MISC) (Sch. F)
  - Gov’t payments (1099-G) (Sch. F)
  - Rents (1099-MISC) (Sch. E.)
  - Non-employee compensation (custom work) (1099-NEC) (F/C)
  - Consulting (1099-NEC) (Sch. C)
  - Co-op Distributions (1099-PATR) (Sch. F)
Filing Requirements

- Payments of < $600 are supposed to be recorded but do not require the form

- Generally, forms are **NOT** required on payments to corporations, government agencies, or tax-exempt organizations
Deadline for Recipients

- Jan. 31 – All other 1099s
- Feb. 15 – 1099-B, 1099-S
Deadline for IRS

- Jan. 31 – 1099NEC

- Feb. 28 (paper) – All other 1099s
  - Include Form 1096

- Mar. 31 (electronic) – All other 1099s
  - 10 or more informational returns, must be e-filed
Resources

- www.IRS.gov
  - Forms
  - Instructions

- Pub. 225 – Farmers Tax Guide

- RuralTax.org

- https://www.farmers.gov/taxes
Contact Information

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