# Farm Depreciation Update

Wednesday October 21, 2026

Bob Rhea

University of Illinois Tax School

FBFM Advisor

RURAL TAX EDUCATION

ruraltax.org

# Acknowledgment/Disclaimer

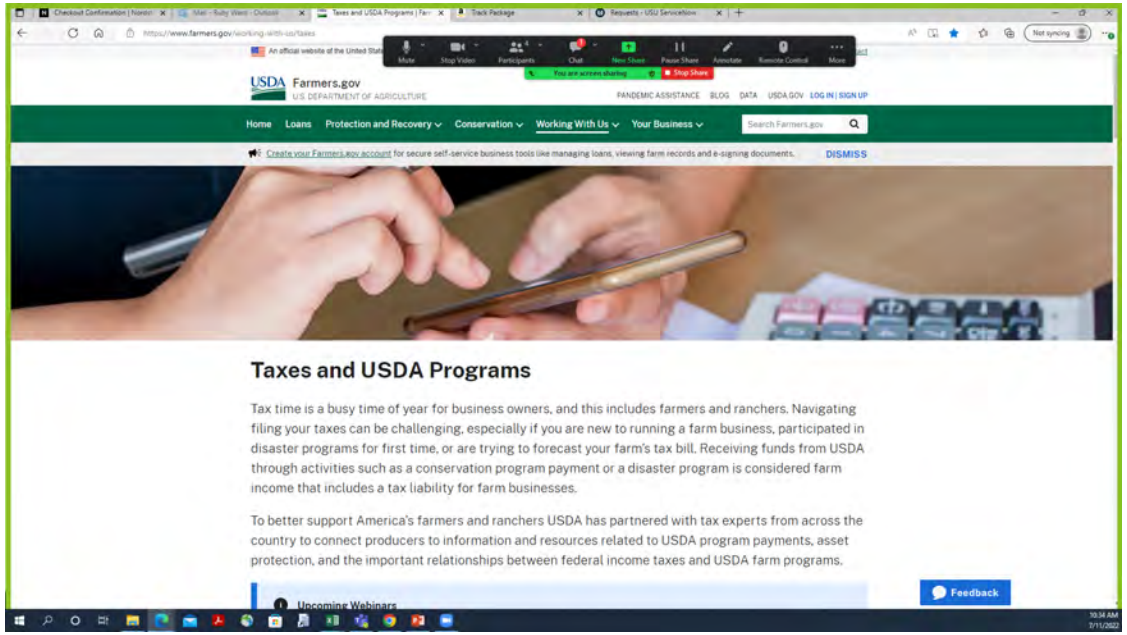
This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA21CPT0012032. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture. In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.




RURAL TAX EDUCATION

ruraltax.org

# Tax and Financial Education Project




- 3-Year USDA-FSA Funded Project
- Tax related educational materials:
  - Beginning Farmers/Ranchers
  - Commercial Farmers/Ranchers
  - Socially Disadvantaged Farmers/Ranchers
  - Landowners
  - Others

RURAL TAX EDUCATION

ruraltax.org

# RURAL TAX EDUCATION

RuralTax.org

## RuralTax.org

- Website hosted by Utah State University
- Material developed, managed, and owned by the **National Farm Income Tax Extension Committee**
- Informational Material on Ag, Timber, and Rural tax topics include but not limited to:
  - Disaster/Weather Losses
  - Treatment of Government Payments
  - Farm Losses and Hobby Rules
  - Self-Employment Taxes
  - Estate and Gift Taxes
  - Like Kind Exchanges
  - Depreciation
  - Etc...

# Program Agenda

- Farmers Tax Guide Key Content
- 2026 Reporting Rules
- Examples of Possible Deductions
- Form 4562 and new Draft Form

**New Farmer Tax Topics**

ruraltax.org

RURAL TAX EDUCATION

# Valuable Information for Farm Tax Return Preparation




**Publication 225**

# Farmer's Tax Guide

For use in preparing

**2025** Returns

**Acknowledgment:** The valuable advice and assistance given us each year by the National Farm Income Tax Extension Committee is gratefully acknowledged.

RURAL TAX EDUCATION

ruraltax.org

# 7.

# Depreciation, Depletion, and Amortization

## What's New for 2025

**Increased section 179 expense deduction dollar limits.** The maximum amount you can elect to deduct for most section 179 property you placed in service in 2025 has increased to $2,500,000. This limit is reduced by the amount by which the cost of the section 179 property placed in service during the tax year exceeds $4,000,000. Also, the maximum section 179 expense deduction for sport utility vehicles placed in service in tax years beginning in 2025 is $31,300. See *Dollar Limits* under *Section 179 Expense Deduction*, later.

## 2025 IRS Pub 225 Chapter 7

- Phase down of special depreciation allowance for certain qualified property acquired and placed in service before January 20, 2025. The special depreciation allowance is **40%** for certain qualified property acquired after September 27, 2017, and before January 20, 2025….

- Special depreciation for certain qualified property acquired and placed in service after January 19, 2025, and certain specified plants planted or grafted after January 19, 2025. The **100%** special depreciation allowance has been reinstated for certain property acquired and placed in service after January 19, 2025……
- Special depreciation allowance for qualified production property. You can elect to take a **100%** special depreciation allowance for qualified production property placed in service after July 4, 2025, and before January 1, 2031…..

RURAL TAX EDUCATION

ruraltax.org

# What Property Can Be Depreciated?

- Most types of tangible property (except land), such as buildings, machinery, equipment, vehicles, certain livestock, and furniture.
- Certain intangible property, such as copyrights, patents, and computer software.
- To be depreciable, the property must meet all the following requirements.
  - It must be property you own.
  - It must be used in your business or income-producing activity.
  - It must have a determinable useful life.
  - It must have a useful life that extends substantially beyond the year you place it in service.

RURAL TAX EDUCATION

ruraltax.org

# Tax Effects from 2026 Purchases

- IRC 179 Expense Election
- Bonus Depreciation (None or 100%)
- Regular Depreciation
- State rules may not follow federal rules
- Personal Property Like-Kind Exchanges
  - none after 12/31/2017  Tax Cut and Jobs Act (Sec. 1031 change)

RURAL TAX EDUCATION

ruraltax.org

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

| Assets | Recovery Period in Years | |
|---|---|---|
| | GDS | ADS |
| Agricultural structures (single purpose) | 10 | 15 |
| Automobiles | 5 | 5 |
| Copiers | 5 | 6 |
| Cattle (dairy or breeding) | 5 | 7 |
| Communication equipment[1] | 7 | 10 |
| Computer and peripheral equipment | 5 | 5 |
| Drainage facilities | 15 | 20 |
| Farm buildings[2] | 20 | 25 |
| New farm machinery and equipment[3] | 5 | 10 |
| Used farm machinery and equipment | 7 | 10 |
| Fences (agricultural) | 7 | 10 |
| Goats and sheep (breeding) | 5 | 5 |
| Grain bin | 7 | 10 |
| Hogs (breeding) | 3 | 3 |
| Horses (age when placed in service) | | |
| Breeding and working (12 years or less) | 7 | 10 |
| Breeding and working (more than 12 years) | 3 | 10 |
| Racing horses (more than 2 years) | 3 | 12 |
| Horticultural structures (single purpose) | 10 | 15 |
| Logging machinery and equipment[4] | 5 | 6 |
| Nonresidential real property | 39[5] | 40 |
| Office furniture, fixtures, and equipment (not copiers) | 7 | 10 |
| Paved lots | 15 | 20 |
| Residential rental property | 27.5 | 40 |
| Tractor units (over-the-road) | 3 | 4 |
| Trees or vines bearing fruits or nuts | 10 | 20 |
| Truck (heavy duty, unloaded weight 13,000 lbs. or more) | 5 | 6 |
| Truck (actual weight less than 13,000 lbs.) | 5 | 5 |
| Water wells | 15 | 20 |

Pub 225
Farmers Tax
Guide

RURAL TAX
EDUCATION

ruraltax.org

# 2025 Depreciation Provisions: IRC 179 expense

For tax years beginning on or after January 1, 2025, higher limits apply

$2,500,000 Maximum Sec 179 deduction
$4,000,000 Maximum Sec 179 purchase limit
If Sec 179 purchases are $4,100,000,
the maximum Sec 179 deduction is lowered to $2,400,000

*Most farm assets (new & used) with class life 15 years or less*

Related party acquisitions do not qualify
Brothers are not related parties for this rule

Must be placed in service: "in a state of readiness for its intended use"

RURAL TAX EDUCATION

ruraltax.org

# 2026 Depreciation Provisions: IRC 179 expense

For tax years beginning on or after January 1, 2026, higher limits apply

$2,560,000 Maximum Sec 179 deduction
$4,090,000 Maximum Sec 179 purchase limit
If Sec 179 purchases are $4,100,000,
the maximum Sec 179 deduction is lowered to $2,550,000

*Most farm assets (new & used) with class life 15 years or less*

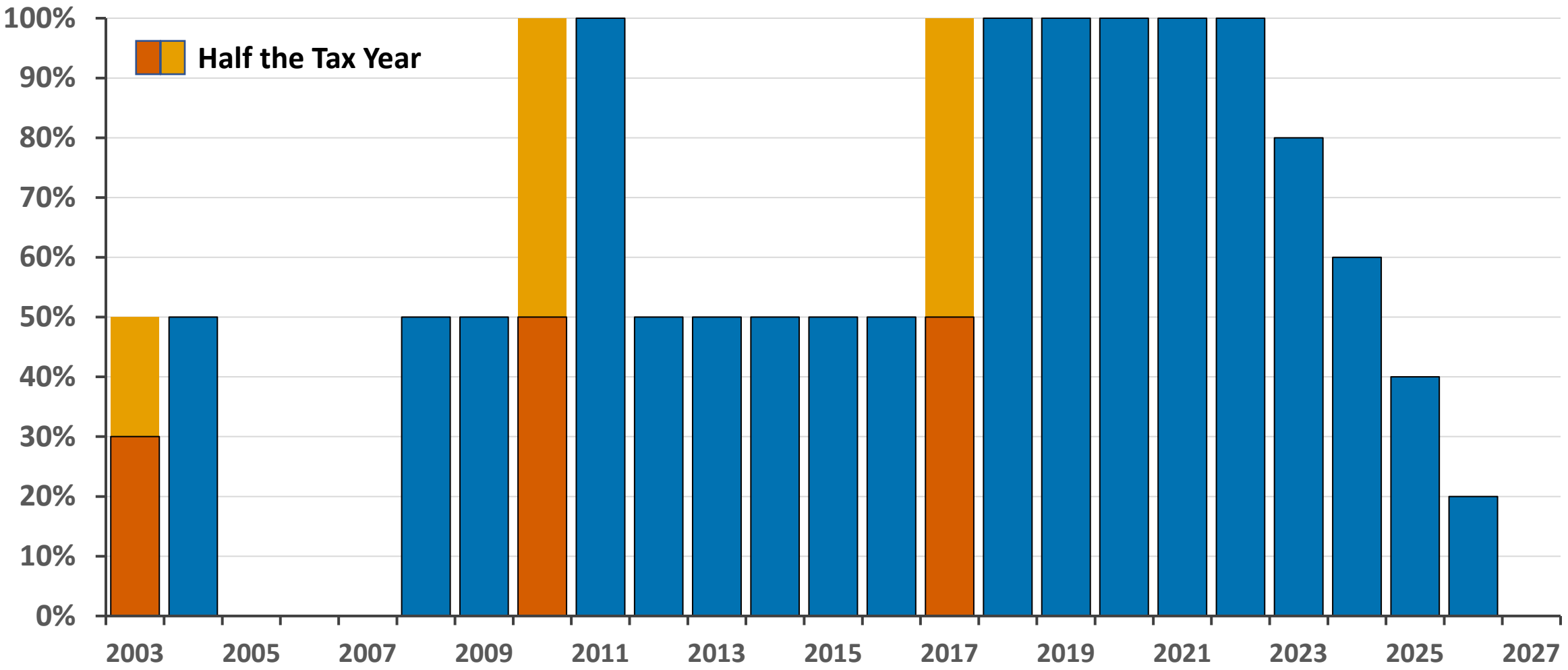
Related party acquisitions do not qualify
Brothers are not related parties for this rule

Must be placed in service: "in a state of readiness for its intended use"

RURAL TAX EDUCATION

ruraltax.org

# Bonus Depreciation Prior to OBBBA 7/4/2025




RURAL TAX EDUCATION

ruraltax.org

# 2026 Depreciation Provisions: Bonus Depreciation

100% bonus depreciation for assets acquired after January 19, 2025

Class lives up to 20 years

An additional deduction after the elected Section 179 deduction

and before you figure regular depreciation under MACRS

State level deductions may vary from federal level deductions

*All farm assets including machine sheds (new & used)*

Related party acquisitions do not qualify

Brothers are not related parties for this rule

Must be placed in service: "in a state of readiness for its intended use"

RURAL TAX EDUCATION

ruraltax.org

# Bonus Depreciation Tax Caution

- Bonus depreciation is “automatic” for each specified class life of property
- To not claim bonus depreciation, an election out of the bonus rules must be made on the tax return
- A class by class election




RURAL TAX EDUCATION

# Sec 179 vs Bonus Cautions

- Sec 179 can be made to a specific dollar amount
- Bonus is claimed (or not) on all assets in a class life
- Sec 179 cannot be used to create a tax loss
- Bonus can be used by more taxpayers & activities
- Sec 179 is claimed first
- Sec 179 amount can be amended




RURAL TAX EDUCATION

# Single Purpose Ag or Hort Structures – Yes 179

- A single-purpose agricultural (livestock) structure is any building or enclosure specifically designed, constructed, and used for both the following reasons.
  - To house, raise, and feed a particular type of livestock and its produce.
  - To house the equipment, including any replacements, needed to house, raise, or feed the livestock.
- A single-purpose horticultural structure is either of the following.
  - A greenhouse specifically designed, constructed, and used for the commercial production of plants.
  - A structure specifically designed, constructed, and used for the commercial production of mushrooms.

A structure must be used only for the purpose that qualified it

Farm Depreciation Methods

## Depreciation Table

| System/Method | Type of Property |
|---|---|
| GDS using 150% DB | • All 15- and 20-year property<br>• Farm or Nonfarm 3-, 5-, 7-, and 10-year property[1] |
| GDS using SL | • Nonresidential real property<br>• Residential rental property<br>• Trees or vines bearing fruits or nuts<br>• All 3-, 5-, 7-, 10-, 15-, and 20-year property[1] |
| ADS using SL | • Property used predominantly outside the United States<br>• Farm property used when an election not to apply the uniform capitalization rules is in effect<br>• Tax-exempt property<br>• Tax-exempt bond-financed property<br>• Imported property[2]<br>• Any property for which you elect to use this method[1] |
| GDS using 200% DB | • Nonfarm 3-, 5-, 7-, and 10-year property<br>• Farm 3-, 5-, 7-, and 10-year property placed in service after 2017 |

Pub 225 Farmers Tax Guide

RURAL TAX EDUCATION

ruraltax.org

# Machinery Depreciation Example

- Trade-in value of Tractor $85,000
  - Purchase cost was $90,000, fully depreciated
- Purchase price of replacement Tractor $185,000
- Net Trade-in (irrelevant for tax) $100,000
- Must report a gain of $85,000 on Form 4797
- Full purchase price eligible for depreciation on Form 4562, Sch F
- Saves ~ $13,000 SE tax potentially
- Gain on Form 4797 is ordinary gain and thus QBID eligible
  - QBID – Qualified Business Income Deduction 20%

RURAL TAX EDUCATION

ruraltax.org

# Machinery Depreciation Example

$100,000 Purchase price of used tractor on April 25, 2026

New farm equipment has a 5 year recovery period

Used farm equipment has a 7 year recovery period

IRC 179 expense any eligible amount up to $100,000…OR

Bonus depreciation {100%} of $100,000 ….OR

If no Sec 179 or bonus, then regular depreciation is $14,286

Only a half year is computed for the acquisition year

RURAL TAX EDUCATION

ruraltax.org

# Machine Shed Depreciation Example

$300,000 Cost of shed placed in service June 28, 2026

Farm buildings have a 20 year recovery period

IRC 179 expense – not available

Bonus depreciation {100%} of $300,000 OR

Regular (if no bonus) depreciation would be $11,250

300,000 x 150% / 20 yrs /2

Illinois depreciation will be $11,250

RURAL TAX EDUCATION

ruraltax.org

# Machinery Depreciation Example 2026

$4,300,000 Cost of new machinery placed in service

$3,100,000 Value of machinery traded in (fully depreciated)

$1,200,000 Anticipated deductions

IRC 179 expense – possible up to $2.35 million

Cost of $4.3M exceeds $4.09M limit, reduces 179 by $210,000

Bonus depreciation of $ 4.3 million {100%} OR

Regular depreciation of $860,000

Must report gain of $3,100,000 on Form 4797

RURAL TAX EDUCATION

ruraltax.org

# NEW Type of Eligible 179 Property – IRC 168(n)

Qualified production property means that portion of any nonresidential real property

- which is used by the taxpayer as an integral part of a qualified production activity,
- which is placed in service in the United States or any possession of the United States,
- the original use of which commences with the taxpayer,
- the construction of which begins after January 19, 2025, and before January 1, 2029,
- which is designated by the taxpayer in the election made under this subsection, and
- which is placed in service before January 1, 2031.
- The term “production” shall not include activities other than agricultural production and chemical production.

# Correcting Depreciation Errors

- If deducted an incorrect amount, file an amended return for that year
  - If claimed incorrect amount due to a math error
  - If claimed incorrect amount because of a posting error
  - You have **not adopted** a method of accounting for property placed in service
- You have adopted a method of accounting if:
  - You used the same incorrect method of depreciation for two or more consecutively filed returns
- To change your accounting method to claim the correct depreciation, file Form 3115

# Change to IRS Pub 225 "Farmers Tax Guide"

- Prior to 2023, sales of machinery were not included in the definition of "gross income from farming"
- This caused gains from trade-ins reported on Form 4797 to perhaps "disqualify" a taxpayer as farmer
- If not a farmer, no longer eligible to make only 1 estimated tax payment on January 15 of following year or file by March 1 with no estimated payments
- 2023 Pub 225 Significant Change: sales of machinery are now included as "gross income from farming"

Gross income from farming is the total of the following amounts from your tax return.

- 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.

ruraltax.org

RURAL TAX EDUCATION

# Unclear Information – 2025 PUB 225

- Gains from the sale of livestock used for draft, breeding, sport, or dairy purposes reported on Form 4797.

For more information about income from farming, see chapter 3.




*Farm income does not include:*

- *Wages you receive as a farm employee,*
- *Income you receive from contract grain harvesting and hauling with workers and machines you furnish, and*
- *Gains you receive from the sale of farmland.*

***Example 1.*** You had the following total gross income and gross farm income amounts in 2025.

**Gross Income**

| | Total | Farm |
|---|---|---|
| Taxable interest | $3,000 | |
| Rental income (Sch E) | 41,500 | |
| Gross Farm Income (Sch F) | 75,000 | $75,000 |
| Livestock Gain (Form 4797) | 5,000 | 5,000 |
| Machinery Gain (Form 4797) | 25,000 | 25,000 |
| **Total** | **$149,500** | **$105,000** |

Your gross farm income is 70% of your total gross income ($105,000 ÷ $149,500 = .70). Because your gross farm income is more than two-thirds of your total gross income, you are a qualified farmer and the special estimated tax rules apply.

**Fix Anticipated for 2026**

RURAL TAX EDUCATION

ruraltax.org

# Completion of Form 4562

- Farm Taxpayer made these purchases in 2025:
  - $800,000 Grain Bin system (new, 7 yr property) June 15
  - $100,000 Tractor (used, 7 yr property) October 15
  - $300,000 Combine (new, 5 yr property) March 7
- All purchases are qualifying Section 179 property
- The 179 election is made in full on the grain bin
- The 179 election is made in part on the tractor
- Special depreciation (100% bonus) is claimed on the combine
- Form 4562 is shown next

# Form 4562 is used to report Depreciation of Assets

Form **4562**

Department of the Treasury
Internal Revenue Service

## Depreciation and Amortization
**(Including Information on Listed Property)**
**Attach to your tax return.**
**Go to *www.irs.gov/Form4562* for instructions and the latest information.**

OMB No. 1545-0172

**2025**

Attachment Sequence No. **179**

| Name(s) shown on return | Business or activity to which this form relates | Identifying number |
|---|---|---|
| Example USDA Webinar | Schedule F Grain Farming | xxx-xx-1234 |

**Part I** **Election To Expense Certain Property Under Section 179**
**Note:** If you have any listed property, complete Part V before you complete Part I.

| | | | |
|---|---|---|---|
| 1 | Maximum amount (see instructions) | 1 | 2,500,000 |
| 2 | Total cost of section 179 property placed in service (see instructions) | 2 | 1,200,000 |
| 3 | Threshold cost of section 179 property before reduction in limitation (see instructions) | 3 | 4,000,000 |
| 4 | Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- | 4 | 0 |
| 5 | Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions | 5 | 2,500,000 |

| 6 (a) Description of property | (b) Cost (business use only) | (c) Elected cost |
|---|---|---|
| Grain Bin System | 800,000 | 800,000 |
| Tractor -- Used | 100,000 | 50,000 |

| | | | | | |
|---|---|---|---|---|---|
| 7 | Listed property. Enter the amount from line 29 | 7 | | | |
| 8 | Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 | | | 8 | 850,000 |
| 9 | Tentative deduction. Enter the **smaller** of line 5 or line 8 | | | 9 | 850,000 |
| 10 | Carryover of disallowed deduction from line 13 of your 2024 Form 4562 | | | 10 | 0 |
| 11 | Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions | | | 11 | 1,000,000 |
| 12 | Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11 | | | 12 | 850,000 |
| 13 | Carryover of disallowed deduction to 2026. Add lines 9 and 10, less line 12 | 13 | 0 | | |

**Note:** Don't use Part II or Part III below for listed property. Instead, use Part V.

**Part II** **Special Depreciation Allowance and Other Depreciation (Don't include listed property. See instructions.)**

| | | | |
|---|---|---|---|
| 14 | Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions | 14 | 300,000 |
| 15 | Property subject to section 168(f)(1) election | 15 | |
| 16 | Other depreciation (including ACRS) | 16 | |

RURAL TAX EDUCATION

ruraltax.org

# Form 4562 is used to report Depreciation of Assets

**Part III** **MACRS Depreciation (Don't include listed property. See instructions.)**

**Section A**

| | | |
|---|---|---|
| 17 | MACRS deductions for assets placed in service in tax years beginning before 2025 | 17 |
| 18 | If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here ☐ | |

**Section B—Assets Placed in Service During 2025 Tax Year Using the General Depreciation System**

| (a) Classification of property (see instructions) | (b) Month and year placed in service | (c) Basis for depreciation (business/investment use only—see instructions) | (d) Recovery period | (e) Convention | (f) Method | (g) Depreciation deduction |
|---|---|---|---|---|---|---|
| 19a 3-year property | | | | | | |
| b 5-year property | | | | | | |
| c 7-year property | | 50000 | 7 | HY | 200DB | 7143 |
| d 10-year property | | | | | | |
| e 15-year property | | | | | | |
| f 20-year property | | | | | | |
| g 25-year property | | | 25 yrs. | | S/L | |
| h 50-year property | | | 50 yrs. | MM | S/L | |
| i Residential rental property | | | 27.5 yrs. | MM | S/L | |
| | | | 27.5 yrs. | MM | S/L | |
| j Nonresidential real property | | | 39 yrs. | MM | S/L | |
| | | | | MM | S/L | |

RURAL TAX EDUCATION

ruraltax.org

# Form 4562 is used to report Depreciation of Assets

Form 4562 (2025) Page 2

**Part IV Summary** (See instructions.)

| | | | |
|---|---|---|---|
| **21** | Listed property. Enter amount from line 28 | **21** | |
| **22** | **Total.** Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions | **22** | 1,157,143 |
| **23a** | For assets shown in Part III that are placed in service during the current tax year, and have costs capitalized under section 263A, enter the amount of the basis attributable to interest costs capitalized under section 263A(f) | **23a** | |
| **b** | For assets shown in Part III that are placed in service during the current tax year, and have costs capitalized under section 263A, enter the amount of the basis attributable to costs capitalized under section 263A other than interest costs capitalized under section 263A(f) | **23b** | |

RURAL TAX EDUCATION

ruraltax.org

# 2026 Form 4562 Draft Expands Line 14

TREASURY/IRS AND OMB USE ONLY DRAFT

Form **4562**

Department of the Treasury
Internal Revenue Service

## Depreciation
**(Including Information on Listed Property)**
**Attach to your tax return.**
**Go to *www.irs.gov/Form4562* for instructions and the latest information.**

OMB No. 1545-0172

**2026**

Attachment Sequence No. **179**

| Name(s) shown on return | Business or activity to which this form relates | **Identifying number** |
|---|---|---|
| | | |

**Part I** **Election To Expense Certain Property Under Section 179**
**Note:** If you have any listed property, complete Part V before you complete Part I.

| | | | |
|---|---|---|---|
| 1 | Maximum amount (see instructions) | 1 | |
| 2 | Total cost of section 179 property placed in service (see instructions) | 2 | |
| 3 | Threshold cost of section 179 property before reduction in limitation (see instructions) | 3 | |
| 4 | Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- | 4 | |
| 5 | Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions | 5 | |

| 6 | (a) Description of property | (b) Cost (business use only) | (c) Elected cost |
|---|---|---|---|
| | | | |
| | | | |

| | | | |
|---|---|---|---|
| 7 | Listed property. Enter the amount from line 29 | 7 | |
| 8 | Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 | 8 | |
| 9 | Tentative deduction. Enter the **smaller** of line 5 or line 8 | 9 | |
| 10 | Carryover of disallowed deduction from line 13 of your 2025 Form 4562 | 10 | |
| 11 | Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions | 11 | |
| 12 | Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11 | 12 | |
| 13 | Carryover of disallowed deduction to 2027. Add lines 9 and 10, less line 12 | 13 | |

**Note:** Don't use Part II or Part III below for listed property. Instead, use Part V.

**Part II** **Special Depreciation Allowance and Other Depreciation (Don't** include listed property. See instructions.)

| | | | |
|---|---|---|---|
| 14a | Special depreciation allowance for certain qualified property (other than listed property) under section 168(k) | 14a | |
| 14b | Special depreciation allowance for certain specified plants bearing fruits and nuts under section 168(k)(5) | 14b | |
| 14c | Special depreciation allowance for qualified reuse and recycle property under section 168(m) | 14c | |
| 14d | Special depreciation allowance for certain qualified production property under section 168(n) (attach statement) | 14d | |
| 15 | Property subject to section 168(f)(1) election | 15 | |
| 16 | Other depreciation (including ACRS) | 16 | |

DRAFT — DO NOT FILE

RURAL TAX EDUCATION
ruraltax.org

# New Draft Form 4562-B to report Amortization

Form **4562-B**
(December 2026)
Department of the Treasury
Internal Revenue Service

## Amortization

**Attach to your return.**
**Go to *www.irs.gov/Form4562B* for instructions and the latest information.**

OMB No. 1545-0172

Attachment Sequence No. **179A**

| Name(s) shown on return | Business or activity to which this form relates | **Identification number** |
|---|---|---|
| | | |

1 Amortization of costs that began during your current tax year (see instructions):

| (a) Description of costs (see instructions for allowed entries) | (b) Date amortization begins | (c) Amortizable amount | (d) Code section | (e) Amortization period or percentage | (f) Amortization for this year |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

RURAL TAX EDUCATION

ruraltax.org

# Resource Links

- Rural Tax.org
  - http://www.ruraltax.org
  - http://ruraltax.org/beginningfarmertax
- USDA Farmers Website
  - https://www.farmers.gov/taxes
- IRS Publication 225:Farmers Tax Guide
  - https://www.irs.gov/pub/irs-pdf/p225.pdf
- Land Grant University Tax Education Foundation
  - https://taxworkbook.com



**New Farmer Tax Topics**

ruraltax.org

- University of Illinois Tax School
- https://taxschool.illinois.edu

# Contact Information

Bob Rhea

University of Illinois Tax School, Instructor

Illinois FBFM Association, Advisor

bob.rhea@fbfm.org

RURAL TAX EDUCATION

ruraltax.org

# Thank you for joining our webinar today!
# Questions?



RURAL TAX EDUCATION

ruraltax.org