



Tax Considerations for Producers Under Financial Distress Selling Assets

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Rural Tax Education

RuralTax.org



- Website hosted by Utah State University
- Material developed, managed, and owned by the **National Farm Income Tax 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...



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Topics Addressed

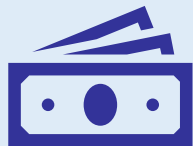
- Cash Flow and Taxes
- Tax Consequences
 - Previous Year Decisions
 - Selling Assets (e.g. livestock, equipment and land)
- Tax Management
- Resources



None of what is found within this presentation or discussed today should be considered formal legal or tax advice. This is for educational purposes only.



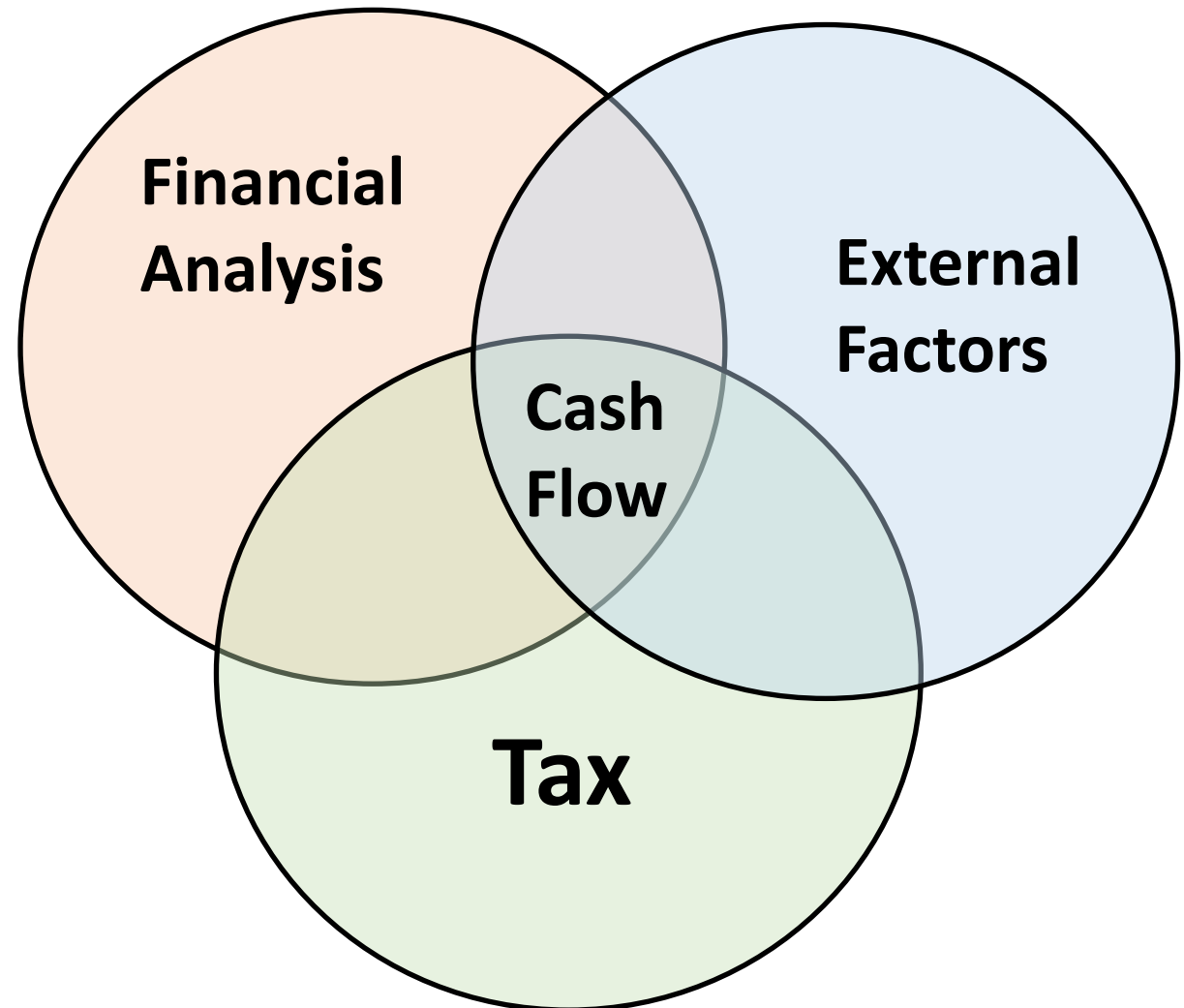
For legal & tax advice please visit with a professional attorney or tax professional that knows the subject matter and that you feel comfortable with.



Everything discussed today and in this presentation is “general”. Every tax and legal situation may vary and be very different based on facts and circumstances, as well as any further guidance provided by the IRS or law changes.

Cash Flow and Taxes

- Financial distress
 - Current
 - Long-term
- Turbulence (e.g. disasters, prices, input costs)
- Cash flow
- Unexpected tax liabilities
- Family living



Potential Tax Consequences

- Tax decisions from **previous years** may increase the tax burden for the current taxable year.
 - Deferred tax on current assets
 - Accelerated depreciation
- **Selling assets** (e.g. livestock, equipment, land) with low tax basis
 - Depreciation recapture
 - Capital Gains

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Previous Tax Decisions

- Cash Basis
 - Used for most returns with farming
 - Income recognized in the year sold
 - Expenses recognized in the year purchased
 - Cannot hold checks
- Income from previous years
 - Deferred Tax - Tax on income deferred from a previous year (e.g. stored crops).
 - Omitted from most Balance Sheets
- Deductions already taken in previous years.
 - May not have depreciation deductions on assets still being paid for.

Income from previous years

- Grain Harvested in 2025
 - If sold in 2025 – on 2025 tax return
 - If stored and sold in 2026 – on 2026 tax return.
- In a year with financial distress, there can be taxable income from commodities sold early in the year that were stored from the previous year.

Tax liability example

- Example - Married couple filing jointly both under 65 years old.
- Net Farm Income subject to taxes (NFI) = Farm Income – Farm Expenses
 - \$168,397 = \$200,000 - \$31,603.
- Taxable Income = NFI – Standard deduction – 199A – deduction for SE Tax
 - \$100,000 = \$169,397 - \$31,500 – \$25,000 - \$11,897
- Federal Income Tax = Taxable Income *
 - \$2,480 = 10% * \$24,800
 - \$9,024 = 12% * (\$100,000 – \$24,800)
 - \$11,504

2026 Income Tax Rates		
Married filing Jointly		
Rate	Above	Top
10%	\$ -	\$ 24,800
12%	\$ 24,800	\$ 100,800
22%	\$ 100,800	\$ 211,400
24%	\$ 211,400	\$ 403,550
32%	\$ 403,550	\$ 512,450
35%	\$ 512,450	\$ 768,700
37%	\$ 768,700	And Up

Tax liability example

- Self-employment tax – On Adjusted Gross Income (AGI)
 - 15.3% < \$184,500
 - 15.3% * \$156,500
 - \$23,794
 - Portion is deductible
- Total Federal tax = Income Tax + SE Tax
 - \$35,622
- State Income Tax?
 - If 5%?
 - \$5,000 = \$100,000 * 5%
- Total Tax owed = \$40,622

Selling Assets

- Non-current assets:
 - Capital gains
 - Depreciation recapture
- Sell 100 raised cows @ \$2,500 each
 - No tax basis
- Taxable – no other income
 - $\$218,500 = \$250,000 - \$31,500$
 - Tax = \$17,940
 - $0\% * \$98,900$
 - $+15\% * (218,500 - \$98,900)$
- Tax with previous example \$168,397 in Net Farm income.
 - \$37,500 (All is at 15%)

2026 Long Term Capital Gains Rates

Married Filing Jointly		
Rate	Above	Top
0%	\$ -	\$ 98,900
15%	\$ 98,900	\$ 613,700
20%	\$ 613,700	And Up

Tax Estimator Tool

- Estimate Tax liability under different scenarios.
 - Effect of adding selling equipment.
 - Decreased yields
- Allows time to plan for the tax obligations.



<https://extension.usu.edu/ruraltax/financial-distress>

Tax Management

- A basic part of any business' management practice
- **IS NOT** how to get out of paying taxes. If this is your strategy it will come back to bite you unless you are lucky to hold off the deferred taxes until death.
- Tax Management **IS** using available Internal Revenue Code (IRC) to get the most amount of income through the tax system at the smallest tax rate possible.
 - This requires **preplanning**, sometimes years in advance.
 - Requires a good set of **records!** Good accounting, bookkeeping, production records, financial analysis, and estimated future cash flows, etc.
 - Understand that accounting, recordkeeping, tax management have a symbiotic relationship.

Tax Management

- **Weather related sales of livestock** – Provisions for allowing sales of livestock because of weather without recognizing income if they are replaced.
- **Depreciation** – options for when depreciable assets (e.g. equipment, fencing) are expensed on tax returns.
 - Options to accelerate and take larger amounts the first year in service.
- **Prepays** – prepaying for supplies and other expenses during one year that will be used in a future year.
 - Deducted in the year purchased not used (if cash basis)

Tax Management

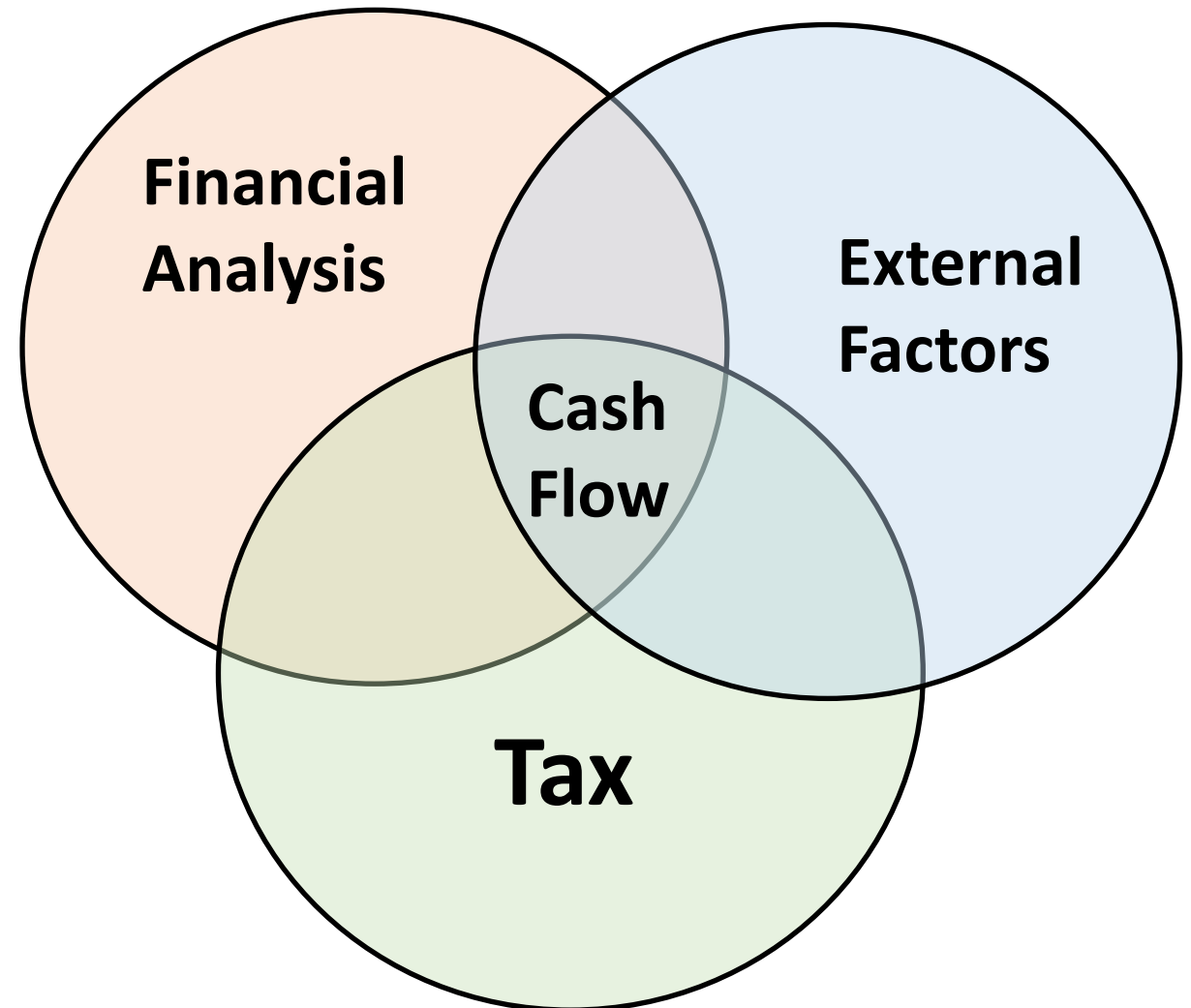
- **Income Deferral**– For some individuals, they may be able to defer some of the income into the next years dependent on the type of income i.e. some (not all!) crop insurance payments will allow a portion to be deferred dependent on the farms historical normal marketing methods and timing of their crop.

Tax Management

- **Selling Assets for cash flow** – need to consider the potential tax liability.
- Tax management timing:
 - before year end.
 - after year end.

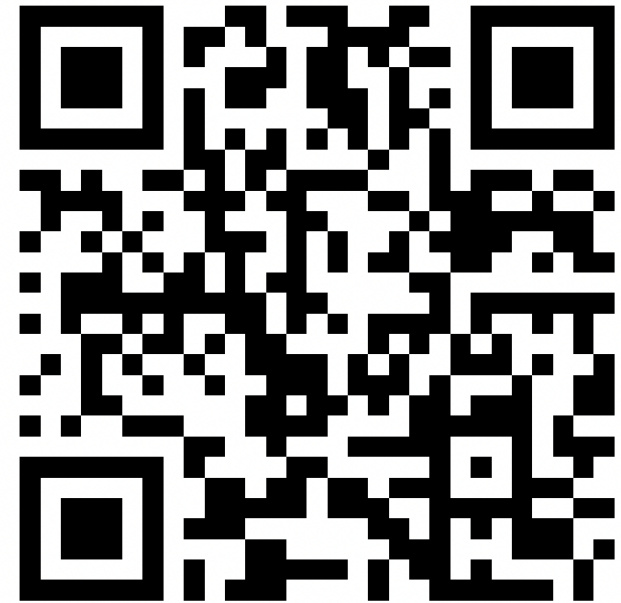
Take Home Message

- **Tax Estimator Tool**
 - Estimates tax liability
 - Compare options
- Important to consider taxes in cash flow management.



Tax Management Resources

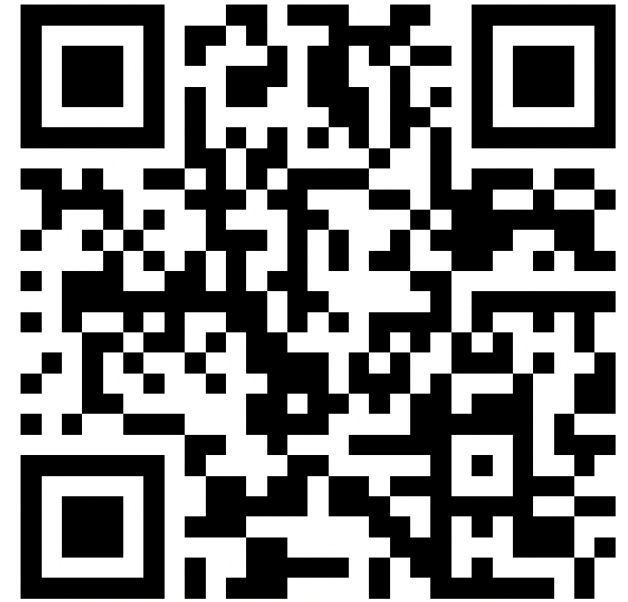
- Articles and webinars
- Weather related sales of livestock
- Tax management
 - Before year end
 - After year end
- Depreciation
- Tax estimator Tool



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Resources

- IRS Publication 225: The Farmers Tax Guide
 - On IRS.gov use the search box
- RuralTax.org
 - Tax topics – short articles
 - Collections of topics (i.e. new farmer, disaster, etc.)
 - Links to webinars on Farmers.gov
- Farmers.gov/taxes
 - Information
 - Videos (webinar recordings)



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Picture sources

- Picture from Utah State University Extension photo gallery accessed April 2026.