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Inflation Impact SSA COLA
What Should My AGI Be?

Amounts needed for:

- $ 80,000      Family living
- $ 20,000      Income tax liability
- $ 30,000      Principal payments above Depreciation
- $ 130,000     Adjusted Gross Income

To the extent actual AGI is less than $130,000, tax deferral is generated

Highest Marginal Tax Rate
70% in 1978
37% in 2023

Tax Paid by Average FBFM farm
$ 3,800 in 1984
$24,654 in 2021

- Reduced to 29.6% if business income via QBID
- 19.2% highest rate up to about $364,000 income
<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>For Income Over</th>
<th>Amount</th>
<th>Effective Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>37%</td>
<td>$647,850</td>
<td></td>
<td>29.6%</td>
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<tr>
<td>35%</td>
<td>$431,900</td>
<td></td>
<td>28.0%</td>
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<tr>
<td>32%</td>
<td>$340,100</td>
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<td>25.6%</td>
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<td>24%</td>
<td>$178,150</td>
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<td>22%</td>
<td>$83,550</td>
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<td>17.6%</td>
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<tr>
<td>12%</td>
<td>$20,550</td>
<td></td>
<td>9.6%</td>
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<tr>
<td>10%</td>
<td>$20,550</td>
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<td>8.0%</td>
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</table>

**Reduce by 20% if QBID applies**
## Tax Brackets 2023 – Married Filing Jointly

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>For Income Over</th>
<th>Amount</th>
<th>Effective Rate</th>
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<tbody>
<tr>
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<td>$693,750</td>
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<tr>
<td>35%</td>
<td>$462,500</td>
<td>28.0%</td>
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</tr>
<tr>
<td>32%</td>
<td>$364,200</td>
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</tr>
<tr>
<td>24%</td>
<td>$190,750</td>
<td>19.2%</td>
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</tr>
<tr>
<td>22%</td>
<td>$89,450</td>
<td>17.6%</td>
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</tr>
<tr>
<td>12%</td>
<td>$22,000</td>
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<tr>
<td>10%</td>
<td>$22,000</td>
<td>8.0%</td>
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</tbody>
</table>

**Reduce by 20% if QBID applies**
Standard Deduction 2023

$27,700  Married Individuals Filing Joint
$20,800  Heads of Households
$13,850  Unmarried Individuals
$13,850  Married Individuals Filing Separate
IRS publishes minimum required interest rates monthly (AFR)

December 2022

4.55% Loans 3 years and less (0.33% Dec 2021)
4.34% Loans 9 years and longer (1.90% Dec 2021)

A) To transfer $300,000 of equipment over 3 years

Total interest cost is $27,705 ($1,982 Dec 2021)

B) To transfer $1,000,000 of land over 9 years

Total interest cost is $229,262 ($97,382 Dec 2021)
## IRS AFR: Rising Interest Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Short</th>
<th>Long</th>
<th>Multiplier</th>
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<tbody>
<tr>
<td>2023</td>
<td>4.50</td>
<td>3.84</td>
<td>85%</td>
</tr>
<tr>
<td>2022</td>
<td>0.44</td>
<td>1.82</td>
<td>4x</td>
</tr>
<tr>
<td>2021</td>
<td>0.14</td>
<td>1.35</td>
<td>10x</td>
</tr>
<tr>
<td>2020</td>
<td>1.60</td>
<td>2.07</td>
<td>1x</td>
</tr>
<tr>
<td>2018</td>
<td>1.68</td>
<td>2.59</td>
<td>1.5x</td>
</tr>
<tr>
<td>2010</td>
<td>0.57</td>
<td>4.11</td>
<td>7x</td>
</tr>
<tr>
<td>2006</td>
<td>4.38</td>
<td>4.73</td>
<td>1x</td>
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</table>
Impact of Inflation on Transition Plan

• Ownership of 500 acres
  - 2020 @ $10,000 = $5 million  
  - 2022@ $18,000 = $9 million

• Inventory from 1500 acres
  - 2020 @ $800/acre = $1.2 million
  - 2022 @ $1300/acre = $1.95 m

• Machinery:  2020 = $500,000  
  - 2022 = $650,000

• Stocks:  
  - 2020 = $800,000  
  - 2022 = $560,000

• 2020 Total: $ 7.5 million  
  - 2022 Total: $ 12.16 million
Tax Rates Connected to Asset Groups

- Inventory: Ordinary tax + Self Employment (15.3%)
- Equipment: Ordinary tax (0% to 37%)
- Buildings: Ordinary tax (0% to 37%)
- Land: Capital gain tax (0% or 15% or 20%)
Reducing Self Employment Tax (15.3%)

• Gifts of grain

• PIK wages

• Trade machinery
  - FMV of trade is reported as a sale of equipment (no SE)
  - Full value of purchase is depreciated on Schedule F (yes SE)

• Schedule F income over $ 160,200  2021=$147,000

• Convert to crop share or cash rent landlord
Income Averaging

• 3 year look back (for 2022 >> look to 2021, 2020, 2019)

• Mathematically moves higher 2022 income to fill up unused lower brackets in 3 prior years

• Effectively can allow 37% tax rate on 2022 income to be taxed at 12% or 22% if buckets available in 2021/2020/2019

• If $100,000 available @ 22%, saves 15% = $15,000
Using Retirement Plans to Defer Income

• Traditional IRA: $6,500 < age 50 $ 7,500 age 50+
• Simple IRA: $15,500 < age 50 $19,000 age 50+
• 401k: $22,500 < age 50 $30,000 age 50+
• SEP & other defined contribution plans: $66,000
  ▫ 25% of compensation if less
• Defined benefit plans $ 265,000
  ▫ Also known as cash balance plans
Federal Estate Tax Key Numbers – Rate is 40%

• Current exemption level
  - 2023 = $12.92 million per person
  - 2023 = $25.84 million per couple

• 2032A reduction allowed = $1,310,000

• Annual gift exclusion = $17,000

• U.S. farm operator estates that owed federal estate taxes 0.16% in 2020
2032A Example

$300 Fair rental value per acre

-$30 Real Estate tax per acre

$270 Net rental value per acre

4.57% Interest rate provided by IRS

$5,908 Value per acre for 2032A

$16,000 Assumed fair market value per acre

$10,092 Reduction from 2032A

130 Acres for max $1.31M reduction (21=200 A)
Stepped Up Basis – This is a BIG thing

- Grain Inventory $350,000 Sold by successor tax free
- Prepaid expenses $100,000 Successor deducts again
- Machinery value $600,000 Depreciated by successor
- Farm value $1,200,000 New basis to successor
  - Land $1,000,000 New basis reduces gain if sold
  - Machine Shed $50,000 Depreciated again over 20 yrs
  - Grain Bins, Tile, Fertility $150k Depreciated again: 7/15/4 yrs

100% bonus depreciation through 2022

80% bonus depreciation for 2023, less after 2023

All farm assets including machine sheds (new & used)

$1,160,000 Maximum Sec 179 deduction

$2,890,000 Maximum Sec 179 purchase limit

Most farm assets (new & used)

Related party acquisitions do not qualify

Must be placed in service “in a state of readiness for its intended use”
Sale of Machinery Tax Trap

• If done via installment sale – full contract price is taxable in year of sale – even if not fully paid for in that year

• IRS requires depreciation claimed in prior years to be “recaptured” in year of sale – not year of payment

• Related party buyer: no 179 expense or bonus depreciation
  ▫ Seller: large income in year of sale
  ▫ Related party buyer: deductions over time

• Better idea: Long term lease with periodic purchase option
Sale of Entity -- Partnership

• Seller has a sale of assets
  - Taxed at higher ordinary and perhaps SE tax rates

• Buyer has a purchase of assets
  - Utilizing IRC 754 / 743b / 755 rules can allow faster deductions

• More tax to seller, more beneficial deductions to buyer

• Example: LLC owns $100,000 combine fully depreciated
  - 25% buyer (unrelated) can deduct $25,000 purchase price in 1 yr
Sale of Entity -- Corporation

• Seller has a sale of stock
  - Taxed at more favorable capital gains tax rates
  - Installment treatment can spread income over multiple years

• Buyer has a purchase of stock
  - No depreciation or current year deductions
  - Purchase price not deducted until time of sale

• Value of transaction may be discounted to reflect tax treatment
QBID – Qualified Business Income Deduction

• 20% deduction for Qualified Business Income
  ▪ Sch F, Sch C, Passthrough from entities operating as business
  ▪ Exceptions
    ▫ Limited 20% Taxable Income (minus Capital Gain income)
    ▫ Carryover or QBID losses
    ▫ Wages and Coop Sales (lesser of 9% of QBI or 50% of wages)
    ▫ Over Max Threshold (other limits)

❖ EXPIRES after 2025
Tax Planning Strategies – Using Grain

• Gifts of Grain to Charity
  Need proof of transfer. Saves Federal, State and SE tax.

• Grain Wages
  Need proof of transfer. Saves SE tax for employee and employer.

• CCC Loans
  Can be used to generate cash without taking income, low rates.

• Establish deferred payment contracts
  Creates flexibility to move income from new year to prior year.
  Likely much higher costs for prepay inputs
Tax Planning Strategies

• Keep Sch F income Positive
  - Income above freebies (Standard Deduction, >0 Sch F SE Deductions)

• Optional SE Method
  - If Sch F has to be negative, use Optional SE Method to pay a little tax to get 4 quarters of coverage for disability and retirement.

• Income Averaging
  - Can average income tax in high year back over lower brackets evenly in 3 prior years
Favorable 2023 Tax Rates with Capital Gains

- **Land sale price** $18,000
  - Less cost basis $ 4,000
  - Capital gain $ 14,000

- **Machinery sale price** $150,000
  - Less cost basis $ 130,000 and fully depreciated
  - Capital gain $  20,000
  - Ordinary gain $ 130,000
Favorable 2023 Tax Rates with Capital Gains

• Married Filing Joint
  - 0% up to $ 89,250
  - 15% up to $ 553,850
  - 20% over these amounts

Tax on 80 acres with $14,000 gain per acre = $1,120,000 gain
  $ 182,920 Tax with Capital Gain Rates
  (Tax if ordinary gain: $334,064)
Unintended Results from Higher Income

• More Social Security benefits taxable
• Medicare Part B & D premium surcharges 2 years later
• Net Investment Income Tax (3.8%)
• Additional Medicare Tax (0.9%)
• Reduced Qualified Business Income Deduction (QBID)
Considerations after End of Tax Year

• Crop insurance deferral to following year (cash basis t/p)
• Elect out of installment grain sales to increase 2022 income
• Catch up omitted depreciation
• Income Averaging (Sch J)
• Expenses paid with vendor financing
• HSA // IRA // SEP
Improving Itemized Deduction Value

• Donations of grain

• Bunching deductions every other year

• Qualified Charitable Distribution (QCD) from IRA

• Pass Through Entity tax
  - State income tax for individual, paid by entity
  - Entity deducts as business expense
Tax Provisions Expiring After 2025

Qualified Business Income Deduction 20%

Reduction in Tax Brackets: old 15%/25%, now 12%/22%

Increased child tax credit: old $1000, now $2000

Higher standard deduction: old $12,600, now $25,900

Federal estate exemption reverts to $5 million + inflation