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RightRisk™

RightRisk News

Dates to Remember

Margin Protection Program Dairy (MPP-D)
- 2019 crop year
July 1 - Sept. 30th, 2018

Forage Insurance
- September 30th

RI-PRF Coverage
November 15th, 2018 for 2019 crop year coverage

Acreage Reporting:
- November 15th

For more information see:
http://www.rma.usda.gov
http://www.fsa.usda.gov

How Much Risk is Right for You?

How will the Tax Cuts and Jobs Act Impact Your Farm or Ranch?

Congress passed the Tax Cuts and Jobs Act (Act) in December 2017. It amended the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. Provisions of the Act apply to tax years following December 31, 2017 and before January 1, 2026 – generally, tax years 2018 through 2025. Farmers and ranchers will realize the impact of the Tax Cuts and Jobs Act when they file their 2018 income tax returns. Following are a few of the changes under the new law and how they may impact agricultural producers.

Marginal Tax Rates: Many farm and ranch businesses are taxed as sole proprietorships, partnerships (including most LLCs), or S Corporations. This means that business income passes from the business to the owners who pay taxes and are based on individual income tax rates. The Tax Cuts and Jobs Act lowers individual tax rates to one of the following: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, or 37 percent.

Marginal Tax Rates for Individual Taxpayers

Marginal Tax Rate	Taxable Income (if married filing jointly)
10%	$ 0 - $ 19,050
12%	$ 19,050 - $ 77,400
22%	$ 77,400 - $165,000
24%	$165,000 - $315,000
32%	$315,000 - $400,000
35%	$400,000 - $600,000
37%	Over $600,000

The corporate tax rate was permanently lowered to 21 percent on all corporate taxable income, beginning with the 2018 tax year. Due to the new flat tax, C corporations with income below $50,000 will realize an increase in the corporate income tax rate.

Standard Deduction: The Act increased the standard deduction to $12,000 for single taxpayers and $24,000 for people married, filing jointly. Further, many itemized deductions were eliminated or modified. While many charitable contributions will no longer result in a tax benefit, farmers and ranchers will still be able to exclude charitable gifts of grain and other commodities from income.

Personal Exemption: In 2017, taxpayers could generally take a personal exemption of $4,050 for themselves and each dependent. The Act suspended the personal exemption for tax years 2018 through 2025.

Child Tax Credit and Dependent Credit: For tax years 2018 through 2025, the child tax credit was increased to $2,000 for each qualifying child. Of this credit, $1,400 per child is refundable. The Act also provides for a $500 nonrefundable credit for each dependent who does not qualify for the child tax credit.

Deduction for Pass-Through Business Income: Most individuals receiving pass-through income (from a sole proprietorship, partnership, or S corporation) will take a new "Section 199A" deduction. Generally, taxpayers will have a 20 percent deduction for qualified business income (QBI). QBI is defined as the "net amount of qualified items of income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer."

Following passage of the Tax Cuts and Jobs Act, there was much discussion of a separate 20 percent deduction for qualified cooperative dividends, including a 20 percent deduction of gross sales from the sale of commodities to a cooperative. A fix to this provision of the Act, signed into law in March 2018, changed the application of Section 199A resulting in an advantage, disadvantage, or equal treatment – depending on individual situations – of selling to a cooperative versus selling to a non-cooperative.

The 199A deduction may be the most complex portion of the new tax law. Additionally, it requires much guidance from the Internal Revenue Service. Until such guidance is issued, many questions remain regarding the applicability of this new provision.

Depreciation and Section 179: The Tax Cuts and Jobs Act changed several aspects of depreciation. Beginning in 2018, new farm machinery and equipment may be depreciated over five years, instead of seven years. This change does not apply to grain bins, fences, cotton ginning assets, and other land improvements. The cost recovery period for used machinery and equipment remained at seven years.

Passenger vehicles placed in service after December 31, 2017 now have a higher, dollar-limitation on depreciation and expensing: $10,000 for the first year in the recovery period, $16,000 in the second year, $9,600 in the third year, and $5,760 for each succeeding tax year in the recovery period. These limits will be increased for inflation after 2018. Also, the Act retained the $8,000 limit for additional first-year depreciation.

Sport Utility Vehicles (SUVs) with a gross vehicle weight over 6,000 pounds are not subject to depreciation limits, but are limited to a $25,000 Section 179 deduction. SUVs with a GVW between 6,000 and 14,000 pounds will not be subject to the Section 179 limitation if certain conditions are met.

The Act allows for 100 percent bonus depreciation through 2022 on qualifying property acquired and placed into service after September 27, 2017.

Beginning in 2018, the Section 179 expensing allowance was increased to $1,000,000 with a $2.5 million phase-out threshold.

Like-Kind Exchange: The Act retained like-kind exchange (Internal Revenue Code Section 1031) for real property but eliminated it for personal property such as farm equipment and livestock. Depreciation recapture was deferred under the old law, but must be recognized under the new law.

Helpful Links

Rural Tax Education
Rural Tax.org

Internal Revenue Service
IRS.gov

IRS Agriculture Tax Center

National Agricultural Law Center

For example, John traded a tractor with a fair market value of $15,000 with an adjusted basis of $0 (fully depreciated) plus $30,000 cash for a new tractor with a fair market value of $45,000. Under the old law, the basis of the new tractor would be $30,000 ($0 basis in the old tractor, plus the $30,000 cash). John may depreciate the tractor over the normal recovery period or make a Section 179 election to expense part or all of the $30,000.

Under the new law, the transaction will be considered as a sale and a purchase. John will need to recognize the capital gains on the sale of the old tractor ($15,000). The new tractor will consequently have a basis of $45,000, of which he can depreciate the basis over the normal recovery period or make a Section 179 election to expense part or all of the $45,000.

The changes described above are only a few of the impacts expected under the Tax Cuts and Jobs Act. It is critical that farm and ranch business owners seek professional counsel to determine the exact impact of the Act on their businesses and tax liability moving forward.

RightRisk™

RightRisk helps decision-makers discover innovative and effective risk management solutions.

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How much risk is right for you and your operation?