
Implications of Tax Law Changes – 2019

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Goals of this Presentation

- ▶ **Review Changes made to our US Tax Laws in December 2017 and since then**
- ▶ **Provide some examples of tax change at different levels of taxable income**
- ▶ **Illustrate that your final assessment of the new law will depend on many factors**
- ▶ **Provide further explanation of Sec. 199 rules**

Tax Cuts & Jobs Act

- ▶ Signed into law on December 22, 2017.
- ▶ Biggest changes to the tax code since 1986.
- ▶ Passed strictly on party line vote.
- ▶ Lots of guidance needed for interpretation.
- ▶ A number of technical corrections are needed to have law conform to Congressional intent. Some tax issues still being ironed out.
- ▶ Uncertain times for some tax payers
 - ▶ But, new law should generally result in lower tax liability for agricultural producers through 2025.

2017 Federal Joint Rates

| 2017 taxable income | Tax Due & Rate |
|----------------------------|-------------------------------------|
| \$0 - \$18,650 | 10% of taxable income |
| \$18,651 - \$75,900 | \$1865 + 15% over \$18,650 |
| \$75,901 - \$153,100 | \$10,452.50 + 25% over \$75,900 |
| \$153,101 - \$233,350 | \$29,752.50 + 28% over \$153,100 |
| \$233,351 - \$416,700 | \$52,222.50 + 33% over \$233,350 |
| \$416,701 - \$470,700 | \$112,728.00 + 35% over \$416,700 |
| \$470,701+ | \$131,628.00 + 39.6% over \$470,700 |

2019 Federal Joint Rates

| 2019 taxable income | Tax Due & Rate |
|----------------------------|-----------------------------------|
| \$0 - \$19,400 | 10% of taxable income |
| \$19,401 - \$78,950 | \$1940 + 12% over \$19,400 |
| \$78,951 - \$168,400 | \$9086 + 22% over \$78,950 |
| \$168,401 - \$321,450 | \$28,765 + 24% over \$168,400 |
| \$321,451 - \$408,200 | \$65,479 + 32% over \$321,450 |
| \$408,201 - \$612,350 | \$93,257 + 35% over \$408,200 |
| \$612,351+ | \$164,709.50 + 37% over \$612,350 |

2017 Federal Single Rates

| 2017 taxable income | Tax Due & Rate |
|----------------------------|------------------------------------|
| ▶ \$0 - \$9,325 | 10% of taxable income |
| ▶ \$9,326 - \$37,950 | \$932.50 +15% over \$9,325 |
| ▶ \$37,951 - \$91,900 | \$5,226.25 +25% over \$37,950 |
| ▶ \$91,901 - \$191,650 | \$18,713.75 +28% over \$91,900 |
| ▶ \$191,651 - \$416,700 | \$46,643.75 +33% over \$191,650 |
| ▶ \$416,701 - \$418,400 | \$120,910.25 +35% over \$416,700 |
| ▶ \$418,401 + | \$121,505.25 +39.6% over \$418,400 |

2019 Federal Single Rates

| 2019 taxable income | Tax Due & Rate |
|----------------------------|----------------------------------|
| ▶ \$0 - \$9,700 | 10% of taxable income |
| ▶ \$9,701 - \$39,475 | \$970 +12% over \$9,700 |
| ▶ \$39,476 - \$84,200 | \$4543 +22% over \$39,475 |
| ▶ \$84,201 - \$160,725 | \$14,382.50 +24% over \$84,200 |
| ▶ \$160,726 - \$204,100 | \$32,748.50 +32% over \$160,725 |
| ▶ \$204,101 - \$510,300 | \$46,628.50 +35% over \$204,100 |
| ▶ \$510,301 + | \$153,798.50 +37% over \$510,300 |

Effects of the New Tax Brackets - Joint

- ▶ Eliminates the marriage penalty for married couples up to \$408,200 of taxable income.

- ▶ Federal Taxable Income Comparison (Joint)

| Taxable Income | 2017 | 2019 |
|----------------|--------------|-----------|
| ▶ \$50,000 | \$6,567.50 | \$5612 |
| ▶ \$100,000 | \$16,477.50 | \$13,717 |
| ▶ \$250,000 | \$57,717 | \$48,349 |
| ▶ \$500,000 | \$143,230.80 | \$125,387 |

Effects of the New Tax Brackets - Single

▶ Federal Taxable Income Comparison (Single)

| ▶ Taxable Income | 2017 | 2019 |
|------------------|--------------|--------------|
| ▶ \$50,000 | \$8,238.75 | \$6,858.50 |
| ▶ \$100,000 | \$20,981.75 | \$18,174.50 |
| ▶ \$250,000 | \$65,899.25 | \$62,693.50 |
| ▶ \$500,000 | \$153,818.85 | \$150,193.50 |

2017 C Corp Tax Rates

| 2017 taxable income | Tax Due & Rate |
|-------------------------------|------------------------------------------|
| ▶ \$0 - \$50,000 | 15% of taxable income |
| ▶ \$50,001 - \$75,000 | \$7,500 +25% over \$50,000 |
| ▶ \$75,001 - \$100,000 | \$13,750 +34% over \$75,000 |
| ▶ \$100,001 - \$335,000 | \$22,250 +39% over \$100,000 |
| ▶ \$335,001 - \$10,000,000 | \$113,900 +34% over \$335,000 |
| ▶ \$10,000,001 - \$15,000,000 | \$3.4 million +35% over \$10 million |
| ▶ \$15,000,000 – \$18,333,333 | \$6.34 million +38% over \$15 million |
| ▶ \$18,333,334 and above | \$7.61 million + 35% over \$18.3 million |

New C Corp Tax Rate is a Flat 21%

▶ Federal Taxable Income Comparison (Corporate)

| ▶ Taxable Income | 2017 | 2019 |
|------------------|---------------|---------------|
| ▶ \$50,000 | \$7,500 | \$10,500 |
| ▶ \$100,000 | \$22,250 | \$21,000 |
| ▶ \$250,000 | \$80,750 | \$52,500 |
| ▶ \$500,000 | \$170,000 | \$105,000 |
| ▶ \$10 million | \$3.4 million | \$2.1 million |

Standard Deduction & Exemptions

▶ **Standard Deduction: 2017**

- ▶ Single \$6,350
- ▶ Joint \$12,700

▶ **Standard Deduction: 2019**

- ▶ Single \$12,200
- ▶ Joint \$24,400

▶ **Personal Exemptions**

- ▶ \$4,050 per individual for 2017, eliminated for tax years 2018 through 2025

Child Tax Credits

▶ Child Tax Credits

- ▶ \$1,000 for tax year 2017 increasing to \$2000 for 2018-2025
 - ▶ Eligible children **under the age of 17** at the end of tax year
 - ▶ Phase out at \$110,000 MFJ & \$75,000 single for 2017, increasing to \$400,000 MFJ and \$200,000 single for 2018-2025

▶ Credit for other dependents

- ▶ New credit of up to \$500 is available for each qualifying dependent other than children eligible for the child tax credit

Capital Gains- 2019

-No major changes other than inflation adjustments- Brackets do not follow the new tax brackets, long-term gains are increased slightly from 2017 and 2018

--**0%** (Joint \$78,750-Single \$39,750)

--**15%** (Joint \$78,751-\$488,850 Single \$39,376- \$434,550)

--**20%** (Joint above \$488,851 Single above \$434,551)

- ▶ **Short-term gains**- taxed at regular federal rates
- ▶ Gains are also subject to state taxation

Section 179 and Bonus Depreciation - 2019

- ▶ Federal Deduction Amount

- ▶ Section 179- \$1,020,000 for 2019

- Dollar for dollar reduction if purchases over \$2,550,000

- Eliminated if qualifying purchases exceed \$3.57 million

- SUV's limited to \$25,000

Bonus Depreciation changes for 2019

100% Bonus Depreciation 2019, reviewed each tax year

Bonus depreciation can be used for both new and used equipment Purchases. 100% Bonus Depreciation in

Place through 2022 then phases down

Like- Kind Exchange (IRC Sec. 1031)

- ▶ The Tax Cuts & Jobs Act retained the Sec. 1031 like-kind exchange treatment for real property (farm land), but eliminated it for personal property (machinery, equipment) starting January 1, 2018.
- ▶ Considerable change in treatment of mach/equip trades
 - ▶ Example: Purchase tractor listed at \$250,000, with an equipment trade allowance of \$100,000. Starting in 2018 the full purchase price of \$250,000 can be expensed or put on depreciation schedule, and any recapture on the traded equipment would be subject to depreciation recapture.

Farm Depreciation Changes

- ▶ Beginning in 2018, the Act allows new farm equipment to be depreciated over a period of Five(5) years, instead of seven(7) years.
- ▶ Used equipment purchases remain 7 year property
- ▶ It also removes the requirement that farm property is depreciated using the 150% declining balance method (except for 15 or 20-year property).
- ▶ Farmers can now use a 200% declining balance method.
- ▶ These provisions apply to property placed into service in 2018 or after.

Section 199A “New in 2018”

▶ The new pass-through Deduction

- ▶ Applies to sole proprietorships, partnerships, S Corporations, LLC’s, LLP’s
- ▶ Allows for up to a 20% of net “pass-through” qualified business income to be a deduction
- ▶ Many issues with this new law to still get figured out.
- ▶ Several complicating factors get involved in figuring this new tax deduction.
- ▶ Purpose was to provide a tax adjustment for non corporate businesses, compared to the significantly reduced corporate tax rate deduction

Qualified Business Income (QBI)

- ▶ QBI does **not** include wages, reasonable compensation, guaranteed payments, interest income, dividend income, or capital gain.
- ▶ Rental income needs clarification as to if it is QBI.
- ▶ QBI is Generally= Net Income- Capital Gain Income
 - ▶ Net Schedule F Income; including patron. dividends
 - ▶ Form 4797 depreciation recapture of Machinery
 - ▶ Net Schedule C Income (Example: Trucking or Seed Sales)

Calculating the QBI Deduction

- ▶ If your taxable income is below \$321,400 for MFJ or \$160,700 for singles:
 - ▶ The New 199A deduction for QBI is the lesser of:
 - ▶ 20% of QBI
 - ▶ 20% of (taxable income – capital gain income)

Example: Taxable income = \$100,000 (\$44,000 wages, \$68,000 in QBI from farming operation, minus \$12,000 standard deduction)

199A Deduction = Lessor of:

20% of \$68,000 = \$13,600 or

20% of \$100,000 = \$20,000

199A deduction is \$13,600; reducing taxable income to \$86,400

QBI Deduction- Example 2

Pat Patron, single individual and Big Co-op member patron, sells \$430,000 of grain to Big Co-op and receives a 1099 for per-unit retain of that amount. Big Co-op also issued Pat \$20,000 in patron dividends. \$450,000 total income received from Big Co-op and represents 100% of his farm income.

Pat had \$400,000 in Schedule F expense with no W-2 wages paid.

So net Schedule F profit and QBI is \$50,000 ($\$450,000 - \$400,000$)

Pat calculates his QBI deduction at \$10,000 ($20\% \times \$50,000$)

Because all of Pat's tentative QBI deduction is attributable to payments from Big Co-op, he must reduce his QBI deduction by the lesser of \$4500 ($9\% \times 50,000$) or \$0 (50% of W-2 attributable to his co-op income)

Because Pat paid no wages for his grain business, he still can claim the \$10,000 QBI

2019 Further QBI Income Adjustments

Clarified Regulations Require that the following deductions be applied to lower net QBI Income going forward:

The deductible portion of self-employment tax

Self-employed health insurance deductions

Deductions for qualified retirement plans (SEP's)

For example purposes Pat Patron has \$3532 of SE deduction, \$18,000 of Health Insurance deduction, and contributed \$3500 to a SEP

So net Schedule F profit is \$50,000 (\$450,000-\$400,000)

From the \$50,000 Schedule F profit of \$50,000 the additional deductions of \$25,032 will reduce the QBI income down to \$24,968

$\$24,968 \times 20\%$ provides for a \$4994 QBI deduction in 2019

Pat would also be able to claim the 199A(g) pass-through from Big Co-op

Coops Can Take “New DPAD”

- ▶ Internal Revenue Code Section 199A(g) reintroduces DPAD, although it's not called that.
- ▶ This allows coops to take a deduction equal to 9% of “Qualified Production Activities Income” (QPAI) income-expenses. This deduction however is limited to 50% of W-2 wages paid.
- ▶ C- Corp's can not receive the 199A(g) deduction

Big Decision for Coop Boards

- ▶ If they don't pass through the deduction, larger patrons that pay wages will see lesser deduction.
- ▶ If they do pass through deduction, not all patrons will be able to use it
- ▶ C corporations can't receive it
- ▶ Farmers must have income to take advantage of deduction
 - ▶ Depreciation/expensing

Higher Federal Estate Tax Limits for 2019

- ▶ 2017 Rule \$5.59 million per individual or \$11.18 per couple
- ▶ The new law doubles these exemptions: Now, for 2019, individuals \$11.4 million lifetime exemption and married couples get to exclude \$22.8 million.
- ▶ This includes gifts over the annual exclusion and the final inheritance.
- ▶ If exceeding these limits, the Federal Tax rate is a flat 40%.
- ▶ Annual Gift Exclusion for 2019 is increased to \$15,000
- ▶ Minnesota does not follow the federal rules!

2019 MN Tax Rates

▶ Married-filing jointly

| | | | |
|--------------|--------------------|---------------------|--------------|
| <u>5.35%</u> | <u>7.05%</u> | <u>7.85%</u> | <u>9.85%</u> |
| 0-\$38,770 | \$38,771-\$154,020 | \$154,021-\$273,150 | + |

Single

| | | | |
|------------|-------------------|--------------------|---|
| 0-\$26,520 | \$26,521-\$87,110 | \$87,111-\$163,890 | + |
|------------|-------------------|--------------------|---|

SS & Medicare

- ▶ SS maximum earnings for 2019
 - ▶ Paid at 12.4% on first **\$132,900 (up \$4200 from 2018)**
 - ▶ Employers continue to pay the 6.2% match for their employees
- ▶ Self-employed Medicare rate remains at 2.9%--no ceiling
- ▶ Medicare surtax: 0.9% on earned income over \$200,000 for single filers and \$250,000 for MFJ filers
- ▶ Net Investment Income tax: 3.8% on certain net investment income over \$200,000 for single filers and \$250,000 for MFJ filers

CCC Crop Loans– How They Are Taxed

- ▶ 2002 Tax Law changed regarding the selection of either the LOAN or INCOME method for tax reporting (**from one year to the next**)
 - ▶ CCC loans are not included in income, unless
 - ▶ Section 77 election is made allowing you to claim the loan as income, this stays in effect until revoked by filing form 3115
 - ▶ A change from the INCOME to the LOAN method requires the completion of and filing IRS form 3115 (Application for Change in Accounting Method), this revokes the section 77 election and the loan is now treated as a loan for tax reporting purposes
- ▶ **SPECIAL NOTE:**
 - ▶ These changes can be made year by year, but you must choose an accounting method for the year treating all CCC loans the same in a given tax year.

Crop Insurance Deferral

- ▶ Crop insurance deferral remains the same. Remember the crop loss portion **qualifies** for deferral and the revenue portion does **not qualify** for deferral.
- ▶ Must have deferral history
- ▶ Premium is deductible when deferring
- ▶ Proceeds can be received and defer on tax return with statement attached
- ▶ Prevent plant production loss payments are deferrable, revenue portion of PP is not

CRP Payments Clarified

- ▶ Retired Person-No self employment tax
- ▶ Active Farmer- Pays self employment tax
- ▶ Investor- No self employment tax

Other Items

- ▶ Business mileage rate for 2019 \$.58
- ▶ Make sure the grain elevator 1099-PATR line up with your records.
- ▶ Income averaging is still an available option
- ▶ *A recent court case in September of 2014 disallowed checks written the last day of the year with insufficient funds in the bank account to cover the check.????

Summary

- ▶ The key to your tax planning should be based on:
 - ▶ consistently managing your income and expense over a period of time.
 - ▶ Capturing credits/deductions allowed by IRS
 - ▶ Don't mix tax strategy with crop marketing strategy
 - ▶ Managing prepays, deferred grain & livestock sales,
 - ▶ And, making capital investments as needed to enhance business efficiency/productivity as well as capturing tax savings. Purchases must also fit the overall cash flow of the business.

Summary- continued

- ▶ A Successful/Profitable farm **will pay tax**. Too much time is spent worrying about taxes & sometimes not enough on maximizing profits and cash flow.
- ▶ Do year-end tax planning to avoid any surprises especially this year with the many changes made to tax code!

A good Ag Tax Website: Clifton Allen
Larson Ag Blog

▶ **Thank You**

Any ????????