



7 Secrets of Effective Farmers Webinar Series: Farm Tax Filing Tips

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CENTER FOR
PROFITABLE AGRICULTURE
UTEXTENSION
INSTITUTE OF AGRICULTURE
A UNIVERSITY OF TENNESSEE - FARM BUREAU PARTNERSHIP



General Thoughts

- Many tax deductions are missed due to insufficient records
- Good records provide details for tax and long-range planning
- Having a long-range farm plan helps provide insights to the needs for records to achieve/accomplish the plan
- UT Extension MANAGE program assists farmers with developing long range plans, budgeting, and establishing record keeping systems.
- For more information contact your local UT Extension office and request appointment with area farm management specialist

Today's Topics

- **Current tax law issues**
- **Reporting Livestock sales correctly**
- **Depreciation changes (bonus depreciation & Section 179)**
- **What are IRS auditors looking for?**
- **Tax Reducing Tips**
- **Like kind exchanges**
- **Qualified Business Income Deduction (QBID)**
- **Net Operating Loss**
- **Estate Tax exemption update**
- **IRS & 401K beneficiary rules change**
- **Records - use and systems**

Current Tax Issues

- **Filing Deadline extended to July 15, 2020! (state deadlines vary)**
- **Standard Deduction: Single-\$12,200, MFJ- \$24,400, HOH- \$18,350**
- **Personal Exemption = \$0**
- **Tax Rates: 10% (up to \$9,700 single, \$19,400 MFJ),
12% (up to \$39,475 single, \$78,950 MFJ),
22% (up to \$84,200 single, \$168,400 MFJ)
24%, 32%, 35%, 37%**
- **SALT deduction – state & local tax deduction for income or sales tax
Maximum \$10,000 (\$5,000 MFS)**

Types of Livestock Sales

- **Two major types: Calves or Breeding Livestock**
- **Calves – Raised vs Purchased**
- **Breeding Livestock = Animals raised or purchased for the purpose of breeding**
- **Heifers, Cows and Bulls – Raised vs Purchased**
- **Extension Publication D42 – Livestock Sales – Understanding Tax Impacts**

Profit or Loss From Farming

▶ **Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065.**
▶ **Go to www.irs.gov/ScheduleF for instructions and the latest information.**

Name of proprietor		Social security number (SSN)	
A Principal crop or activity	B Enter code from Part IV ▶	C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	D Employer ID number (EIN) (see instr.)
E Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on passive losses		<input type="checkbox"/> Yes <input type="checkbox"/> No	
F Did you make any payments in 2019 that would require you to file Form(s) 1099? See instructions		<input type="checkbox"/> Yes <input type="checkbox"/> No	
G If "Yes," did you or will you file required Form(s) 1099?		<input type="checkbox"/> Yes <input type="checkbox"/> No	

Part I Farm Income – Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a Sales of livestock and other resale items (see instructions)	1a	
b Cost or other basis of livestock or other items reported on line 1a	1b	
c Subtract line 1b from line 1a		1c
2 Sales of livestock, produce, grains, and other products you raised		2
3a Cooperative distributions (Form(s) 1099-PATR)	3a	3b Taxable amount
4a Agricultural program payments (see instructions)	4a	4b Taxable amount
5a Commodity Credit Corporation (CCC) loans reported under election		5a
b CCC loans forfeited	5b	5c Taxable amount
6 Crop insurance proceeds and federal crop disaster payments (see instructions):		
a Amount received in 2019	6a	6b Taxable amount
c If election to defer to 2020 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2018
7 Custom hire (machine work) income		7
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		8
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions		9

Part II Farm Expenses – Cash and Accrual Method. Do not include personal or living expenses. See instructions.

10 Car and truck expenses (see instructions). Also attach Form 4562	10	23 Pension and profit-sharing plans	23
11 Chemicals	11	24 Rent or lease (see instructions):	
12 Conservation expenses (see instructions)	12	a Vehicles, machinery, equipment	24a
13 Custom hire (machine work)	13	b Other (land, animals, etc.)	24b
14 Depreciation and section 179 expense (see instructions)	14	25 Repairs and maintenance	25
15 Employee benefit programs other than on line 23	15	26 Seeds and plants	26
16 Feed	16	27 Storage and warehousing	27
17 Fertilizers and lime	17	28 Supplies	28
18 Freight and trucking	18	29 Taxes	29
19 Gasoline, fuel, and oil	19	30 Utilities	30
20 Insurance (other than health)	20	31 Veterinary, breeding, and medicine	31
21 Interest (see instructions):		32 Other expenses (specify):	
a Mortgage (paid to banks, etc.)	21a	a	32a
b Other	21b	b	32b
22 Labor hired (less employment credits)	22	c	32c
		d	32d
		e	32e
		f	32f
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions			33
34 Net farm profit or (loss). Subtract line 33 from line 9			34
35 Reserved for future use.			
36 Check the box that describes your investment in this activity and see instructions for where to report your loss:			
a <input type="checkbox"/> All investment is at risk.		b <input type="checkbox"/> Some investment is not at risk.	

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1a	Sales of livestock and other resale items (see instructions)		1a			
b	Cost or other basis of livestock or other items reported on line 1a		1b			
c	Subtract line 1b from line 1a				1c	
2	Sales of livestock, produce, grains, and other products you raised				2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a		3b	Taxable amount	3b
4a	Agricultural program payments (see instructions)	4a		4b	Taxable amount	4b
5a	Commodity Credit Corporation (CCC) loans reported under election					5a
b	CCC loans forfeited	5b		5c	Taxable amount	5c
6	Crop insurance proceeds and federal crop disaster payments (see instructions):					
a	Amount received in 2019	6a		6b	Taxable amount	6b
c	If election to defer to 2020 is attached, check here <input type="checkbox"/>			6d	Amount deferred from 2018	6d
7	Custom hire (machine work) income					7
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)					8
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions					9

Livestock Raised for Sale

- **Example 1.** Farmer A raised a group of calves to 500 pounds each. When sold, the income is reported on Schedule F, line 2 (Sales of Livestock, Produce, Grains and Other Products You Raised). The marketing expenses and transportation costs of selling the animals are deducted as farm expenses on Schedule F.

Part I Farm Income – Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a		
b	Cost or other basis of livestock or other items reported on line 1a	1b		
c	Subtract line 1b from line 1a		1c	
2	Sales of livestock, produce, grains, and other products you raised		2	

Livestock Purchased of Resale

- **Example 2.** Farmer B purchased a group of calves at 250 pounds each and sold them when they reached 500 pounds. The income from the sale is reported on Schedule F, line 1a (Sales of Livestock and Other Resale Items). The cost of the calves when purchased is reported on Schedule F, line 1b (Cost or Other Basis of Livestock or Other Items). The difference is reported on Schedule F, line 1c. Other expenses incurred in the feeding, care, marketing and transportation are deducted as farm expenses on Schedule F.

Part I **Farm Income – Cash Method.** Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a		
b	Cost or other basis of livestock or other items reported on line 1a	1b		
c	Subtract line 1b from line 1a		1c	
2	Sales of livestock, produce, grains, and other products you raised		2	

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7	Custom hire (machine work) income					7
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9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions					9

Schedule F income is subject to income and self-employment taxes
Breeding livestock sales do NOT go on Schedule F

Breeding Livestock

- **Tax treatment depends on:**
 - **Whether animal raised or purchased**
 - **How long animal was held (owned): cattle or horses owned 24 months or longer = long term**
 - **Whether sale resulted in a gain or loss**
- **Sales reported on Form 4797 not Schedule F**

Form **4797**

Department of the Treasury
Internal Revenue Service

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts
Under Sections 179 and 280F(b)(2))

- ▶ Attach to your tax return.
- ▶ Go to www.irs.gov/Form4797 for instructions and the latest information.

OMB No. 1545-0184

2019

Attachment
Sequence No. **27**

Farmers tax Guide (Pub 225) and/or Instructions for Form 4797 explain where on form sales are entered.

Raised Breeding Livestock

- ***Reported on Form 4797 not Schedule F***
- ***Example 3.*** Farmer C sold a 4-year-old raised cow for \$1,100. The expenses of the sale are \$125, and these are deducted from the gross sales price to arrive at a gain of \$975. This gain is a long-term gain since the cow was held at least two years and is not subject to self-employment tax. This gain would be combined with other gains and losses to determine net gains and losses for the year.

Purchased Breeding Livestock

- ***Reported on Form 4797 not Schedule F***

- ***Example 4.*** Farmer D sold a cow purchased four years ago. The cow was purchased for \$1,300 and sold for \$1,250. The amount of depreciation taken was \$867, and the expense of the sale was \$125. The gain from the sale of the purchased cow is calculated as follows:

• Gross selling price		\$1,250
• Original cost	\$1,300	
• Add expense of sale	+ 125	
• Less allowable depreciation	- <u>867</u>	
• Adjusted basis		<u>\$ 558</u>
• Gain realized		\$ 692

Cost of Incorrect Tax Reporting

- If Farmer D had mistakenly reported the sale of the cow for \$1,250 on Schedule F as raised livestock with no basis, the entire amount would be considered ordinary income and would also be subject to self-employment tax. Depending on the farmer's adjusted taxable income from all sources, if the farmer is in the 10 percent tax bracket, the overpayment of income tax (10%) and self-employment tax (15.3%) in this case could be about \$300.
- In years when a farm has an overall loss, improper reporting reduces the loss and could increase taxes owed, as less income from other sources (off-farm, investments, etc.) would be offset by the reduced loss.

Holding Period Rules

- **Long-term Capital gain holding period generally is 24 months of cattle and horses and 12 months for other livestock.**
- **Other important rules:**
- **There are some exceptions to the holding period rules for situations like weather-related sales of livestock.**
- **If an animal is raised with the intent to become breeding livestock and it is determined the animal is sterile and the animal is sold within a reasonable time, it could be considered breeding livestock.**
- **A farmer who is selling an entire herd of animals, generally, could consider the younger animals that would have become breeding livestock as such for tax purposes.**

Livestock Sale Reporting Summary

- **Separate reporting of livestock sales FOUR ways:**
- **Calves raised**
- **Calves purchased**
- **Breeding Livestock raised**
- **Breeding Livestock purchased**

- **Make sure your tax preparer understands!**

Depreciation

- **New Equipment – 5 years**
- **Used Equipment – 7 years**
- **Bonus Depreciation 100% through 2022, 80%-2023,...**
 - New equipment only
- **Section 179 Deduction—max \$1,020,000, cannot create loss**
- **Small equipment under \$2500 can be expensed**
- **Purchase of asset should not be based on a need for depreciation**
- **Can a new asset increase income or reduce labor and expenses?**

What are Auditors looking for?

- **Proof of Profit Motive**
- **Business / Farm Plan**
- **Separate records / accounts**
- **Continued education/training**
- **Changes / improvements to become profitable**
- **High off-farm income**

General Farm Tax Reducing Tips

- **Prepaying Expenses – Feed, Fertilizer, Seed, etc.**
 - **Must be purchase not a deposit**
- **Paying Children under age 18 - no SE tax**
- **Income Averaging**
- **Deferring disaster or crop insurance payments-**
 - **Sale in following year must be normal practice**
- **Timber sales – establish basis (value) in timber**

Like Kind Exchange

- **Only Real Estate (land & buildings) qualify – must follow rules carefully**
- **Trade in of equipment – NOT a like kind exchange**
 - **Trade in tractor – value of trade-in shown like a sale (may require recapture of depreciation).**
 - **Generally allows depreciation of full cost of new tractor.**
 - **Often reduces self-employment taxes.**

QBID – Qualified Business Income Deduction

- **Began in 2018, replaced domestic production activities deduction**
- **More farms qualify for QBID**
- **20% deduction**
- **No profit = no deduction**

Net Operating Loss

- **Maximum \$250,000 single (\$500,000 MFJ)**
- **Farmers allowed 2 year carryback.**
- **Can carry forward indefinitely**
- **NOL Carry forward can offset up to 80% of income**
- **Easier to carry forward**
- **Non farms not allowed carryback**

Estate Tax Exemption & IRAs

- **2020 Federal Estate Tax exemption = \$11,400,000**
- **Secure Act passed in 2019 impact:**
- **Retirement accounts – IRA, 401K**
 - **2020 Law Changes!**
 - **Required minimum distribution (RMD) required now at age 72**
 - **Change to beneficiary withdrawal rules**

Records

- **More details always better**
- **Separate from family / home expenses**
- **Record system must be one you will use**
- **Record Book, Quicken, Quick Books, Spreadsheet**
- **Assistance available to set up farm record keeping system**



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