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**Top Producer Seminar  
A New Tax Bill:  
What You Need To Know  
Now**



# Speaker Introduction

## **Paul Neiffer, Principal, CliftonLarsonAllen**

- Frequent national speaker on taxation, agricultural, farm bill and estate tax topics
- Current chair of the AICPA National Agriculture Conference committee.
- Past President of Farm Financial Standards Council
- Author of the “FarmCPA” Top Producer column
- Primary source for nationally recognized blog “FarmCPAToday.com”



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# Summary

- Overall tax rates decrease
- New Section 199A 20% farm deduction
- Limitations on itemized deductions
- Double of lifetime Estate/Gift tax exemption
- All of above reverts back to current law in 2026
- Increased Section 179 and bonus depreciation
- Other provisions



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## Comparison of MFJ Rates: Old 2018 Rates vs. TCJA

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Income range	Scheduled 2018 rate	TCJA
\$1 to \$19,050	10%	10%
\$19,051 to \$77,400	15%	12%
\$77,401 to \$156,150	25%	22%
\$156,150 to \$165,000	28%	22%
\$165,001 to \$237,950	28%	24%
\$237,951 to \$315,000	33%	<u>24%</u>
\$315,001 to \$400,000	33%	32%
\$400,001 to \$424,950	33%	<u>35%</u>
\$424,950 to \$480,050	35%	35%
\$480,051 to \$600,000	39.6%	35%
Over \$600,000	39.6%	37%





## Married Filing Joint Tax Rates

Current Law	
Taxable Income	Tax Rate
-	10.0%
\$19,050	15.0%
\$77,400	25.0%
\$156,150	28.0%
\$237,950	33.0%
\$424,950	35.0%
\$480,050	39.6%

Final Bill	
Taxable Income	Tax Rate
-	10.0%
\$19,050	12.0%
\$77,400	22.0%
\$165,000	24.0%
\$315,000	32.0%
\$400,000	35.0%
\$600,000	37.0%

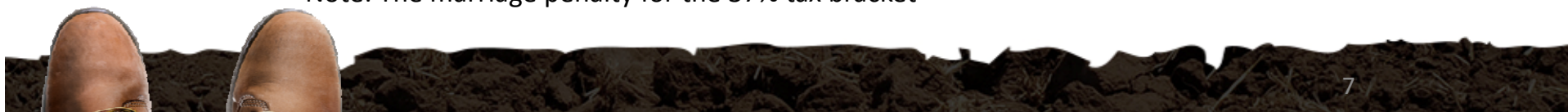


## Single Tax Rates

Current Law	
Taxable Income	Tax Rate
-	10.0%
\$9,525	15.0%
\$38,700	25.0%
\$93,700	28.0%
\$195,450	33.0%
\$424,950	35.0%
\$426,700	39.6%

Final Bill	
Taxable Income	Tax Rate
-	10.0%
\$9,525	12.0%
\$38,700	22.0%
\$82,500	24.0%
\$157,500	32.0%
\$200,000	35.0%
\$500,000	37.0%

Note: The marriage penalty for the 37% tax bracket



# Capital Gains & Kiddie Tax

- Capital Gains – No changes
  - Still retain **Zero Tax Rate** on effectively same income levels
    - Up to about \$100,000 tax free for MFJ
    - Up to about \$50,000 tax free for singles
  - Maximum rate still 20%
  - Retains Net Investment Income Tax of **3.8%**
- **Kiddie Tax no longer tied to Parent's Income**
  - **Makes grain gifts taxed at Trust and Estate Tax Rates**
    - **Essentially 37% on gifts over \$12,500**





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# Standard Deduction: 2018

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## Standard Deduction

- MFJ = \$24,000
- Single = \$12,000
- H of H = \$18,000

## Personal Exemptions

- **Repealed**

## Zero tax amount:

Joint

Single

## 2017

\$20,800

\$10,400

## 2018

\$24,000

\$12,000



- 9% Sec. 199 DPAD repealed 1/1/18
- Fiscal year S corporations lose deduction
- Consider switching to calendar year-end
- If not, lose full deduction and no Section 199A deduction on FYE '18 income
- Need IRS guidance



- 20% deduction on net farm income
- If income above threshold amount (\$207,500 single - \$415,000 MFJ), then limited to greater of:
  - 50% of wages paid
  - 25% of wages paid plus 2.5% of qualified property
- Plus 20% of REIT and PTP income
- Further limited to 20% of taxable income less capital gains less cooperative payments



- If farmer sells to a co-op and is a patron, the net deduction is the lessor of:
  - 20% of gross payments from the co-op, or
  - Taxable income less capital gains



## Self-Rental

- Will Sec. 199A apply to self-rental
  - Don't know
  - Not a trade or business
  - Need IRS Regulations



## Per Business Limit

- Limit is applied to each business
  - Rental entities have no wages or minimal qualified property
- May need to combine entities or reduce income to rental entity
- Need IRS guidance





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## Crop Share v. Cash Rent

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- If Co-Op Section 199A sticks
  - Will cash rent landlords switch to crop share
  - 20% deduction on co-op sales



# Crop Share Example

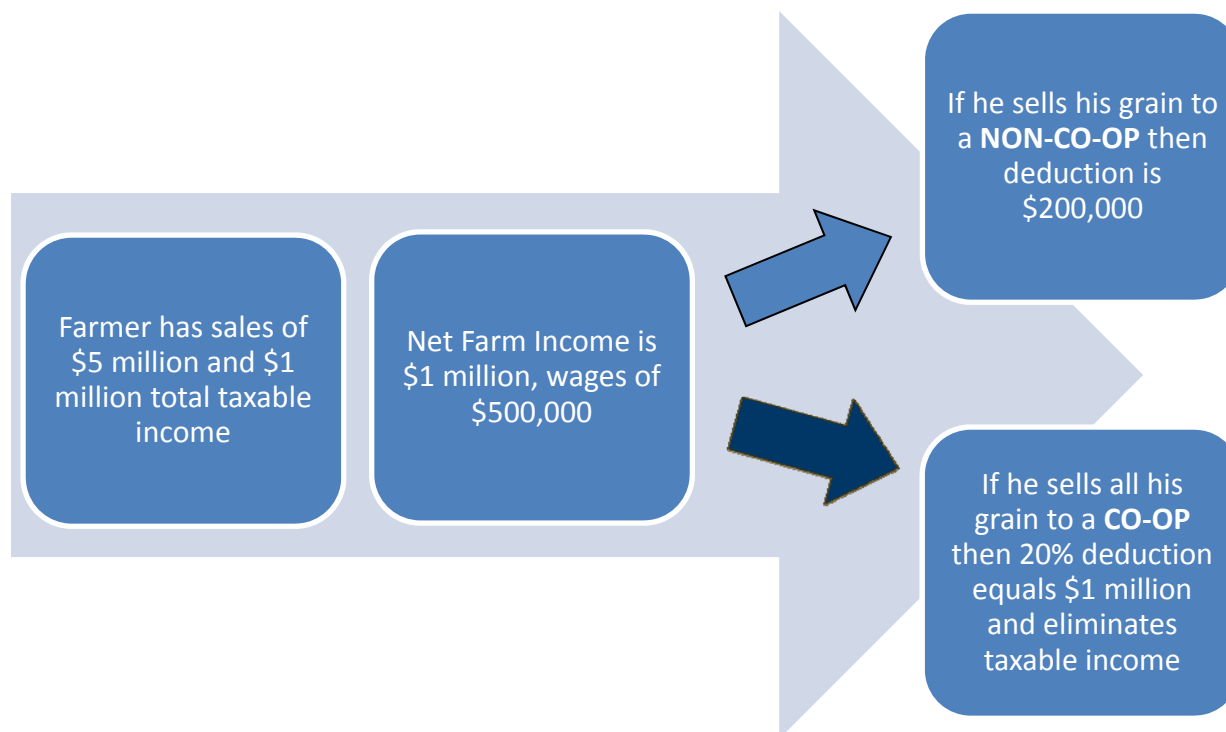
		Farmer		Landlord	
		Cash Rent	50/50 Crop Share	Cash Rent	50/50 Crop Share
1	Gross Revenue	900	450	275	450
2	Farm Expenses	800	350	-	175
3	Property Taxes	-	-	20	20
4	Net income	100	100	255	255
5	Section 199A co-op deduction	180	90	-	90
6	Tax Savings @ 35%	63	32	-	32
7	Net "After-Tax" Income	163	132	255	287



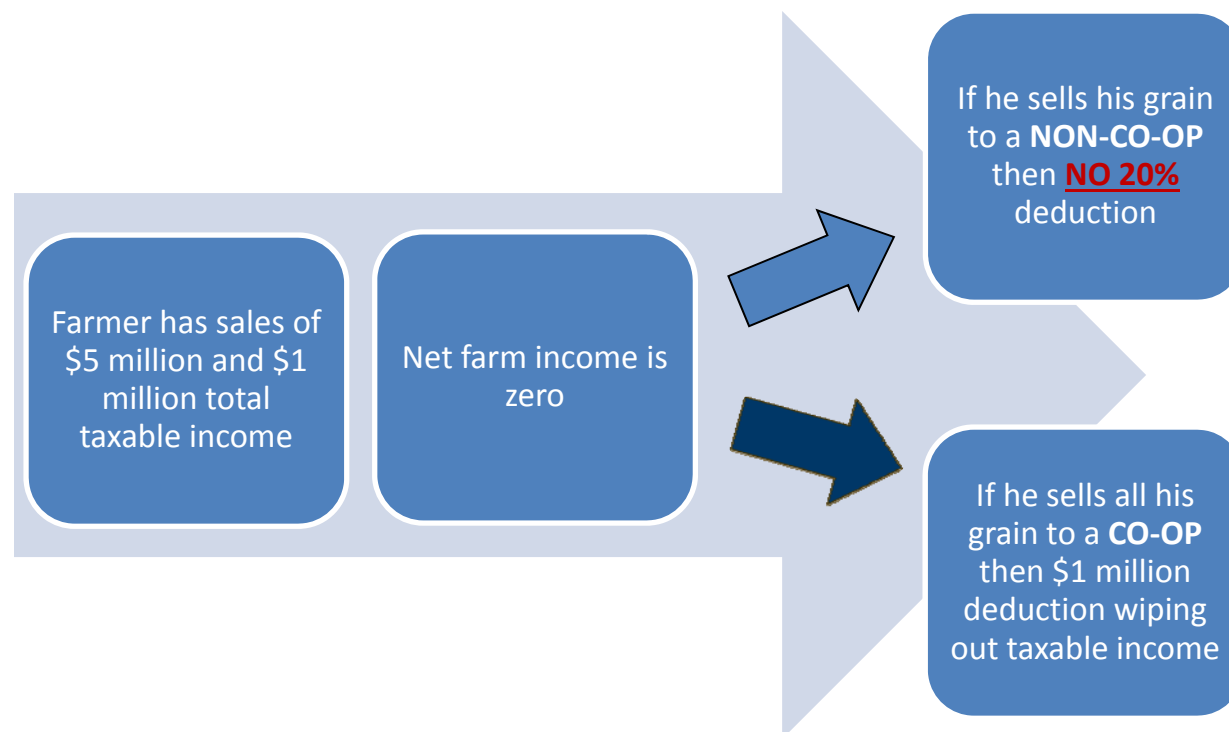
# Qualified Business Income Deduction



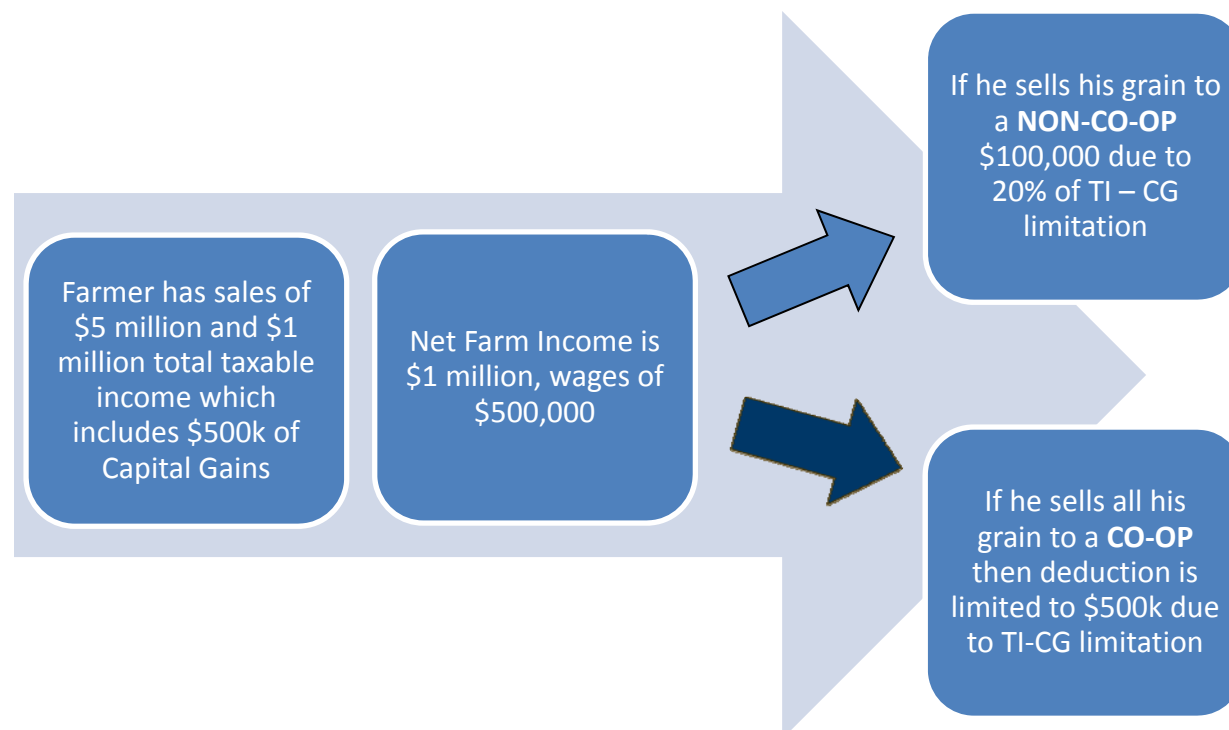
# Section 199A Example



# Section 199A Example



# Section 199A Example





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# How Much is Co-Op 199A Really Worth?

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Tax Bracket	Percentage Savings		Cents Per Bushel Savings	
	Maximum	Likely	Maximum	Likely
10%	2.00%	1.60%	0.0700	0.0560
12%	2.40%	1.92%	0.0840	0.0672
22%	4.40%	3.52%	0.1540	0.1232
24%	4.80%	3.84%	0.1680	0.1344
32%	6.40%	5.12%	0.2240	0.1792
35%	7.00%	5.60%	0.2450	0.1960
37%	7.40%	5.92%	0.2590	0.2072

Based on \$3.50 corn. Does it offset extra transportation and storage costs plus higher price paid by non-co-op, if any. Also, does not reduce self-employment tax. See January 7, 2018 blog post at [www.farmcpatoday.com](http://www.farmcpatoday.com).



# Child and Family Tax Credits

- Child credit: Increase from \$1,000 to **\$2,000**
  - No change to “qualifying child” definition: < age 17
- Plus **\$500** credit for dependent not a qualifying child for \$2,000 credit
- Refundable portion = **\$1,400 & indexed**
- Phase-out begins at MFJ of \$400,000 AGI (up from \$110K); Single at \$200,000 (up from \$75K)



# Deductions

- Limits on home mortgage interest
- Eliminates misc. itemized deductions
- Eliminates moving expenses
- 7.5% AGI phase-in for 2017/18 medical



## Itemized Deductions: Taxes

- Allow aggregate deduction of \$10,000 for income or sales tax, plus real property tax
- Does not affect payments for farmers, crop-share landlords and cash-rent landlords on their operations.
- This is only for Schedule A personal taxes



- House proposed cap of \$50,000 on exclusion with phase-out
- Not available to  $\geq 5\%$  owners
  - Must be reported as income to owner
  - C Corporation still allowed the deduction
- **This did not get included in final bill**
- Employer provided meals now deductible at 50% 1-1-18 to 12-31-25
- After 12-31-25, no deduction for employer provided meals on business premises, etc.



- Doubled exclusion: \$5M to \$10M + indexing for estates between 1-1-18 and 12-31-25
  - Deaths in 2017: Present exclusion is \$5,490,000
  - Will be **\$11.2 million for 2018**
- Retain annual gift tax exclusion **(\$15K)**
- **Reverts back to current law in 2026**





- Retained for individuals
- Higher Exemption Amount
  - \$109,400 up from \$78,750 (MFJ)
  - \$70,300 up from \$50,600 (Single)
- Higher Thresholds for Phase-out
  - \$1 million for MFJ, up from \$160,900
  - \$500,000 for singles, up from \$120,700

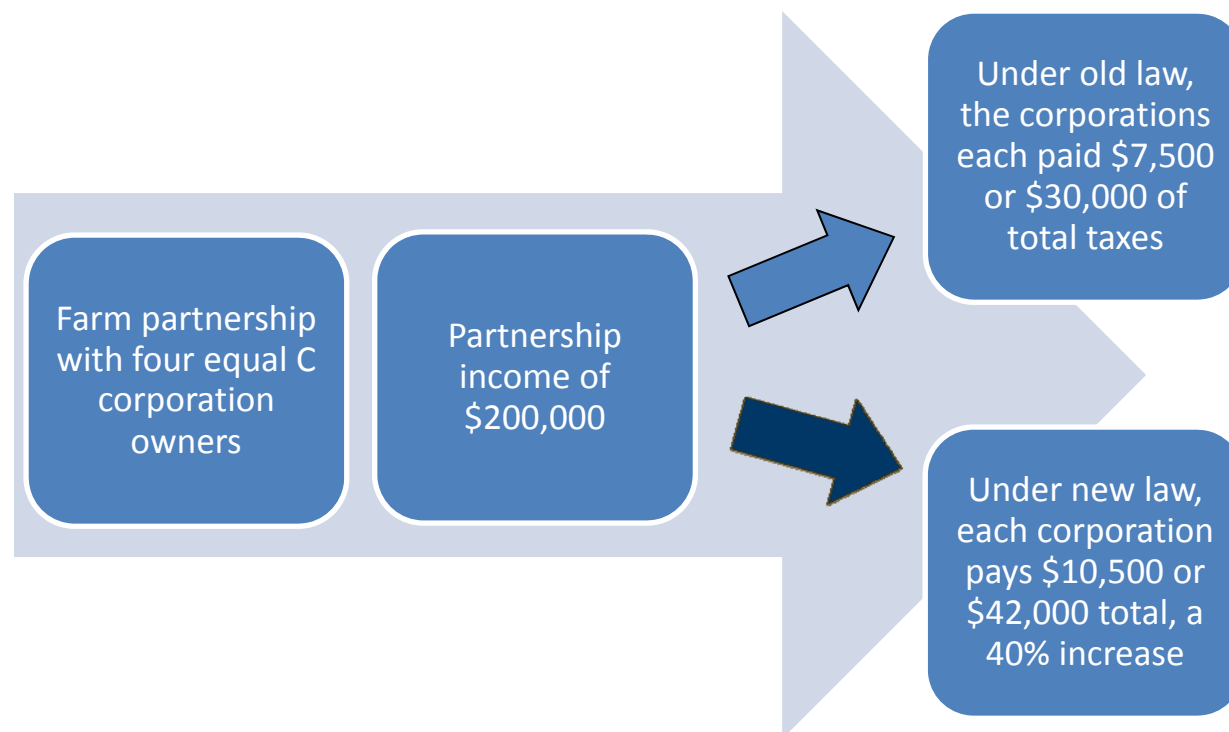


# Corporate Taxes

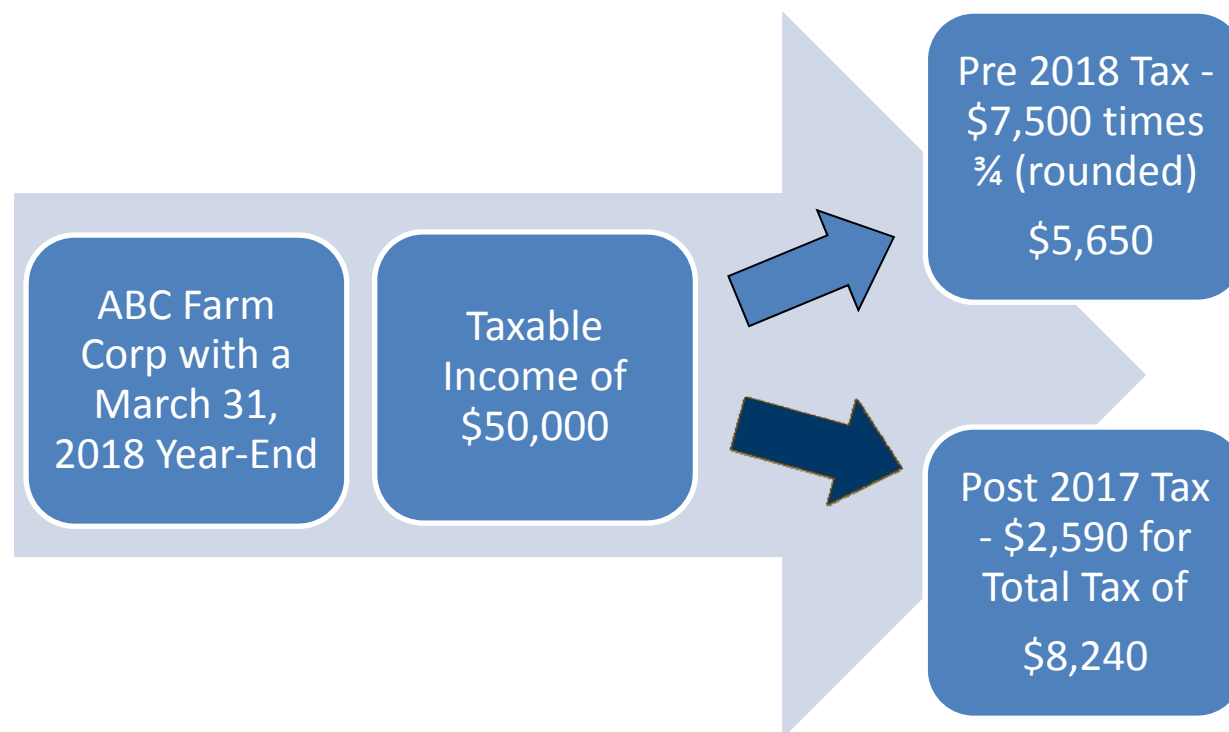
- Flat 21% rate
- Corporate AMT repealed
- May be an **actual 40% tax increase** for most farmers who kept corporate taxable income under \$50,000



## Small Farm C Corporation Tax



# Fiscal Year Calc.



## Section 179

- Bumps to **\$1 million in 2018** (indexed to inflation)
  - Phase-out starts at \$2.5 million (indexed)
  - Adds roofs, HVAC, Sec. Systems
- Can be used to optimize taxable income if farmer elects out of bonus depreciation



# Bonus Depreciation

- Expense 100% acquired and placed in service  
>9/27/17 and before 1/1/2023
  - Includes new and used
- Phased-out beginning in 2023
  - 80% in 2023
  - 60% in 2024
  - 40% in 2025
  - 20% in 2026
  - Zero thereafter





# Expansion of Cash Method of Accounting

- Farmers retain cash method of accounting
  - If gross revenues **under \$25 million**, then Sec. 263A does not apply for preproductive costs (orchards and vineyards). Not sure how to “elect” back in yet.
- Unlimited cash method still allowed for all non C corporation farming taxpayers
  - C corporations limited to \$25 million
  - Partnerships with a C corporation over \$25 million limited



# Business Interest Expense

- Disallowed: **Excess of 30%** of business adjusted taxable income
  - Determined without interest expense, interest income, NOL, depreciation, amortization, depletion (EBIDTA)
    - **EBIT** is used beginning in 2022 (depreciation is deducted)
  - Determined at tax filer level (1065, 1120-S)
  - Excess carried forward
- **No disallowance** for farms with average gross receipts  $\leq$  \$25 million



# Special Farmer Interest Provision

- If **gross revenue over \$25 million**, then farmer can elect to deduct 100% of business interest expense
  - Must use ADS for depreciation of 10 year + assets (longer lives)
  - Farm Equipment still enjoy shorter life
  - **Can't take bonus depreciation on 10 year or longer life assets**



## Other Business Provisions

- Net Operating Loss: Limited to **80%** of pre-NOL taxable income
- Pre 2018 NOLs still allowed at **100% (FIFO)**
- Repeal carrybacks for non-farmers
- Allows two-year carryback for farms
- However, carryback can only offset 80% of taxable income on both carrybacks and forwards

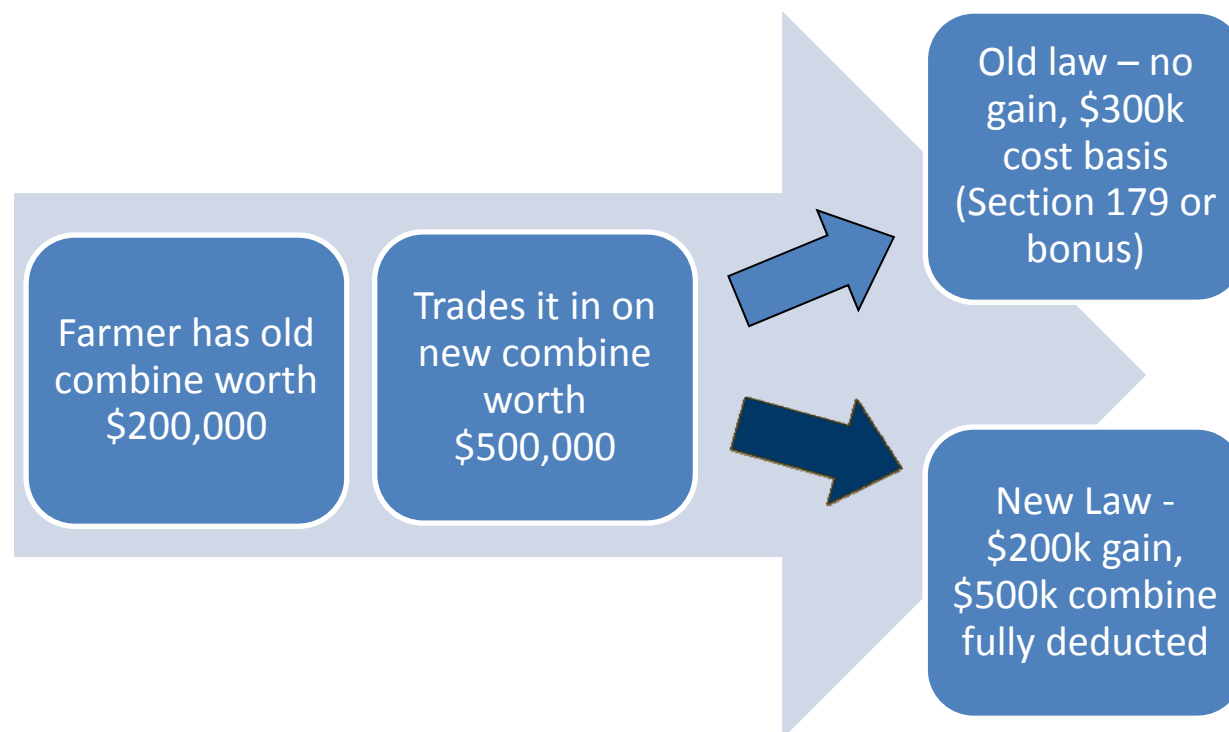


# Other Farm Business Changes

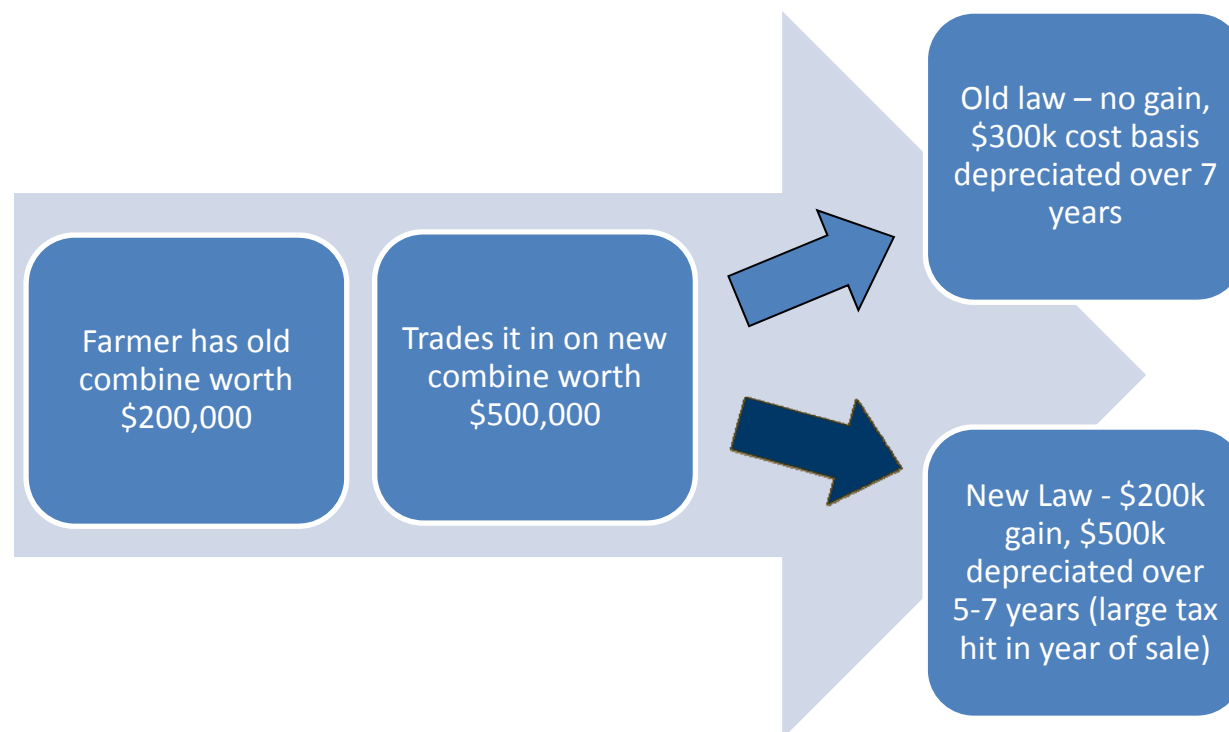
- Section 1031 exchanges for only real property
  - Personal property exchanges taxable; but asset expensing offsets the gain
- Drops **NEW** farm machinery from 7 years to 5
  - Used farm equipment still at 7 years
- 200db depreciation on farm equipment
- Limits all net business losses to \$500k
  - Repeals & replaces current excess farm loss rules



## Section 1031 Equipment Exchange Example



## Section 1031 Equipment Exchange Example – State Law





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# Questions



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