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# **Agricultural Tax Issues Update – 2016**

- Farm Business Management
- Northland Community & Technical College
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# Standard Deduction & Exemptions

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## ▶ Standard Deduction

- ▶ Single                      \$6,300
- ▶ Joint                         \$12,600

## ▶ Personal Exemptions

- ▶ \$4,050 per individual for 2016 up from \$4,000

# Tax Credits

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## ▶ Child Tax Credits

- ▶ \$1,000 again for tax year 2016
  - ▶ Eligible children **under the age of 17** at the end of tax year

## ▶ Education Credits

- ▶ **HOPE** –(**Now American Opportunity Tax Credit**) 100% of first \$2,000 of eligible tuition, books and fees, 25% of the next \$2,000 (**Max Credit = \$2,500**)
- ▶ **LIFETIME LEARNING** – 20% of eligible tuition & fees (**Max Credit \$2,000.00 per tax year**)
- ▶ **Note:** Extended through 2017  
Phases out for high income earners

# Miscellaneous

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- ▶ Traditional & Roth IRA Maximum Contribution Limit
  - ▶ \$5500 contribution if UNDER age 50
  - ▶ \$6500 if age 50+
- ▶ (HSA) Maximum Contribution Limits
  - ▶ \$3,350 individual / \$6,750 family – if under 55
  - ▶ \$4,350 individual / \$7,750 family – 55 or over

# Health Insurance

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- ▶ 100% deductible against ordinary income for all individuals
- ▶ More are using HSA- Health Savings Account & Sec 105 plan (agbiz plan Allows non-corp to claim on Schedule F)

# 2016 Federal Joint Rates

<b>2015 taxable income</b>	<b>Tax Due &amp; Rate</b>
\$0 - \$18,550	10% taxable income
\$18,551 - \$75,300	\$1855 + 15% over \$18,550
\$75,301 - \$151,900	\$10,367.50 + 25% over \$75,300
\$151,901 - \$231,450	\$29,517.50 + 28% over \$151,900
\$231,451 - \$413,350	\$51,791.50 + 33% over \$231,450
\$413,351 - \$466,950	\$111,818.50 + 35% over \$413,350
\$466,951 +	\$130,578.50 + 39.6% over \$466,950

# 2016 Federal Single Rates

▶ 2015 taxable income	Tax Due & Rate	
▶ \$0 - \$9,275		10% of taxable income
▶ \$9,276 - \$37,650	\$927.50	+15% over \$9,275
▶ \$37,651 - \$91,150	\$5,183.75	+25% over \$37,650
▶ \$91,151 - \$190,150	\$18,558.75	+28% over \$91,150
▶ \$190,151 - \$413,350	\$46,278.75	+33% over \$190,150
▶ \$413,351 - \$415,050	\$119,934.75	+35% over \$413,350
▶ \$415,051 +	\$120,529.75	+39.6% over \$415,050

# MN Tax Rates

## ▶ Married- jointly

<u>5.35%</u>	<u>7.05%</u>	<u>7.85%</u>	<u>9.85%</u>
0-\$36,820	\$36,821-\$146,270	\$146,271-\$259,420	+

## Single

0-\$25,180	\$25,181-\$82,740	\$82,741-\$155,650	+
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# North Dakota Tax Rates

	Single	Joint
▶ 1.1%	0-\$37,450	\$62,600
▶ 2.04%	\$36,451- \$90,750	\$62,601- \$151,200
▶ 2.27%	\$90,751- \$189,300	\$151,201- \$230,450
▶ 2.64%	\$189,301- \$411,500	\$230,451- \$411,500
▶ 2.9%	\$411,501 +	\$411,501 +

# SS & Medicare

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- ▶ SS maximum earnings for 2016
  - ▶ Paid at 12.4% on first **\$118,500**
  - ▶ Employers continue to pay the 6.2% match for their employees
- ▶ Self-employed Medicare rate remains at 2.9%--no ceiling
- ▶ Medicare surcharge: 0.9% on wages, 3.8% on investment income. Applies to single filers over \$200,000 & Married over \$250,000

# Capital Gains

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- No major changes other than inflation adjustments
- 0% up to the 15% tax bracket (Joint \$75,300-Single \$37,650)
- 15% tax in the 25%, 28%, 33% & 35%
- 20% for those in new 39.6% bracket with income above \$415,050 single \$466,950 joint
- ▶ **Short-term gains**- taxed at regular federal rates
- ▶ Gains are also subject to state taxation

# Section 179

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- ▶ Federal Deduction Amount
  - ▶ **Section 179-** is now permanent at \$500,000  
Dollar for dollar reduction if purchases over \$2,000,000
  
- 50% Bonus Depreciation extended thru 2017, then  
phases downward

# Tax Life of Asset Purchases

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- ▶ Farm Equipment - 7 years
- ▶ Farm Vehicles - 5 years
- ▶ Machine Shops - 20 years
- ▶ Tiling - 15 years

# Equipment Leasing

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- ▶ Know your lease contract!!
  - Tax Lease** or operating lease which treats lease payments as rental expense
  
  - Non-tax lease**, called capital lease- equipment dealer may call it a lease, IRS treats it as a financed purchase

# 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**)
  - ▶ A change from the INCOME to the LOAN method requires the completion of and filing IRS form 3115 with your tax return
- ▶ SPECIAL NOTE:
  - ▶ These changes can be made year by year, but all covered commodity crops in any given year, MUST be treated the same (**All CCC loan crops in the same year, are subject to the same tax reporting method**)

# Crop Insurance Deferral

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- ▶ 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

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

# Other Items

- ▶ Business mileage rate for 2016 \$.54
- ▶ Make sure the grain elevator 1099-PATR line up with your records.
- ▶ Domestic Production Activities Deduction still apply- (9% of qualified net income for 2016)
- ▶ \*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.????

## Other Items -continued

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- \*Income Averaging is an available option
- \*Loss Carryback Rules
- \*Watch installment sales on depreciable assets (machinery and purchased breeding livestock)
- \*Depreciation recapture
- \*Have an understanding of deferred tax liabilities
- \*Tax consequences of a farm liquidation & bankruptcy

# Summary

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- ▶ 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

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- ▶ 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!

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Any ????????????

▶ **Thank You**

