Things to note before starting

- Even though the bill has been passed there are many questions that still remain to be answered.

- Understand that this is an initial findings presentation that will be adjusted, expanded, and changed as IRS guidance and additional educational material are made available.
What are sunset clauses??

- A provision that provides that the law shall cease to have effect after a specific date.
- Further legislative action can be taken to extend the law

Note: I will try to designate sunset clauses on the bottom right of each slide with the picture and an end date.

Byrd Rule

- United State Senate rule that blocks legislation if it possibly would increase significantly the federal deficit beyond a ten-year term.
- All the sunset clauses are supposedly to circumvent the Byrd Rule
Why do so many sections use Qualified?

- Qualified has a special meaning
  - Let the IRS hash it out and decide

- The next few years will be full of IRS guidelines, court rulings, appeals, and new guidelines as the 2017 Tax Cuts and Jobs Act gets sorted out

---

### Personal Tax Changes

<table>
<thead>
<tr>
<th>Single Filer</th>
<th>Current Law</th>
<th>Tax Cuts and Jobs Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0-9,525</td>
<td>10% $0-9,525</td>
</tr>
<tr>
<td>15%</td>
<td>9,525 – 38,700</td>
<td>12% 9,525 – 38,700</td>
</tr>
<tr>
<td>25%</td>
<td>38,700 – 93,700</td>
<td>22% 38,700 – 82,500</td>
</tr>
<tr>
<td>28%</td>
<td>93,700 – 195,450</td>
<td>24% 82,500 -157,500</td>
</tr>
<tr>
<td>33%</td>
<td>195,450 – 424,950</td>
<td>32% 157,500 – 200,000</td>
</tr>
<tr>
<td>35%</td>
<td>424,950 – 426,700</td>
<td>35% 200,000 – 500,000</td>
</tr>
<tr>
<td>39.6%</td>
<td>426,700 +</td>
<td>37% 500,000 +</td>
</tr>
</tbody>
</table>
## Personal Tax Changes

### Married Filing Jointly

<table>
<thead>
<tr>
<th>Current Law</th>
<th>Tax Cuts and Jobs Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% $0 – 19,050</td>
<td>10% $0 – 19,050</td>
</tr>
<tr>
<td>15% 19,050 – 77,400</td>
<td>12% 19,050 – 77,400</td>
</tr>
<tr>
<td>25% 77,400 – 156,150</td>
<td>22% 77,400 – 165,000</td>
</tr>
<tr>
<td>28% 156,150 – 237,950</td>
<td>24% 165,000 – 315,000</td>
</tr>
<tr>
<td>33% 237,950 – 424,950</td>
<td>32% 315,000 – 400,000</td>
</tr>
<tr>
<td>35% 424,950 – 480,050</td>
<td>35% 400,000 – 600,000</td>
</tr>
<tr>
<td>39.6% 480,050 +</td>
<td>37% 600,000 +</td>
</tr>
</tbody>
</table>

### Personal Tax Changes

- Looking specifically and MFJ across the board the tax rate looks to be as good if not better with one exception
  - Income $400,001-424,950 the old rate was 33% where as the new rate is 35%

![Image](12/31/2025)
Personal Tax Changes

- **Standard Deduction**
  - $24,000 for married individuals filing jointly
  - $18,000 for head-of-household
  - $12,000 for all other taxpayers
  - Amounts adjusted for inflation

- **Personal Exemption**
  - Amount changed to $0

### Standard Deduction & Personal Exemption – Single Filer

<table>
<thead>
<tr>
<th></th>
<th>Current Law</th>
<th>Tax Cuts and Jobs Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard D.</td>
<td>$6,300</td>
<td>Standard D. $12,000</td>
</tr>
<tr>
<td>Personal Ex.</td>
<td>4,050***</td>
<td>Personal Ex. 0</td>
</tr>
<tr>
<td>Total</td>
<td>10,350</td>
<td>Total 12,000</td>
</tr>
</tbody>
</table>

*** subject to a phase-out that begins with AGI of $261,500
Itemized Tax Changes

• Mortgage Interest
  • The max acquisition indebtedness recognized is $750,000 after 12/31/2017
  • Acquisitions before 12-16-2017 limitation is $1 million
  • The interest deduction is suspended beginning 12-31-2017 through 1-1-2026
  • In short mortgage interest is no longer an itemized deduction for the time being

Itemized Tax Changes

• State and Local property taxes
  • May itemize up to $10,000
  • My understanding is that business-related property tax would still be reported on the proper business schedule and is not limited
    • Example: $12,000 of Real Estate taxes on farm ground goes to Schedule F in its entirety
Itemized Tax Changes

• Charitable Contributions
  • The income-based percentage limit for certain charitable contributions of cash from individuals was increased from 50% to 60%
  • No charitable deduction for payments to institutions of higher education which the payor receives rights to purchase tickets or seating at an athletic event
  • Code Section 170(f)(8)(D) the exception to contemporaneous written acknowledgment requirement is repealed

2% AGI Floor Deduction

• All miscellaneous itemized deductions that are subject to the 2% AGI floor are suspended
• Some Examples:
  • Appraisal fees for a casualty loss
  • Hobby expense
  • Safe deposit box
  • Tax preparation expenses
  • Unreimbursed employee expenses
  • Union dues
  • Investment expenses
Itemized Tax Changes

- Personal Casualty and Theft Loss
  - No longer an itemized deduction unless claim is a result of a disaster declaration from the President under code section 401

Itemized/Other Tax Changes

- Medical Expenses & Penalty
  - The penalty for not having health insurance has been reduced to $0 starting in 2019
  - Medical Expense deduction threshold reduced from 10% to 7.5% of AGI
    - Will return to 10% starting in 2019
    - So change effective for 2017 and 2018 only
Other Tax Changes

• Kiddie Tax Change
  • Due diligence requirements will be increased
  • Unearned income of children will be taxed by applying the capital gains rates applicable to trusts and estates to the net unearned income of a child
  • No longer tied to parent's income

• Kiddie Tax Change
  • Essentially the kiddie tax rate is 37% on gifts over $12,500
  • For kids under 18 may want to consider paying a W2 wage over gifting grain
Other Tax Changes

- Child Tax Credit & New Family Credit
  - Child tax credit is now $2,000 per qualifying child (up to 16 years old)
    - Refundable up to $1,400 & subject to phase-out
    - 2017 old law was a $1,000 tax credit per qualifying child
  - $500 nonrefundable credit for qualifying dependents other than qualifying children
    - Parents living with you and you are their acting care giver

Other Tax Changes

- Qualified Tuition Programs & ABLE
  - 529 programs can be rolled into ABLE without penalty
  - 509 plans can be used to help fund public, private or religious elementary or secondary school expenses tax free
Other Tax Changes

• Alimony Payments
  • Starting with all divorces after 12-31-2018
  • Alimony and maintenance payments are not deductible by the payor spouse
  • Attempt to follow court case Gould v. Gould
    • Such payments are not income to the recipient

Other Tax Changes

• Estate Taxes
  • Doubles the estate and gift tax exemption
    • 12-31-2017 through 1-1-2026
  • Basic exclusion amount is going from $5 million to $10 million
    • The $10 million is indexed for inflation
Other Tax Changes

• Like Kind Exchange
  • A permeant change that limits the utility of like kind exchanges to just real estate and buildings
    • Exchange Farm 1 for Farm 2
  • The use of like kind exchange for things like equipment and livestock is no longer available

Other Tax Changes

• Like Kind Exchange
  • Under the old law the dealership handled the 1031 for you.
  • Any gain was ignored
  • The new purchase is recorded on the books with a basis equal to cash price plus the basis of the traded in equipment.
    • EX: Trade in a tractor with trade in value of $20,000 and $5,000 in basis for a $120,000 new tractor
      • Ignore the $15,000 in gain from the trade in
        • $20,000 trade in - $5,000 old basis
        • Set up the new tractor for $105,000
          • $100,000 cash + $5,000 old basis
Other Tax Changes

• Like Kind Exchange
  • Under the new law 1031 on equipment is not allowed.
  • Have to recognize the gain
  • The new purchase was the cash price plus the basis of the traded in equipment.
    • EX: Trade in a tractor with trade in value of $20,000 and $5,000 in basis for a $120,000 new tractor
      • Recognize $15,000 in gain as income
        • $20,000 trade in - $5,000 old basis
        • Set up the new tractor for $120,000
          • $100,000 cash + $20,000 trade in

Interesting Tax Changes

• Bicycle Commuting Reimbursement Exclusion
  • This has been suspended
  • I did not know this even existed
  • Apparently employers could provide $20 per month for reasonable expenses incurred by the employee in conjunction with their commute to work by bike
Austin’s commute to work by bike

That is probably why….

Business Tax Changes

• Domestic Production Activity Deduction “DPAD”
  • Code Section 199
Business Tax Changes

• Deduction for Qualified Business Income
  • Code Section 199A
  • QBI for shorthand
  • Replaces Section 199 DPAD
  • Reduces income subject to federal income tax but not self-employment taxes or alternative minimum tax “AMT”

Business Tax Changes

• Deduction for Qualified Business Income
  • Individuals may deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship

  • Quick and dirty example:
    • $100,000 of qualified business income potentially would get a $20,000 deduction
Business Tax Changes

• Deduction for Qualified Business Income
  • QBI will be a calculation of qualified items of income, gain, deduction, and loss.
  • So $5,000 of depreciation appears to reduce your QBI by that amount.
  • Gives rise to tax planning options. For example increasing Section 179 depreciation expense will have the result of lowering QBI.

Business Tax Changes

• Deduction for Qualified Business Income
  • If net QBI during a tax year is a loss, the loss is carried forward to the next year.
  • The subsequent year the deduction is reduced by 20% of any carryover qualified business loss

  • Example on next slide
Business Tax Changes

• Deduction for Qualified Business Income
  • Quick and dirty example:
    • If the taxpayer has a QBI of $20,000 from business A and a loss of $50,000 from business B in year 1
      • No deduction in year 1 and the carryover is $30,000 for year 2
    • If the taxpayer has a QBI of $20,000 from business A and a $50,000 from business B in year 2
      • $20,000 + $50,000 = $70,000 QBI in year 2
      • $30,000 carryover from year 1 less 20% = $24,000
      • QBI in year 2 is $70,000 - $24,000 = $46,000

Business Tax Changes

• What Qualifies for Qualified Business Income?
  • Expect the next few years filled with IRS guidelines and court rulings
  • Specified Service Trade or Business does not qualify unless taxable income is less than $315,000 (MFJ)
    • Health, law, accounting, financial services
    • Engineering and architecture does qualify though
      • Good Lobbying Effort???
Business Tax Changes

• S199A possible limitations
  • Taxable income before S199a is greater than
    • Single $157,500 - $207,500
    • Married $315,000 - $415,000
  • Then limited to greater of
    • 50% W2 wages paid by business
    • 25% of wages paid by business plus 2.5% qualified business property

• S199A and CO-OPs – “currently being debated”
  • Selling grain to CO-OP
    • The 20% deduction calculated on total payments received from the co-op
  • Selling grain to commercial elevator
    • The 20% deduction calculated on net farm income
Business Tax Changes

• S199A and CO-OPs – “currently being debated”

Farm has sales of $5 million and $1 million total taxable income

Net Farm Income is $1 million, wages of $500,000

If sold to non CO-OP then deduction is $200,000

IF sold to CO-OP the 20% deduction equals $1 million and eliminates taxable income

Business Tax Changes

• S199A and CO-OPs – “currently being debated”

<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Maximum</th>
<th>Likely</th>
<th>Maximum</th>
<th>Likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>2.00%</td>
<td>1.60%</td>
<td>0.0700</td>
<td>0.0560</td>
</tr>
<tr>
<td>12%</td>
<td>2.40%</td>
<td>1.92%</td>
<td>0.0840</td>
<td>0.0672</td>
</tr>
<tr>
<td>22%</td>
<td>4.40%</td>
<td>3.52%</td>
<td>0.1540</td>
<td>0.1232</td>
</tr>
<tr>
<td>24%</td>
<td>4.80%</td>
<td>3.84%</td>
<td>0.1640</td>
<td>0.1344</td>
</tr>
<tr>
<td>32%</td>
<td>6.40%</td>
<td>5.12%</td>
<td>0.2240</td>
<td>0.1792</td>
</tr>
<tr>
<td>35%</td>
<td>7.00%</td>
<td>5.60%</td>
<td>0.2450</td>
<td>0.1960</td>
</tr>
<tr>
<td>37%</td>
<td>7.40%</td>
<td>5.92%</td>
<td>0.2590</td>
<td>0.2072</td>
</tr>
</tbody>
</table>

Business Tax Changes

• Section 179
  • The maximum amount expensed has increased to $1 million with a phase-out threshold amount of $2.5 million
  • Definition of qualified real property eligible expanded to include improvements to nonresidential real property.
    • Roofs, heating, ventilation, air conditioning, fire protection, security systems

• Bonus Depreciation
  • Section 168(k)(2) allows bonus depreciation for any property with depreciable life of 20 years or shorter (new or used)
  • Bonus Depreciation percentage becomes 100% initially
  • New Farming Equipment and Machinery is now 5 year property instead of 7 year property
Business Tax Changes

• Bonus Depreciation
  • 80% for any asset placed in service in 2023
  • 60% for any asset placed in service in 2024
  • 40% for any asset placed in service in 2025
  • 20% for any asset placed in service in 2026
  • 0% for any asset placed in service AFTER 2026

C-Corp vs Pass Through Entity

• Yes for C-Corporations the new permanent tax rate of 21% has been established

• **BUT** with the 20% S199A for pass through entities, their effective tax rate might possibly be in the realm of the C-corporation's 21% tax rate

• The 20% S199A ends in 2025. This is a case by case calculation problem. Is changing entities a positive move? Switching back from a C-corp. is not easy and has requirements that may not benefit the average producer.
C-Corp

- For farmers with low corporate taxable income “under $50,000” the new flat 21% rate will actually cause a tax increase of about 40%

Farm partnership with four equal C corporation owners

Partnership income of $200,000

Old law each pays $7,500 or $30,000 of total taxes

New law each pays $10,500 or $42,000 total taxes

ROUGH Estimating tax under the bill

Market Watch


Filing Married with Standard Deduction and two Kids

<table>
<thead>
<tr>
<th>Deductions</th>
<th>Brackets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income</td>
<td>$80,000</td>
</tr>
<tr>
<td>Standard deduction</td>
<td>$19,050 x 10%</td>
</tr>
<tr>
<td>(married)</td>
<td>$19,050</td>
</tr>
<tr>
<td>Mortgage interest</td>
<td>$30,950 x 12%</td>
</tr>
<tr>
<td>deduction</td>
<td>$4,334</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>$0 x 22%</td>
</tr>
<tr>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>State and local</td>
<td>$0 x 24%</td>
</tr>
<tr>
<td>income and/or</td>
<td>$0</td>
</tr>
<tr>
<td>property tax</td>
<td>$0 x 32%</td>
</tr>
<tr>
<td>deduction</td>
<td>$0</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$56,000</td>
</tr>
<tr>
<td>Federal taxes</td>
<td>$6,339</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>$4,000</td>
</tr>
<tr>
<td>($2,000) x 2</td>
<td>$4,000</td>
</tr>
<tr>
<td>Family Tax Credit</td>
<td>$0</td>
</tr>
<tr>
<td>($500) x 0</td>
<td>$0</td>
</tr>
<tr>
<td>Refundable Tax Credit</td>
<td>($1,400) x 2</td>
</tr>
<tr>
<td>($1,400) x 2</td>
<td>$0</td>
</tr>
<tr>
<td>Taxes owed</td>
<td>$2,339</td>
</tr>
</tbody>
</table>

By paying $6,339 in taxes, you are taxed at 11.3%.

Because you owe taxes, you’re offered a full Child Tax Credit or the Family Tax Credit and now owe $2,339.

*Calculator does not include every single provision of the Tax Cuts and Jobs Act conference agreement,*
ROUGH Estimate Comparison

So under the rough estimate we show $80,000 of W2 income, married with two kids, results in $2,339 tax owed.

Comparing that to current law for tax year 2017, using the same limited information, the tax owed would be $4,733.

Questions from Trainings

• Does the like kind exchange rule change mean clients pay tax on any gain realized on a trade in of a car?

   YES
Questions from Trainings

• Will a proprietorship now have the concept of guaranteed payments?

YES it will

Questions from Trainings

• Can a child over 17 be another dependent and qualify for the $500 credit

YES
Questions from Trainings

• Can you deduct state and local taxes paid on income from a pass-through entity in excess of $10,000 limit?

YES

Questions from Trainings

• After 9-28-2017 is there any limitation on depreciation (specifically bonus) on purchase of SUV rated over 6,000 lbs in 2017 after 9-28-2017

NO
Questions from Trainings

• Is this bill revenue neutral or will it contribute to the deficit?

It is assumed that it will add to the deficit by about $1.5 trillion.

Questions from Trainings

• Is it correct that entertainment expenses have been limited to specifically just meal expenses.

YES
Take Away

- Will definitely be a learning curve for everyone
  - Public, CPAs, Lawyers, and IRS

- May want to schedule an additional meeting with your tax preparer in June or July to discuss possible changes your operation should make

Questions?