This course is designed to give you a basic understanding of depreciation. This course will give you an idea of records to keep, and tax forms to watch for in the mail. It is not designed to prepare you to accurately self prepare your tax return.

**What Property Can Be Depreciated?**

- Order Publication 946 and Publication 225 for handouts
What is Depreciation?

• A reduction in the value of an asset with the passage of time, due in particular to wear and tear.

• Two Accounting Principles
  1. Cost Principle – record an asset at its historical original cost
  2. Matching Principle – match income to expense

IS IT DEPRECIABLE?
What Property Can Be Depreciated?

- You can depreciate most types of tangible property (except land), such as buildings, machinery, equipment, vehicles, certain livestock, and furniture. You also can depreciate certain intangible property, such as copyrights, patents, and computer software.

What Property Can Be Depreciated?

- To be depreciable, the property must meet all the following requirements.
  - It must be property you own.
  - It must be used in your business or income-producing activity.
  - It must have a determinable useful life.
  - It must have a useful life that extends substantially beyond the year you place it in service.
What Property Cannot be Depreciated?

- Certain property cannot be depreciated, even if the requirements explained earlier are met. This includes the following.
  - **Land.**
    - You can never depreciate the cost of land because land does not wear out, become obsolete, or get used up. The cost of land generally includes the cost of clearing, grading, planting, and landscaping. Although you cannot depreciate land, you can depreciate certain costs incurred in preparing land for business use. See chapter 1 of Pub. 946.
  - **Property placed in service and disposed of in the same year.**
    - Determining when property is placed in service is explained later.
  - **Equipment used to build capital improvements.**
    - You must add otherwise allowable depreciation on the equipment during the period of construction to the basis of your improvements.
  - **Intangible property such as section 197 intangibles. “example: Goodwill.”**
    - This property does not have a determinable useful life and generally cannot be depreciated. However, see Amortization, later. Special rules apply to computer software.
  - **Certain term interests.**

Property Used in Your Business or Income Producing Activity

- To claim depreciation on property, you must use it in your business or income-producing activity. If you use property to produce income (investment use), the income must be taxable. You cannot depreciate property that you use solely for personal activities. However, if you use property for business or investment purposes and for personal purposes, you can deduct depreciation based only on the percentage of business or investment use.
  - **Example 1.**
    - If you use your car for farm business, you can deduct depreciation based on its percentage of use in farming. If you also use it for investment purposes, you can depreciate it based on its percentage of investment use.
  - **Example 2.**
    - If you use part of your home for business, you may be able to deduct depreciation on that part based on its business use. For more information, see Business Use of Your Home in chapter 4 of Publication 225.
Property Having a Determinable Useful Life

• To be depreciable, your property must have a determinable useful life. This means it must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

• **Irrigation systems and water wells.**
  • Irrigation systems and wells used in a trade or business can be depreciated if their useful life can be determined. You can depreciate irrigation systems and wells composed of masonry, concrete, tile (including drainage tile), metal, or wood. In addition, you can depreciate costs for moving dirt to construct irrigation systems and water wells composed of these materials. However, land preparation costs for center pivot irrigation systems are not depreciable.

• **Dams, ponds, and terraces.**
  • In general, you cannot depreciate earthen dams, ponds, and terraces unless the structures have a determinable useful life.

Figuring Basis
What is my Basis in Depreciable Property?

- **Cost or other basis.**
  - The basis of property you buy is usually its [cost plus amounts you paid for items such as sales tax, freight charges, and installation and testing fees](#). The cost includes the amount you pay in cash, debt obligations, other property, or services.
  - There are times when you cannot use cost as basis. In these situations, the fair market value (FMV) or the adjusted basis of the property may be used.

- **Adjusted basis.**
  - To find your property's basis for depreciation, you may have to make certain adjustments (increases and decreases) to the basis of the property for events occurring between the time you acquired the property and the time you placed it in service.

What about Repairs and Improvements?

- If you improve depreciable property, you must treat the improvement as separate depreciable property. Improvement means an addition to or partial replacement of property that is a betterment to the property, restores the property, or adapts it to a new or different use. See Regulations section 1.263(a)-3.

- You generally deduct the cost of repairing business property in the same way as any other business expense. However, if the cost is for a betterment to the property, restores the property, or adapts it to a new or different use, you must treat it as an improvement and depreciate it.
What about Repairs and Improvements?

• **Example.**

  • You repair a small section on a corner of the roof of a barn that you rent to others. You deduct the cost of the repair as a business expense.

  • However, if you replace the entire roof, the new roof is considered to be an improvement because it increases the value and lengthens the life of the property. You depreciate the cost of the new roof.

When to Start and Stop
When To Start

- **Placed in Service**
  
  - When it is first placed in a condition or state of readiness and availability for a specifically assigned function.

When is a new pole barn placed in service?

- When you buy the materials?
- When the materials are delivered?
- During Construction?
- When it is ready and available to house equipment?
Idle Property

• Continue to claim a deduction for depreciation on property used in your business or for the production of income even if it is temporarily idle. For example, if you stop using a machine because there is a temporary lack of a market for a product made with that machine, continue to deduct depreciation on the machine.

When to stop depreciating

• You stop depreciating property when you have fully recovered your cost or other basis. This happens when your section 179 and allowed or allowable depreciation deductions equal your cost or investment in the property.

• You stop depreciating property when you retire it from service, even if you have not fully recovered its cost or other basis. You retire property from service when you permanently withdraw it from use in a trade or business or from use in the production of income because of any of the following events.
  • You sell or exchange the property.
  • You convert the property to personal use.
  • You abandon the property.
  • You transfer the property to a supplies or scrap account.
  • The property is destroyed.
Supporting Documentation

I got your box of tax documents

Are they in any specific order

Yes

New stuff is on top

Purchasing/Selling Assets

- When purchasing/selling an asset keep the following documentation
  - When and how you acquired the asset
  - Purchase price
  - Cost of any improvements or fees to get it in operational use
  - S179 taken
  - Deductions taken for depreciation
  - Deductions taken for casualty losses
  - When and how you disposed of the asset
  - Selling price
  - Expenses of sale
Depreciation Buckets

MACRS

S179

Bonus

“Basis”

MACRS
Depreciation for Taxes

- **MACRS – Modified Accelerated Cost Recovery System**
  - IRS process of assigning fixed assets to a specific asset class, which has a designated depreciation period associated with it.

- **Two depreciation systems under MACRS:**
  - GDS – General Depreciation System
  - ADS – Alternative Depreciation System

Depreciation Tidbits

- Recovery period for NEW farm equipment and machinery is classified as 5 year property instead of 7 year property
  - Brand new off the lot 2018 tractor = 5 year property
  - Used 2018 tractor = 7 year property

- Farming businesses are no longer required to use the 150% declining balance method for 3-, 5-, 7-, and 10-year property used in a farming business and placed in service in 2018.
# Chart Defining Method

<table>
<thead>
<tr>
<th>System/Method</th>
<th>Type of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDS using 150% DB</td>
<td>All 15- and 20-year property</td>
</tr>
<tr>
<td>GDS using SL</td>
<td>• Nonfarm 3-, 5-, 7-, and 10-year property¹</td>
</tr>
<tr>
<td></td>
<td>• Nonresidential real property</td>
</tr>
<tr>
<td></td>
<td>• Residential rental property</td>
</tr>
<tr>
<td></td>
<td>• Trees or vines bearing fruit or nuts</td>
</tr>
<tr>
<td>ADS using SL</td>
<td>All 3-, 5-, 7-, 10-, 15-, and 20-year property²</td>
</tr>
<tr>
<td></td>
<td>• Property used predominantly outside the United States</td>
</tr>
<tr>
<td></td>
<td>• Farm property used when an election not to apply the uniform capitalization rules is in effect</td>
</tr>
<tr>
<td></td>
<td>• Tax-exempt property</td>
</tr>
<tr>
<td></td>
<td>• Tax-exempt bond-financed property</td>
</tr>
<tr>
<td></td>
<td>• Imported property</td>
</tr>
<tr>
<td>GDS using 200% DB</td>
<td>Any property for which you elect to use this method³</td>
</tr>
<tr>
<td></td>
<td>• Nonfarm 3-, 5-, 7-, and 10-year property</td>
</tr>
</tbody>
</table>

## Table 1.1. Farm Property Recovery Periods

<table>
<thead>
<tr>
<th>Assets</th>
<th>Recovery Period in Years</th>
<th>GDS</th>
<th>ADS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural structures (single purpose)</td>
<td>10</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Automobiles</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Calculators and copiers</td>
<td>5</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Cattle (dairy or breeding)</td>
<td>3</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Communication equipment³</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Computer and peripheral equipment</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Drainage facilities</td>
<td>15</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Farm buildings²</td>
<td>20</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Farm machinery and equipment²</td>
<td>3</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Fences (agriculture)</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Goats and sheep (breeding)</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Grain bin</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Hogs (breeding)</td>
<td>7</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Horse (age when placed in service)</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Breeding and working (12 years or less)</td>
<td>3</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Breeding and working (more than 12 years)</td>
<td>3</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Racing horses (more than 2 years)</td>
<td>3</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Horticultural structures (single purpose)</td>
<td>10</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Logging machinery and equipment⁴</td>
<td>3</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Nonresidential real property</td>
<td>10</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Office furniture, fixtures, and equipment (not calculators, copiers, or typewriters)</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Paved lots</td>
<td>15</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Residential rental property</td>
<td>27.5</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Tractor units (over-the-road)</td>
<td>3</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Trees or vines bearing fruit or nuts</td>
<td>10</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Truck (heavy duty, unladen weight 13,000 lbs. or more)</td>
<td>3</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Truck (actual weight less than 13,000 lbs.)</td>
<td>6</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Water wells</td>
<td>15</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>
Some Difficult Examples

• **House trailers for farm laborers.**
  • To depreciate a house trailer you supply as housing for those who work on your farm, use one of the following recovery periods if the house trailer is mobile (it has wheels and a history of movement).
    • A 7-year recovery period under GDS.
    • A 10-year recovery period under ADS.
  • However, if the house trailer is not mobile (its wheels have been removed and permanent utilities and pipes attached to it), use one of the following recovery periods.
    • A 20-year recovery period under GDS.
    • A 25-year recovery period under ADS.

There's MORE!!!!

• **Which Convention Applies? MACRS Conventions**
  • Under MACRS, averaging conventions establish when the recovery period begins and ends. The convention you use determines the number of months for which you can claim depreciation in the year you place property in service and in the year you dispose of the property. Use one of the following conventions.
    • The half-year convention.
    • The mid-month convention.
    • “only for residential rental properties, railroad, and tunnel boring”
    • The mid-quarter convention.
    • “If put property placed into service the last 3 months > 40% total depreciation base for the entire year”
Calculating by hand

• MACRS Percentage Table in Appendix A of Pub. 946

• OR.... You can use formulas
  • Year 1 = Cost * 1 / useful life * A * depreciation convention
    • A = (100% or 150% or 200%)

  • Subsequent Yrs. = (Cost – Depr. in Prev. years) * 1 / recovery period * A
    • A = (100% or 150% or 200%)

Calculating by hand

• What if we purchased a tractor for $100,000 in May of year 1?
  Year 1 = Cost * 1 / useful life * A * depreciation convention
    • A = (100% or 150% or 200%)
    • Depreciation convention = mid-month or mid-quarter or half-year

    • Year 1 = $100,000 * 1 / 5 * 200% * 0.5
    • Year 1 = $20,000

  Year 2 = Subsequent Yrs. = (Cost – Depr. in Prev. years) * 1 / recovery period * A
    • A = (100% or 150% or 200%)

    • Year 2 = (100,000 – 20,000) * 1 / 5 * 200%
    • Year 2 = $32,000
Calculating by hand

• Special notes:
  1. MACRS declining balance changes to straight-line when that method provides an equal or greater deduction

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation</th>
<th>Calculation</th>
<th>Remaining Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$20,000</td>
<td>100,000<em>1/5</em>2*.5</td>
<td>$80,000</td>
</tr>
<tr>
<td>2</td>
<td>$32,000</td>
<td>80,000<em>1/5</em>2</td>
<td>$48,000</td>
</tr>
<tr>
<td>3</td>
<td>$19,200</td>
<td>48,000<em>1/5</em>2</td>
<td>$28,800</td>
</tr>
<tr>
<td>4</td>
<td>$11,520</td>
<td>28,800<em>1/5</em>2</td>
<td>$11,520</td>
</tr>
<tr>
<td>5</td>
<td>$11,520</td>
<td>See below</td>
<td>$5,760</td>
</tr>
</tbody>
</table>

If we use MARCS DB in year 5 = $6,910
If we use straight line in year 5 = $11,520 = 17,280 * 1 / 1.5

Calculating by hand

• Special notes:
  1. Due to half year convention charged for half year in year 6

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation</th>
<th>Calculation</th>
<th>Remaining Basis</th>
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<td>1</td>
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</tr>
<tr>
<td>4</td>
<td>$11,520</td>
<td>28,800<em>1/5</em>2</td>
<td>$11,520</td>
</tr>
<tr>
<td>5</td>
<td>$11,520</td>
<td>Switched to SL</td>
<td>$5,760</td>
</tr>
<tr>
<td>6</td>
<td>$5,760</td>
<td>11,520 *.5</td>
<td>0</td>
</tr>
</tbody>
</table>
Section 179

Section 179 – Eligible Property

- To qualify for the section 179 expense deduction, your property must be one of the following types of depreciable property.
  - **Tangible personal property.**
    - Other tangible property (except buildings and their structural components) used as:
      - An integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electricity, gas, water, or sewage disposal services;
      - A research facility used in connection with any of the activities in (a) above; or
      - A facility used in connection with any of the activities in (a) for the bulk storage of fungible commodities.
  - **Single purpose agricultural (livestock) or horticultural structures.**
  - Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
  - Qualified real property. (Special rules apply to qualified real property that you elect to treat as qualified section 179 real property. For more information, see chapter 2 of Pub. 946, and section 179(f) of the Internal Revenue Code.)
  - Off-the-shelf computer software that is readily available for purchase by the general public, is subject to a nonexclusive lease, and has not been substantially modified.
Section 179 – Tangible Personal Property

• Tangible personal property is any tangible property that is not real property. It includes the following property.
  • Machinery and equipment.
  • Property contained in or attached to a building (other than structural components), such as milk tanks, automatic feeders, barn cleaners, and office equipment.
  • Gasoline storage tanks and pumps at retail service stations.
  • Livestock, including horses, cattle, hogs, sheep, goats, and mink and other fur-bearing animals.

Section 179 – Agriculture Structure

• A single purpose agricultural (livestock) structure is any building or enclosure specifically designed, constructed, and used for both the following reasons.
  • To house, raise, and feed a particular type of livestock and its produce.
  • To house the equipment, including any replacements, needed to house, raise, or feed the livestock.

• For this purpose, livestock includes poultry.
  • Single purpose structures are qualifying property if used, for example, to breed chickens or hogs, produce milk from dairy cattle, or produce feeder cattle or pigs, broiler chickens, or eggs. The facility must include, as an integral part of the structure or enclosure, equipment necessary to house, raise, and feed the livestock.
Section 179 – Qualified Real Property

- Qualified real property is any qualified improvement property described in section 168(e)(6), and any of the following improvements to nonresidential real property placed in service after the date such property was first placed in service.
  - Roofs.
  - Heating, ventilation, and air conditioning.
  - Fire protection and alarms.
  - Security systems.

Section 179

- Increased section 179 expense deduction dollar limits. The maximum amount you can elect to deduct for most section 179 property you placed in service in 2018 is $1,000,000. This limit is reduced by the amount by which the cost of the property placed in service during the tax year exceeds $2,500,000.
Section 179 – Warning!!!

- You may have to recapture the section 179 expense deduction if, in any year during the property’s recovery period, the percentage of business use drops to 50% or less. In the year the business use drops to 50% or less, you include the recapture amount as ordinary income. You also increase the basis of the property by the recapture amount. Recovery periods for property are discussed later.

Bonus Depreciation
Bonus Depreciation

• Bonus Depreciation allows a business to take an immediate first-year deduction on the purchases of eligible business property, in addition to other depreciation.

• 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

• 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
Like Kind Exchange

- A 1031 exchange is a transaction or series of transactions that allows for the disposal of an asset and the acquisition of another replacement asset without generating a current tax liability from the sale of the first asset.
Like Kind Exchange

• Can I exchange farm land for an apartment complex?

YES!

Like Kind Exchange

• Can I exchange a tractor for a tractor?

NO
Like Kind Exchange

- **Like-kind exchanges.** For exchanges completed after December 31, 2017, the nonrecognition rules for like-kind exchanges apply only to exchanges of real property not held primarily for sale. The nonrecognition rules no longer apply to personal property. Exceptions apply to property disposed of before January 1, 2018, and to property received in an exchange before January 1, 2018.

Like Kind Exchange

- Like Kind Exchange treatment is not available for Personal Property, “tractors, combines, breeding bulls, ....”
  - Must recognize the gain on sale
  - Depreciate the full purchase price

<table>
<thead>
<tr>
<th>Old Way</th>
<th>New Way</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000 Dealer trade in allowance</td>
<td>$20,000 Dealer trade in allowance</td>
</tr>
<tr>
<td>- 5,000 Old tractor basis</td>
<td>- 5,000 Old tractor basis</td>
</tr>
<tr>
<td>$15,000 Gain IGNORED using Like Kind Exchange</td>
<td>$15,000 Gain RECOGNIZED on tax return</td>
</tr>
<tr>
<td>$100,000 Cash Paid for new tractor</td>
<td>$100,000 Cash Paid for new tractor</td>
</tr>
<tr>
<td>+ 5,000 Old tractor basis</td>
<td>+ 20,000 Dealer trade in allowance</td>
</tr>
<tr>
<td>$105,000 Basis of new tractor available for depreciation</td>
<td>$120,000 Basis of new tractor available for depreciation</td>
</tr>
</tbody>
</table>
Like Kind Exchange

• Consequences on Nebraska Personal Property Tax?

Nebraska Department of Revenue

Trade-In Prior to 2018

The Nebraska adjusted basis is the cash paid (boot), plus any remaining federal adjusted basis in the personal property being traded.

Example 5. A property owner owns a piece of equipment with a remaining federal adjusted basis of $5,000. He pays $30,000 plus trade-in for a new piece of equipment. The Nebraska adjusted basis for the new item is $35,000 ($5,000 remaining federal adjusted basis on old item + $30,000 cash paid (boot)).

Example 6. A property owner owns a piece of equipment with a remaining federal adjusted basis of zero. He pays $30,000 plus trade-in for a new piece of equipment. The Nebraska adjusted basis for the new item is $30,000 [$0, the remaining federal adjusted basis on old item + $30,000, the cash paid (boot)].

Trade-In (change per Neb. Law 2018 LB 1089)

For property purchased after January 1, 2018 and before January 1, 2020, if there is an election to expense the new piece of equipment under Section 179 of the Internal Revenue Code and the old piece of equipment is traded in as part of the payment, the Nebraska adjusted basis is the cash paid (boot), plus the remaining Nebraska net book value of the old piece of equipment.

Example 7. A property owner owns a piece of equipment that was originally expensed under Section 179 which shows a remaining federal basis of zero. The piece of equipment has a remaining Nebraska net book value of $70,000 in the year it was traded. He pays $30,000 plus trade-in for a new piece of equipment. The Nebraska adjusted basis for the new item is $100,000 ($70,000 remaining Nebraska net book value + $30,000 cash paid (boot)).

Prior to this change, the Nebraska adjusted basis was the cash paid (boot), plus any remaining federal adjusted basis in the personal property being traded.
De Minimis Safe Harbor

- The de minimis safe harbor election allows for the immediate expense of purchases of $2,500 or less on a per invoice or item basis (as substantiated by invoice).
  - So instead of being depreciated, possibly using up some of your S179, and needing to be tracked from year to year you can expense the item as supplies.

$1,985.99

The 4 Hard Truths of Agricultural Expansion And Taxes
Truth #1

- Land is Expensive!

160 acre dryland farm in Southeast Nebraska
Brought $14,833 an acre on 12-10-2018.

Truth #2

- Land is not depreciable!

  - There is no guideline or regulation that allows for the purchase price of land to be expensed on the tax return.
Truth #3

• **Buying ground therefore means paying taxes**

• If you are in the 24% tax bracket

\[
\begin{align*}
\text{\$1 earned} & \quad \text{\$0.24 tax} \quad \text{\$0.76 Saved for Purchase of Farm Ground}
\end{align*}
\]

Truth #4

• **Tax minimization can be counter productive to Agricultural Expansion**
What Depreciation Tax Planning Does

Tax Planning “Oversimplified”

• You are currently in a farm operation that files married filing jointly. In May of the tax year we purchased a tractor for $78,000, and took standard depreciation. Taxable Income for the year currently is $189,000.

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>MFJ Taxable Income</th>
<th>Calculation</th>
<th>Tax Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $19,050</td>
<td>10% of taxable income</td>
<td></td>
</tr>
<tr>
<td>12%</td>
<td>$19,051 - $77,400</td>
<td>$1,905 plus 12% of amount over $19,050</td>
<td></td>
</tr>
<tr>
<td>22%</td>
<td>$77,401 - $165,000</td>
<td>$8,907 plus 22% of amount over $77,400</td>
<td></td>
</tr>
<tr>
<td>24%</td>
<td>$165,001 - $315,000</td>
<td>$28,179 plus 24% of amount over $165,000</td>
<td>$33,939</td>
</tr>
</tbody>
</table>
Tax Planning “Oversimplified”

- What if we took $24,000 of Section 179 on the tractor? That would, in our simplified example, bring taxable income to $165,000.

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>MFJ Taxable Income</th>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $19,050</td>
<td>10% of taxable income</td>
<td></td>
</tr>
<tr>
<td>12%</td>
<td>$19,051 – $77,400</td>
<td>$1,905 plus 12% of amount over $19,050</td>
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</tr>
</tbody>
</table>

- By using S179 we were able to obtain a lower tax bracket, and maximize at the 22%.

Commonly Asked Tax Questions
Common Questions

Can I deduct work clothes?

• The IRS guidelines specify that they must be required as part of your employment and are not suitable for everyday wear.

This

Not This

Common Questions

I purchased some land. Is none of that purchase deductible?

• Land does not depreciate, but fertilizer does. Talk with your accountant and a soil scientist or agronomist to work on putting a value on what the value of the fertilizer is. It is called cost segregation, but is not strictly defined in the tax code as applicable in these transactions.
Common Questions

**Can I deduct my dogs food and vet costs?**

- You can’t deduct the dog itself, but the cost of caring for the dog is possible. If your dog is responsible for protecting farm assets, “keep the coyotes away from the livestock,” then you can deduct a percentage based on the time your dog spends on guard duty.

Common Questions

**Does it matter if I sell my tractor to my relative?**

- Yes there are tax implications for equipment sales and leases made between related parties
  - Members of your immediate family include your spouse, kids, parents, brothers, sisters, half-brothers, half-sisters, ancestors, and lineal descendants
  - Also includes S-Corporations if 80% or more is directly or indirectly owned by above bullet

- Example tax implication: A tractor purchased from your brother does not qualify for Section 179 depreciation
Common Questions

Do I have to depreciate out the laptop I purchased for farm use?

• Talk with your Accountant to insure each year you are electing the De Minimis Safe Harbor election
  • Asset purchases under $2,500 are immediately expensed
  • Figured on a per invoice or item basis (as substantiated by invoice)

Common Questions

Do I need to make estimated tax payments as a farmer?

• Farmers have until March 1 to file their Form 1040 and pay the tax due to avoid making estimated tax payments.
• This rule generally applies if farming income was at least two-thirds of the total gross income in either the current or the preceding tax year.
Common Questions

**Can I deduct the value of a raised animal that died?**

• No. Think through what your basis “money invested” is in a raised animal. You do not have any money in purchasing the animal. You do have costs of feed, vet, and some supplies, but, those are all items you have already expensed for on the Schedule F.

Common Questions

**Can I deduct client meals?**

• Can take 50% of meals to current or potential clients
  • Taxpayer or employee must be present at the meal
  • Expense is not lavish or extravagant under the circumstances
  • Must be an ordinary and necessary business expense under Sec. 162(a)
  • Food and beverage expenses must be separate receipts from that of entertainment
    • Baseball game ticket receipt “can’t use” and receipt for food from vendor stand “use 50%”
    • All inclusive baseball ticket that includes meal and drinks receipt “can’t use”
Common Questions

Can I deduct employee meals?

- Meals provided to an employee for the convenience of the employer on the employer’s business premises are 50% deductible by the employer and remain 100% tax-free to the recipient employee.

Using De Minimis Safe Harbor Election from earlier you could take a deduction for any meal you provide to an employee if it has so little value that accounting for it would be unreasonable or impracticable.

- Possible Example: coffee and doughnuts