



# Farm Fall Tax Update 2024

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Executive Director

 **Nebraska Farm Business, Inc.**  
Yielding Success Through Financial Management

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graph TD; Center((Goal: To Help Educate Farmers & Ranchers with Record Keeping and Management Through Financial Analysis.)); Center --- Ring(( )); Ring --- FA((Financial Analysis)); Ring --- TP((Tax Planning)); Ring --- Acc((Accounting)); Ring --- TM((Tax Mangmnt)); Ring --- Payroll((Payroll)); Ring --- CFP((Cash Flow Planning)); Ring --- BP((Business Planning)); BP --- FA;
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## Agenda


- New Tax Laws
- Expiring Tax Laws
- Crop and Livestock Disaster Provisions
- General Tax Planning Strategies

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## Property Tax Credit Elimination




LB 34 was passed Sept. 2024

It eliminated the K-12 tax credit program

- Effective immediately so no credit for taxes paid in 2024 (usually 2023's taxes)

Made the property tax credit automatic and upfront

- Will be in effect for 2024 taxes (paid in 2025)

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## Property Tax Credit Elimination

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- In 2022, a second credit was added to refund a portion of the Community College tax collected.
  - This remains and has been moved to a 100% credit
  - To claim, we still have to file a Nebraska Form PTC

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## Estimated Tax Implications

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- Many taxpayers have been using the property tax credit to reduce their estimated tax payments
  - NDOR has already updated form 2210N and 2220N to allow the credit received on the 2023 return to be used to calculate the penalties for 2024
  - BUT....be prepared to write a big check at tax time.
- This includes payment for the PTET by partnership and S-corps

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## Pass Through Entity Tax Election

New in 2023 for Nebraska (other states implemented earlier)

Work around the SALT Limitation (State and Local Tax Deduction on Itemized deductions)

Allows S-Corps and Partnerships to pay the state income tax for its owners and claim as a federal tax deduction.



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## Pass Through Entity Tax Election

- The entity gets a federal tax deduction in the year the tax is paid.
- A refundable state tax credit will be reported on the K-1 to the owners for their share of the tax paid.
- Out of state owners whose only NE income is from an electing entity no longer needs to file a NE return.
- Starting in 2024, estimated tax penalties will be assessed for any entity not making quarterly tax estimates.
  - Even qualified farm operations will have to make estimated tax payments.

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## Retroactive Decision

- NE & CO are only states to allows a retroactive election back to 2018.
- Must be made by December 31<sup>st</sup>, 2025
- Can be made multiple times (i.e. 2018-2020 and then 2021-2022)
- Most entities will need to file a 2018 Nebraska state return (was no required if all owners lived in Nebraska)
- Could create a cash flow "crunch".

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## PTET Election Example

- Each year is a separate election (but 2018-2022 can be filed together)
- Savings will depend on your federal income tax bracket.
- No savings will be seen on your state tax return.

	NE Income	Tax Owed	Federal Savings @ 22%
2018	\$100,000	\$6,840	\$1,504.80
2019	\$150,000	\$10,260	\$2,257.20
2020	\$50,000	\$3,420	\$752.40
2021	\$300,000	\$20,520	\$4,514.40
2022	\$250,000	\$17,100	\$3,762.00
2023	\$200,000	\$13,280	\$2,921.60
2024*	????	\$13,280	\$2,921.60
		\$84,700	\$18,634

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NE Tax Rate Changes

	2024 \$'s	2023	2024	2025	2026	2027
Bracket 1	\$7,790	2.46%	2.46%	2.46%	2.46%	2.46%
Bracket 2	\$46,760	3.51%	3.51%	3.51%	3.51%	3.51%
Bracket 3	\$75,340	5.01%	5.01%	5.01%	4.55%	3.99%
Bracket 4		6.64%	5.84%	5.20%	N/A	N/A

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Tax Cuts  
and Jobs  
Act Sunsets  
on Horizon



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## Historical Tax Rates

Married Filing Jointly			
1981	0.0%	>	\$0
	14.0%	>	\$3,400
	16.0%	>	\$5,500
	18.0%	>	\$7,600
	21.0%	>	\$11,900
	24.0%	>	\$16,000
	28.0%	>	\$20,200
	32.0%	>	\$24,600
	37.0%	>	\$29,900
	43.0%	>	\$35,200
	49.0%	>	\$45,800
	54.0%	>	\$60,000
	59.0%	>	\$85,600
	64.0%	>	\$109,400
	68.0%	>	\$162,400
	70.0%	>	\$215,400

\* \$745,952 Indexed to 2024

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Married Filing Jointly			
1986	0.0%	>	\$0
	11.0%	>	\$3,670
	12.0%	>	\$5,940
	14.0%	>	\$8,200
	16.0%	>	\$12,840
	18.0%	>	\$17,270
	22.0%	>	\$21,800
	25.0%	>	\$26,550
	28.0%	>	\$32,270
	33.0%	>	\$37,980
	38.0%	>	\$49,420
	42.0%	>	\$64,750
	45.0%	>	\$92,370
	49.0%	>	\$118,050
	50.0%	>	\$175,250

\* \$503,358 Indexed to 2024

Married Filing Jointly			
2017	10.0%	>	\$0
	15.0%	>	\$18,650
	25.0%	>	\$75,900
	28.0%	>	\$153,100
	33.0%	>	\$233,350
	35.0%	>	\$416,700
	39.6%	>	\$470,700

\* \$604,498 Indexed to 2024

Married Filing Jointly			
2024 *	10%	>	\$0
	15%	>	\$23,951
	25%	>	\$97,475
	28%	>	\$196,619
	33%	>	\$299,680
	35%	>	\$535,148
	39.6%	>	\$604,498

\* Indexed to 2024 \$'s

\* 2017 Brackets Indexed to 2024

Married Filing Jointly			
2024	10.0%	>	\$0
	12.0%	>	\$23,200
	22.0%	>	\$94,300
	24.0%	>	\$201,050
	32.0%	>	\$383,900
	35.0%	>	\$487,450
	37.0%	>	\$731,200

\* Actual Tax Rates in 2024

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## 199a – Qualified Business Income Deduction



20% of Qualified Income is excluded from taxable



Included in law through 2025 (sunsets without action)



Incomes over the threshold (Approx \$383,900 MFJ) limited to:

50% of wages or

25% of wages + 2.5% UBIA (Investment in assets in the past 10 years "ish")

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## Income Comparison

- \*Assumes 2017 income amounts which will be indexed for inflation in 2026.
- \*\* Income tax calculated only – SE tax may be additional.

	2017/2026	2024
Farm Income	\$100,000	\$100,000
QBI	\$0	\$-20,000
Standard Deduction	\$12,500	\$29,200
Personal Exemptions	\$4,000	\$0
Taxable Income	\$83,500	\$50,800
Tax Due	\$11,327	\$5,632

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## Other Expiring Tax Laws

- Federal Estate Tax Exclusion – Currently at \$13.61 million in 2024 (will drop in 1/2 in 2026)
  - \$13.99 million in 2025
- Standard Deduction
- Personal Exemptions will come back
- Child Tax Credit will drop

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## Section 179 & Bonus Depreciation

- Section 179 enhanced limits were permanent & are indexing for inflation
  - \$1,220,000 expense limit for 2024
  - \$3,050,000 purchase limit for 2024
- Bonus depreciation
  - 60% - 2024
  - 40% - 2025
  - 20% - 2026
  - 0% - 2027

## Equipment Trading Trap

	2024	2025	2026	2027	2028	2029
Bonus	60%	40%	20%	0%	0%	0%
Purchase Price	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Trade Value	\$ 5,400,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000
Trade Difference	\$ 1,600,000	\$ 385,000	\$ 385,000	\$ 385,000	\$ 385,000	\$ 385,000
Selling Price	\$ 5,400,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000	\$ 6,615,000
Basis	\$ -	\$ 2,240,000	\$ 3,360,000	\$ 4,480,000	\$ 5,600,000	\$ 5,600,000
Gain	\$ 5,400,000	\$ 4,375,000	\$ 3,255,000	\$ 2,135,000	\$ 1,015,000	\$ 1,015,000
Depreciable Basis	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Bonus	\$ 4,200,000	\$ 2,800,000	\$ 1,400,000	\$ -	\$ -	\$ -
Regular	\$ 560,000	\$ 840,000	\$ 1,120,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Total Depreciation	\$ 4,760,000	\$ 3,640,000	\$ 2,520,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Gain over Depr	\$ 640,000	\$ 735,000	\$ 735,000	\$ 735,000	\$ (385,000)	\$ (385,000)
Remaining Value	\$ 2,240,000	\$ 3,360,000	\$ 4,480,000	\$ 5,600,000	\$ 5,600,000	\$ 5,600,000

## Leases

- A lease is defined by a fair market value buyout at the end of the time.
  - Not \$1 or final payment Buyout
  - No Interest Rate Tied to Agreement
- Many leases today do not meet IRS's definition of a true lease.
  - Means a purchase/lending arrangement has been made & must be depreciated.

## Prepaid Expenses



## Prepaid Expenses

Can only prepay 50% of your “usual” business expenses.

Must be an actual purchase

- Specific quantities @ a specific price

Must have a management reason for the prepay

- Reason can't be tax avoidance
- Discounts, guarantee supply, lock in low price

Cannot be dealer financed (need to be a separate financing company)

Consider interest cost in prepay as interest rates rise.

## Interest Carry Costs

	1.5%	5%	10%
2 Months	\$250	\$833	\$1,666
4 Months	\$500	\$1,666	\$3,333
6 Months	\$750	\$2,500	\$5,000
12 Months	\$1,500	\$5,000	\$10,000
*Costs to carry \$100,000			



## Crop Insurance Deferral Rules

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### Crop Insurance Deferrals

- Must be cash basis taxpayer
- Must *USUALLY* sell more than 50% of affected crops in the year following production
- Crop insurance must be paid due to destruction of crops
 

	<u>Corn</u>	<u>Soybeans</u>
• Spring Price:	\$4.66	\$11.55
• Fall Price:	\$?	\$?

  - Losses will include a prices loss portion of the payment.
- No need for county disaster declaration
- All or none election



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## Livestock Deferral Rules

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### Livestock Deferral Elections

- Two Options
  - One-Year-Deferral for all livestock.
  - Four-Year-Deferral for Draft, Dairy & Breeding Livestock
- Must be cash basis taxpayer
- Farming must be your primary business
- May need a county disaster declaration.

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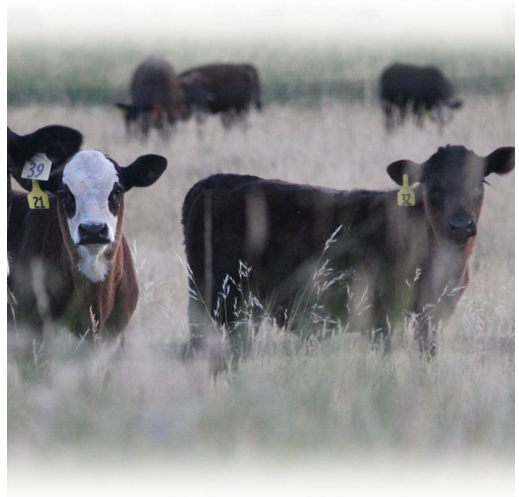
## Livestock Deferral Elections

### One-Year-Deferral

- IRC §451(e)
- Allows deferral of “excess” livestock (feeding or breeding) to be deferred to the following tax year.
- Must prove the sale was caused by drought, but don’t need a Federal Disaster Declaration.
  - Any Federal Assistance (Emergency roadside haying, CRP release, etc)

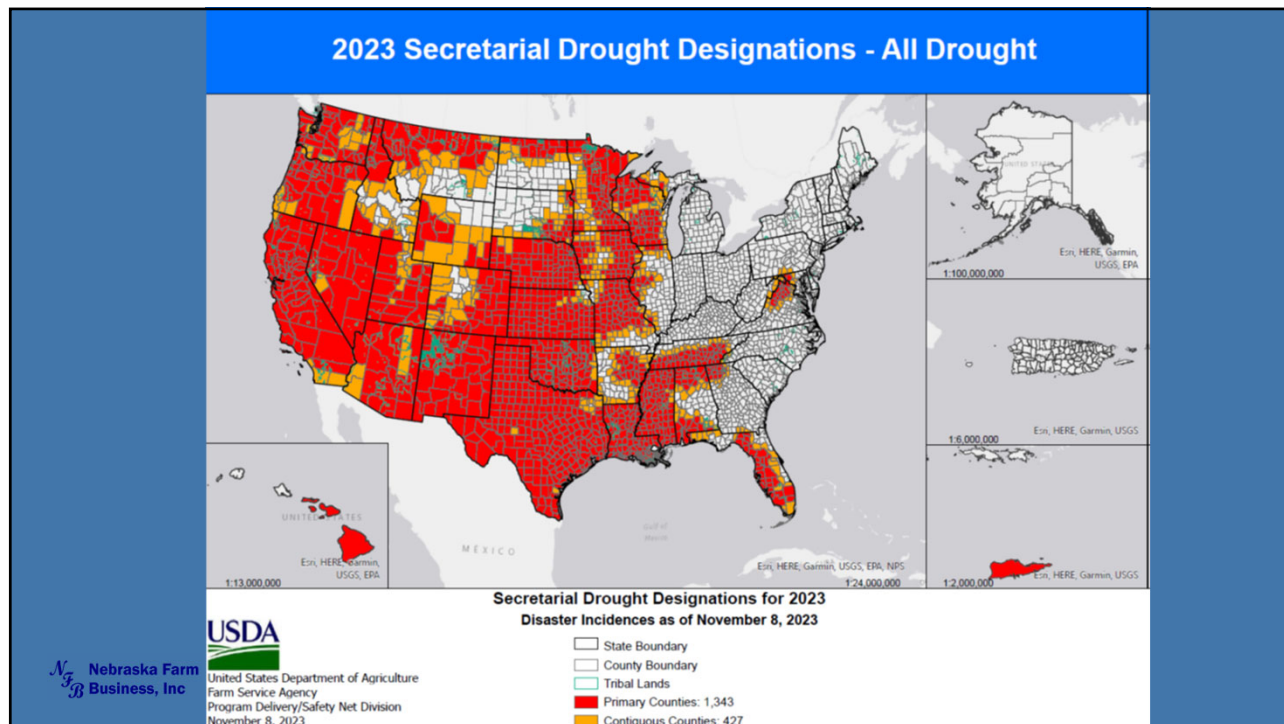
### Four-Year-Deferral

- IRC § 1033(e)
- Two years with no Federal Disaster Declaration
  - Four years needs declaration
- Gain on sale reduces the purchase price of the replacement animals.
- If after four years of drought it is not feasible to replace animals, you can reinvest in non like-kind property. (i.e. – Tractor, building, etc – Not Land)

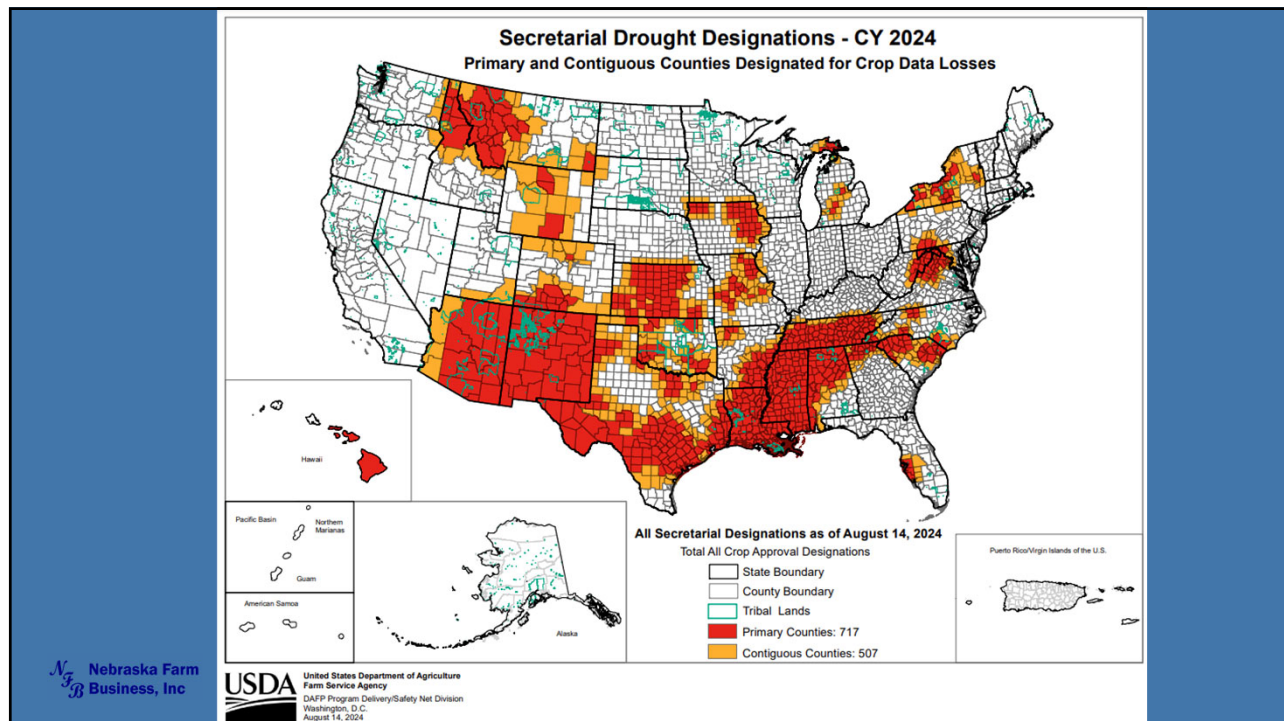


## Livestock Deferral Elections

- Four-Year-Deferral
  - IRS automatically extends replacement period for taxpayers in extreme, exceptional, or severe drought based on maps by National Drought Mitigation Center
  - Extended replacement period continues until taxpayer’s first tax year ending after first drought-free year (first 12 month period ending on August 31<sup>st</sup>)
  - It counts your county and those surrounding yours.



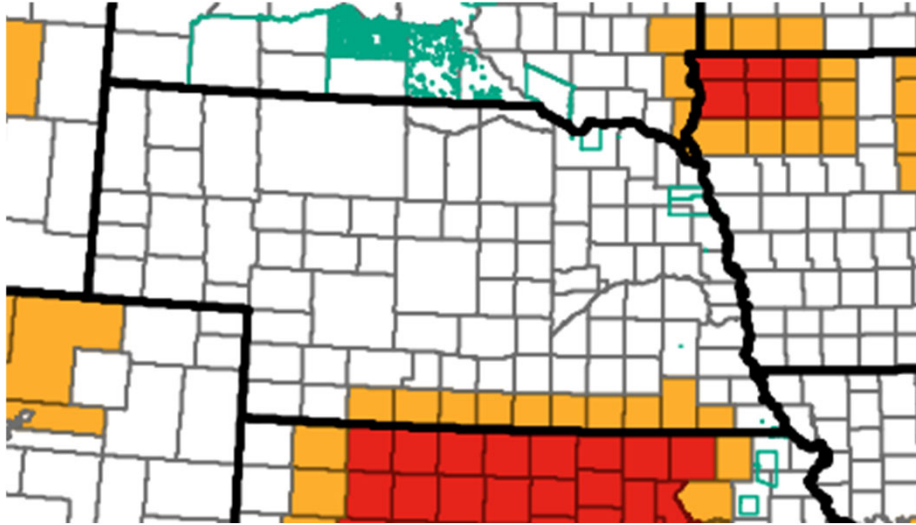
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## 0 Counties – Primary – 10 Contiguous



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## Livestock Deferral Elections

- One-Year-Deferral
  - Must make separate election for each classification of animals (hogs, sheep, cattle)
  - Due date of election:
    - Market--due date of return including extensions
    - Draft, Dairy, or Breeding--any time in 2 (or 4 or longer) year replacement period

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## Other Things to Consider

- Just because there is option to defer does not mean you have to or that it will always be the best option.
  - You may be deferring an income item subject to a low tax rate
    - Raised Breeding Livestock
    - Low Farm Income
  - The deferred gain reduces the basis of the replacement cows which lowers future depreciation that may reduce both income and Self-Employment taxes.

## Raised Breeding Livestock

### Recognize Income

- \$21,000 Gain
  - Raised Breeding Livestock Sales are Taxed as Capital Gains.
- If you are in the 10% or 12% bracket, capital gains are taxed at 0% in 2022:
  - Federal Tax Due = \$0
- In 2024, a deduction for \$22,500 is allowed:
  - Federal Tax Savings = \$6,142

### Defer Income

- \$21,000 Gain
- No income is recognized in 2022.
- In 2024, a deduction for \$1,500 is allowed:
  - Federal Tax Savings = \$410



## Purchased Breeding Livestock

### Recognize Income

- \$7,000 Gain
  - Purchased Breeding Livestock Sales are Taxed as Ordinary Income.
- If you are in the 12% bracket, in 2022:
  - Federal Tax Due = \$840
- In 2024, a deduction for \$22,500 is allowed:
  - Federal Tax Savings = \$6,142
- Net Savings: \$5,302

### Defer Income

- \$7,000 Gain
- No income is recognized in 2022.
- In 2024, a deduction for \$15,500 is allowed:
  - Federal Tax Savings = \$4,232



## Other Things to Consider

- Rather than deferral, consider handling extra income by other means:
  - Prepay expenses to offset income (handle prepaid expenses correctly)
  - Income averaging (will not affect SE tax)
    - Depends on each situation but could absorb a lot of tax.
  - Also consider that future tax rates are not likely to be lower than today's.



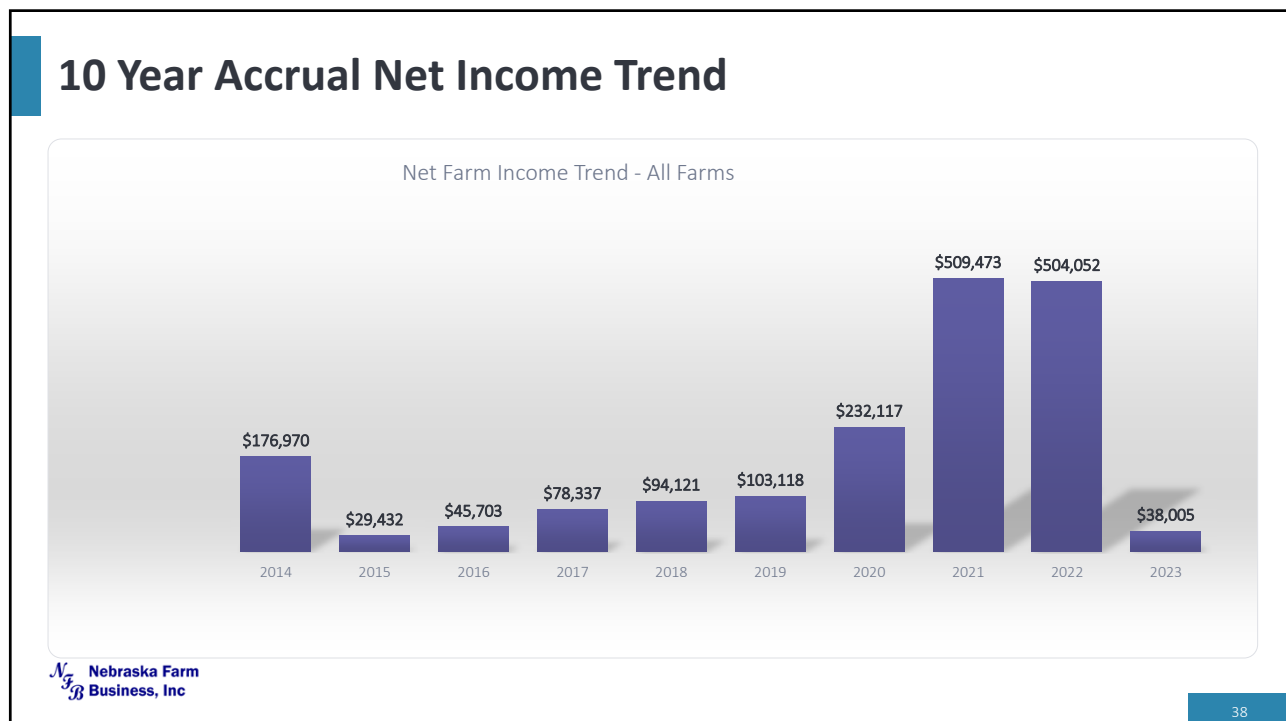
# General Tax Planning





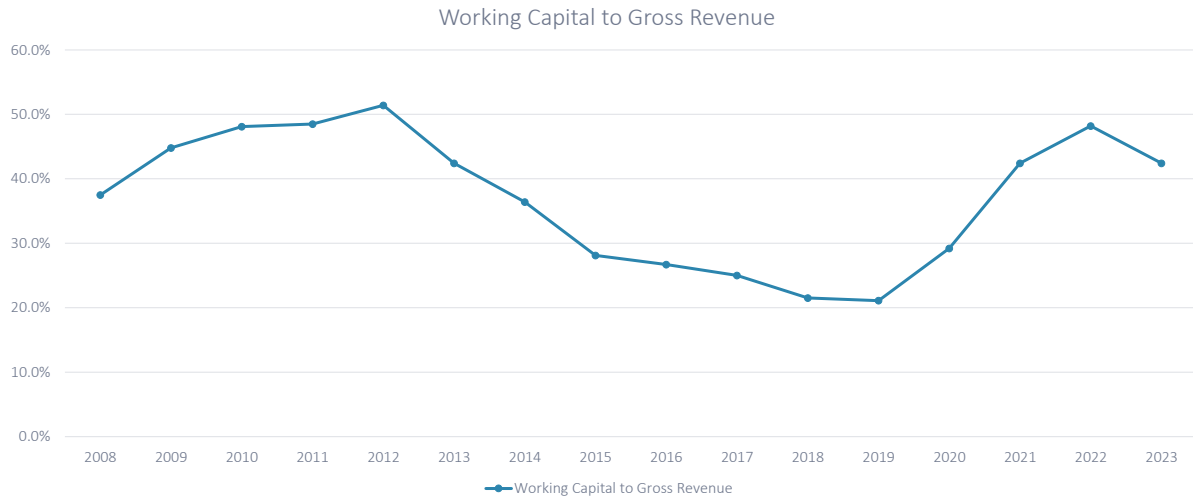

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## Conserve Liquidity



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## Paying Taxes Conserves Liquidity



- If you recognize \$100,000 of income, you'll pay about \$20,000 in tax.
- You'll have \$80,000 of cash available to reduce debt.
- At 7% interest, that will save \$5,600 of interest cost in a year.
  - Flip it and invest it at 4% and make \$3,200 in a year.

- If you buy something you don't need or even kinda need...
- You'll spend \$100,000 and save \$20,000 of tax.
- Cash flow is reduced by \$100,000 to borrowing plus at 7% Interest, costs additional \$7,000
  - Or you lost the ability to invest the money.



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## Financing Purchases Caution

- Using enhanced depreciation on financed assets separates the deduction and payment
- If you take the entire deduction up front, you have to generate taxable income to make the payments in the future.

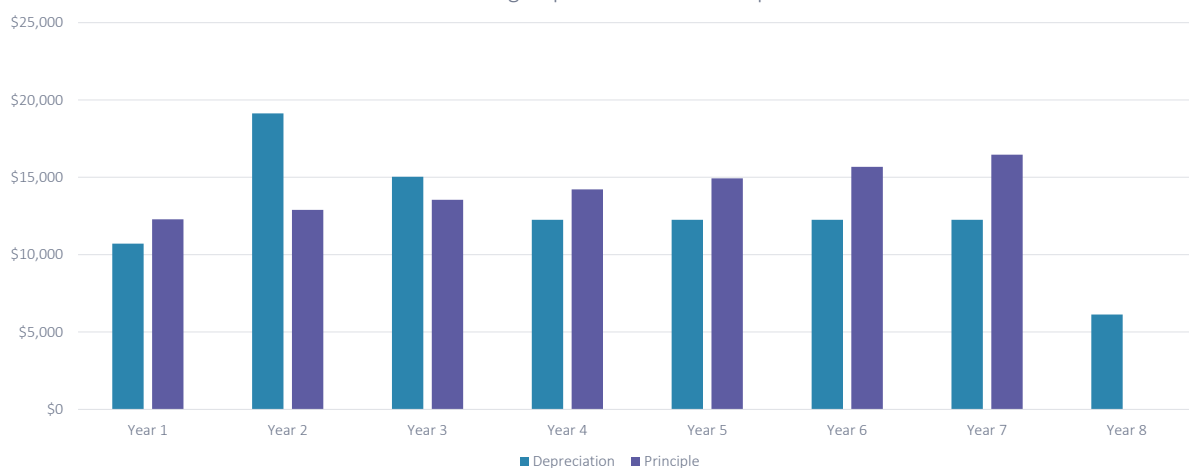


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## Financing Purchases Caution

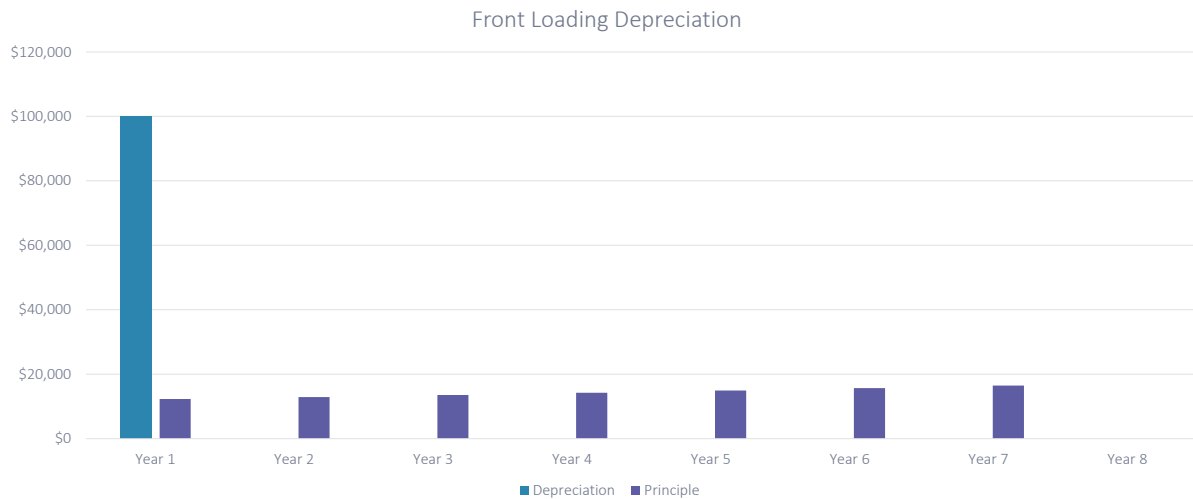
Matching Depreciation and Principle



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## Financing Purchases Caution



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## Financing Purchases Caution

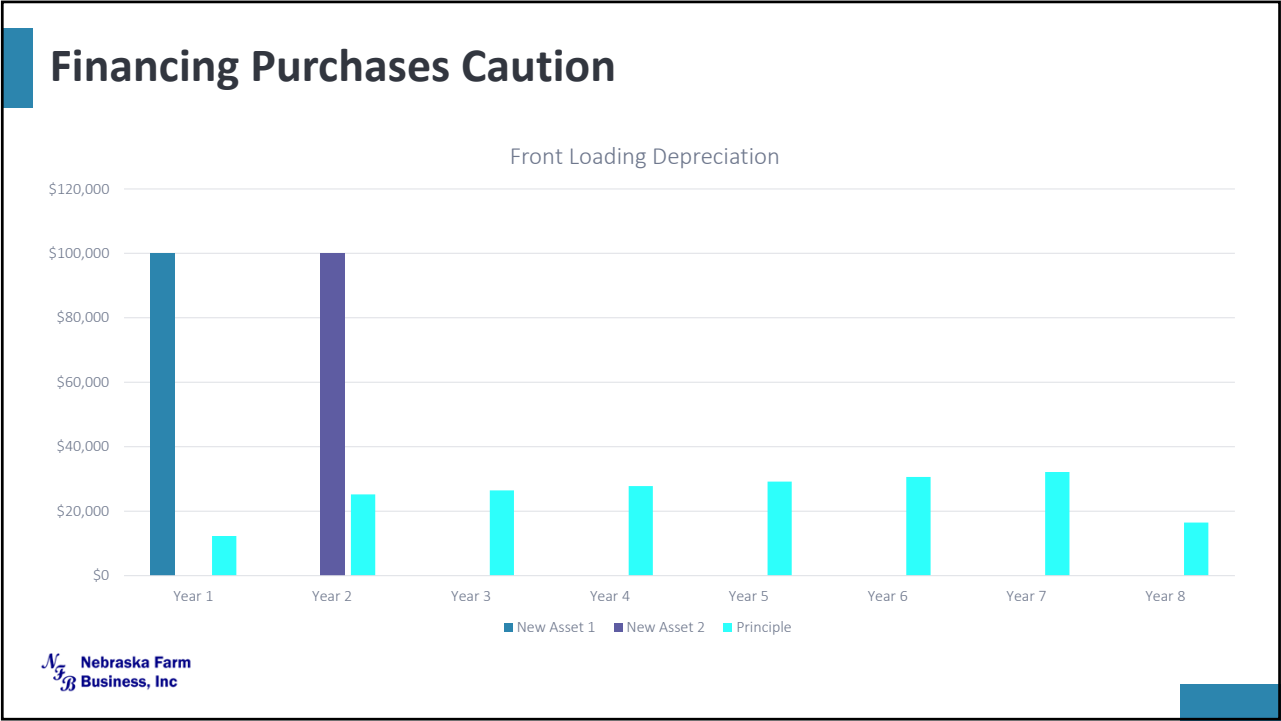
- In each of the following years, you must generate \$25,000- \$30,000 additional taxable income to make the principle payment and pay the additional taxes.

\$25,000 Taxable Income  
- \$7,500 in taxes  
 \$17,500 available for principle

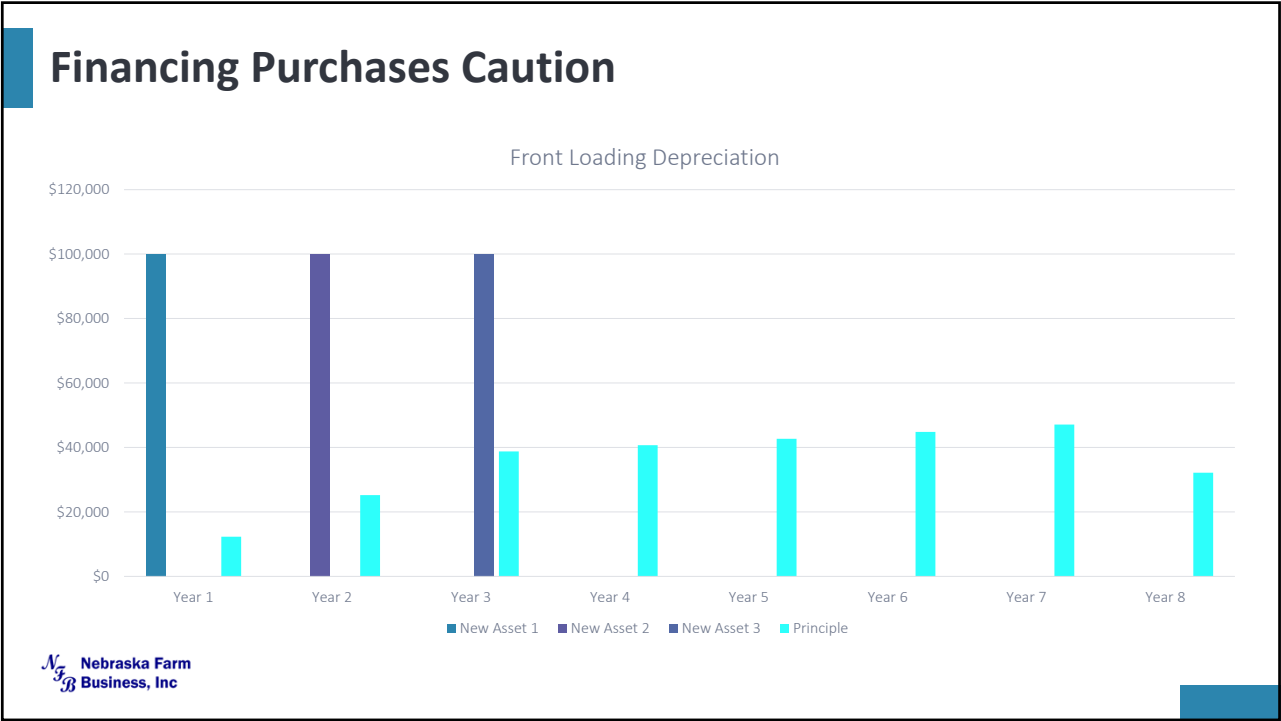
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## Prepaid Snowball

	Year 1	Year 2	Year 3	Year 4
Gross Income	\$500,000	\$500,000	\$500,000	\$500,000
Gross Expenses	\$400,000	\$350,000	\$300,000	\$250,000
Prepaid Expenses	\$50,000	\$100,000	\$150,000	\$200,000
Net Income	\$50,000	\$50,000	\$50,000	\$50,000

## Gifting Grain

- Grain delivered to the elevator in the charity's name can be excluded from income.
  - It reduces Self-Employment Taxes
  - Allows charitable donations without filing Schedule A.



## Donor Advised Fund

- A charitable investment account that allows donors to contribute assets and recommend where the money goes.
- Example:
  - You Contribute \$100,000 of cash to a DAF.
    - You get a charitable donation today and itemize this year and then go back to the standard deduction in future years.
    - You can spread that over as many charities and years as you want.
      - Doesn't work great for small donations
  - Active farmers can also contribute grain to avoid Sch A.

## Paying Spouses

Benefits to Paying Spouses:

Turn Health Insurance Deduction into a Farm Expense

Reduce SE Taxes

Can Create A Farm Expense for Other Medical Costs

Reduces SE Tax & Income Taxes

\*Be careful if you're getting Premium Tax Credit – You can't be offered insurance from an employer and be eligible for the credit.

Income Level	Below SE Limit	SE Limit - \$250,000	Above \$250,000
Health Insurance	\$10,000	\$10,000	\$10,000
Tax Savings	\$1,530	\$290	\$380

## Paying Spouses


- Benefits to Paying Spouses:
  - Build Social Security History for a Spouse not employed off the farm
    - Qualifies for Disability and Survivor Benefits
  - Schedule F can only be in 1 name
    - One SE limit
    - Build one SS account higher to qualify for higher retirement benefits
      - Spouse receives 100% of own or ½ of spouse's retirement benefits
  - Caution: If divorce occurs, spouse can be left with little retirement benefits. Rules are complicated but it can be disallowed

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## Paying Children

- Benefits to Paying Children:
  - Reduce SE Tax
    - Sole-proprietor's children, under 18, can earn wages without paying employment taxes
  - Reduces farm income, reducing both income and social security tax
    - Children have own standard deduction (parents still claim exemption)
    - Possibly in a lower tax bracket – watch “Kiddie Tax”
  - Create Earned Income to Qualify for Roth IRA
    - IRA's are not looked at for FAFSA (Federal Student Aid)

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## COMMODITY WAGES

- Allows wages to be paid in commodity rather than cash.
- Saves employment taxes
- Must be paid **CORRECTLY**

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