

Bringing Clarity to Tax Changes in Agriculture



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Tax Planning 2021

Federal Income Tax Rates

Highest
Marginal Tax Rate

70% in 1978

37% in 2021

- Reduced to 29.6% if business income via QBID
- 19.2% highest rate up to about \$350,000 income

Tax Paid by
Average FBFM farm

\$ 3,800 in 1984

\$24,000 in 2020

Tax Planning 2021

Depreciation Provisions

100% bonus depreciation through 2022

All farm assets including machine sheds (new & used)

\$1,050,000 Maximum Sec 179 deduction

\$2,620,000 Maximum Sec 179 purchase limit

Most farm assets (new & used)

Related party acquisitions do not qualify

Must be placed in service "in a state of readiness for its intended use"

Tax Planning 2021

Illinois Depreciation Changes

For tax years ending on or after 12/31/2021

NO BONUS ALLOWED for Illinois tax

Bonus depreciation lowers federal tax, not Illinois tax

In later years, gains on sales or trades will result in different taxable amounts for federal and Illinois



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Tax Planning 2021

Year End Strategies

- Maintain higher taxable income
If you think rates may increase & 2021 rates good buy
- Consider increased retirement plan contributions
IRA, SIMPLE, Solo 401k, Cash balance plans
- Establish deferred payment contracts
Creates flexibility to move income from 2022 to 2021
- Likely much higher costs for prepay inputs



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Tax Planning 2021

Treatment of Selected Stimulus Funds

Not Taxable

- Economic Income Payments
- Advance Child Tax Credit
- PPP forgiveness amount

Taxable

- Employee Retention Credit
- Paid Sick and Family Leave (FFCRA)
- FSA Program Payments

Policy Background: Tax & Spending Package

“Build Back Better” Bill

- Massive tax **AND** spending package
- \$3.5 trillion price tag
more likely will end up \$1.5 to \$2.5 trillion
- Pass through reconciliation process?

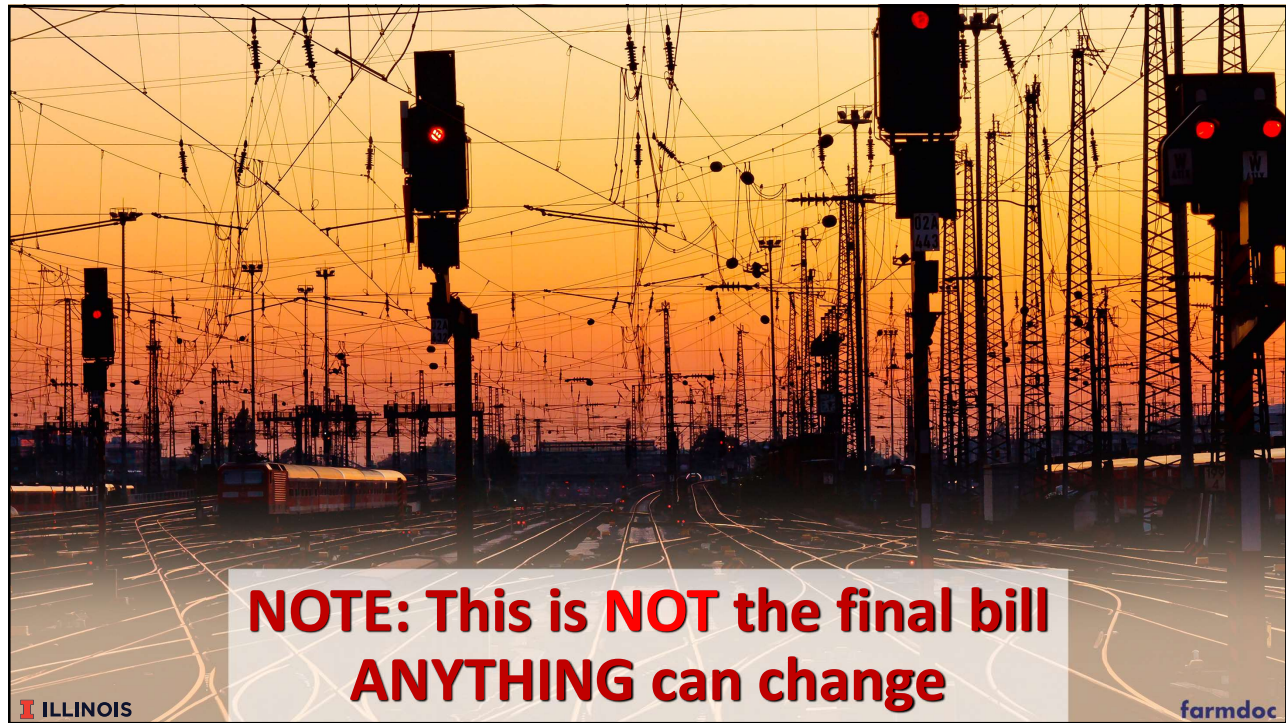
Policy Background: Federal Tax Changes **American Families Plan**

Big Concerns for Farmers

- Elimination of automatic step-up in basis →
Possible new “**transfer tax**”
= paying to get a step-up in basis
- Limitations on 1031 like-kind exchanges

Policy Background: Federal Tax Changes **House Ways & Means Committee Details**

- Does not include new “transfer tax”
or change 1031 exchanges
- Does include changes to tax code
that will impact farmers



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House Draft: 5 Proposed Tax Changes

1. Ordinary Income Top Tax Bracket

Increase tax rate for top tax bracket

from 37% to 39.6%

- Same as prior to 2017 Tax Cuts & Jobs Act

Lower starting point for the top tax bracket
to begin at lower levels than current

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House Draft: 5 Proposed Tax Changes

2. Long-Term Capital Gains Tax Rate

- Increase highest tax rate from 20% to 25%
 - Higher than prior to 2017 Tax Cuts & Jobs Act
- American Families Plan would have taxed long-term capital gains at same rate as ordinary income
- Proposed effective 9/13/21

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House Draft: 5 Proposed Tax Changes

3. Corporate Tax Rates

- Transition from 21% flat rate to progressive rate
2017 Tax Cuts & Jobs Act transitioned
from 15%-39% tiered scale to 21% flat rate
- First \$400K at 18%
up to \$5M at 21%
above \$5M at 26.5%
- With graduated scale corporations with incomes up to
about \$5.2M would owe lower tax with 21% flat rate

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House Draft: 5 Proposed Tax Changes

4. Estate Taxes Proposed Changes

- Lowering exemption level
 - Proposed inflation adjusted \$5M/person (currently \$10M/person)
 - Same as prior to 2017 Tax Cuts & Jobs Act
- Estate tax rates unchanged
- Would increase U.S. farm operator estates that owe federal estate taxes - was 0.16% in 2020

Note: Illinois has state level estate tax with \$4M exemption



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Illinois estate tax computations after gifts

Taxable Estate	Taxable Estate + Taxable Gifts	Illinois Estate Tax
\$8 million	\$8 million	\$ 680,634
\$5 million	\$8 million	\$ 352,158
\$2 million	\$8 million	\$ 92,910

Source: Illinois Attorney General Estate Tax Calculator



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House Draft: 5 Proposed Tax Changes

5. Section 2032A Special Use Valuation

- **Applicable when there's a difference in use value and fair market value**
 - Update allowable reduction in base from inflation adjusted \$750K (current \$1.19M) to \$11.7M
 - Was established in 1997 and has not been updated
- **Must continue farming for 10 years**
- **Reduces estate valuation and estate taxes owed at the time**
 - BUT basis at lower level resulting in larger capital gains taxes later

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2032A Example

\$300	Fair rental value per acre
-\$30	Real Estate tax per acre
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\$270	Net rental value per acre
4.62%	Interest rate provided by IRS
\$5,844	Value per acre for 2032A
\$12,000	Assumed fair market value per acre
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\$6,156	Reduction from 2032A
193	Acres for max \$1.19M reduction

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Proposed Estate Tax & Section 2032A Scenario

- 500 acres owned
- No other assets or debt
- FMV \$20K/acre
- Use valuation \$6K/acre
- Net estate is \$10M (500 acres x \$20K/acre)



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Federal Estate Tax

Current Law

- \$10M estate value is less than \$11.7M exclusion
- No federal estate tax owed
- Resulting tax basis is \$20K/acre

Scenario

- 500 acres owned
- FMV \$20K/acre
- Use valuation \$6K/acre
- Net estate is \$10M

Proposed Law

- \$10M estate value less \$5M exclusion = \$5M value subject to tax
- \$1.9M federal estate tax owed
Base + 40% on taxable amount > \$1M
- Resulting tax basis is \$20K/acre

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Section 2032A

Current Law

Because no federal estate tax owed, no need to elect Section 2032A

Scenario

- 500 acres owned
- FMV \$20K/acre
- Use valuation \$6K/acre
- Net estate is \$10M

Proposed Law

- Reduction is \$14K/acre, or \$7M total
- \$7M < \$11.7M maximum so reduction is allowable in full
- If elect full reduction estate value is \$3M (\$6K/acre x 500 acres)
- \$3M < \$5M exclusion, no federal estate tax owed

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Caveats & Consequences

Current Law

- No federal estate tax owed
- Resulting tax basis is \$20K/acre

Scenario

- 500 acres owned
- FMV \$20K/acre
- Use valuation \$6K/acre
- Net estate is \$10M

Proposed Law

- Tax basis is \$6K/acre
- Land must be farmed by family for 10 years
- IRS is a lienholder on the land in the amount of estate tax “deferred”
- Capital gains tax will be owed when sold or passed to the next heir

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Federal Tax Changes Summary

- Some positives in current proposed tax changes from earlier proposals
- If package price tag is lowered, proposals may be adjusted to correlate with spending changes
- When it comes to special provisions expect calculations, caveats, and consequences
- This isn't final, don't assume something is “off the table” in terms of changes

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