

Farm Tax Planning Strategies 2022

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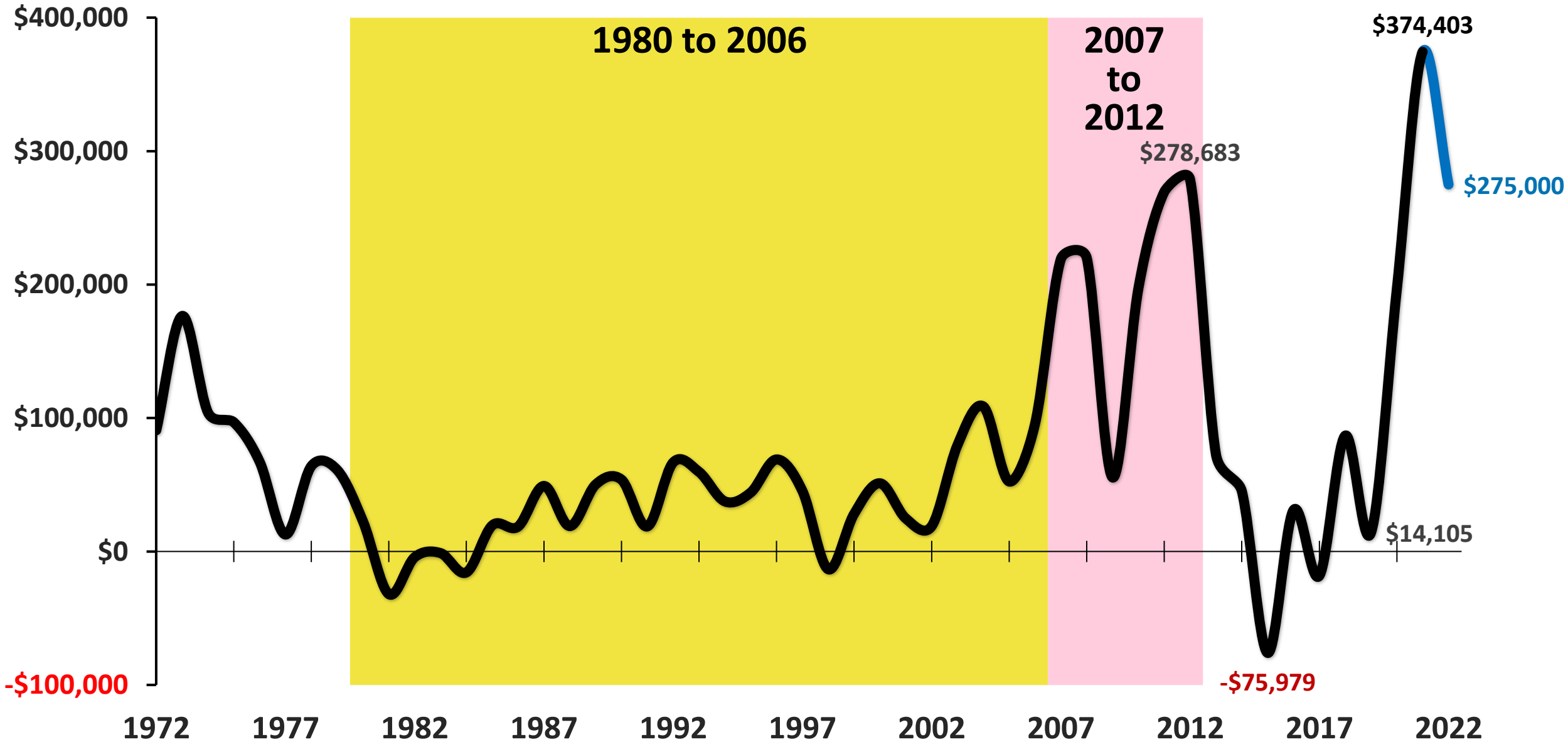


Potential for Higher 2022 Income

	2021	2022
Corn Yield in bu/acre	180	185
Corn Price in \$/bu	\$5.50	\$6.50
Gross / Acre	\$990	\$1,202

**On 1,000 Acres,
increased gross income
\$212,000**

Operator's Share of Labor and Management Income Adjusted for Inflation



What Should My Adjusted Gross Income Be?

Amounts needed for:

- \$ 80,000 Family living
 - \$ 20,000 Income tax liability
 - \$ 30,000 Principal payments above Depreciation
-
- \$130,000 Adjusted Gross Income (AGI)

**To the extent actual AGI is less than \$130,000
tax deferral is generated**

Tax Planning 2022: **Federal Income Tax Rates**

**Highest
Marginal Tax Rate**

70% in 1978

37% in 2022

- Reduced to 29.6% if business income via Qualified Business Income Deduction (QBID)
- 19.2% highest rate up to about \$340,000 income

**Tax Paid by
Average FBFM farm**

\$ 3,800 in 1984

\$26,000 in 2021

Tax Brackets 2022 – Married Filing Jointly

Income	Tax Rate	Reduce by 20% if QBI applies
<\$20,550	10%	8.0%
>\$20,550	12%	9.6%
>\$83,550	22%	17.6%
>\$178,150	24%	19.2%
>\$340,100	32%	25.6%
>\$431,900	35%	28.0%
>\$647,850	37%	29.6%

QBID – Qualified Business Income Deduction

20% deduction for Qualified Business Income (QBI)

- Sch F, Sch C, Passthrough from entities operating as business
- Exceptions
 - Limited 20% Taxable Income (minus Capital Gain income)
 - Carryover or QBID losses
 - Wages and Coop Sales (lesser of 9% of QBI or 50% of wages)
 - Over Max Threshold (other limits)

❖ **EXPIRES after 2025**

Tax Planning 2022: Depreciation Provisions

100% bonus depreciation through 2022

All farm assets including machine sheds (new & used)

\$1,080,000 Maximum Sec 179 deduction

\$2,700,000 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 2022 - Illinois

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



Tax Planning Strategies – Using Grain

Gifts of Grain to Charity

Need proof of transfer.

Saves Federal, State and Self-Employment (SE) tax

Grain Wages

Need proof of transfer. Saves SE tax for employee and employer

CCC Loans

Can be used to generate cash without taking income, low rates

Establish deferred payment contracts

Creates flexibility to move income from new year to prior year.

Likely much higher costs for prepay inputs

Tax Planning Strategies

Keep Sch F income Positive

Income above freebies

(Standard Deduction, >0 Sch F SE Deductions)

Optional SE Method

If Sch F has to be negative, use Optional SE Method to pay a little tax to get 4 quarters of coverage for disability and retirement.

Income Averaging

Can average income tax in high year back over lower brackets evenly in 3 prior years

Favorable 2022 Tax Rates with Capital Gains

Land sale price **\$18,000**

Less cost basis **\$ 4,000**

Capital gain **\$ 14,000**

Machinery sale price **\$150,000**

Less cost basis **\$ 130,000 and fully depreciated**

Capital gain **\$ 20,000**

Ordinary gain **\$ 130,000**

Favorable 2022 Tax Rates with Capital Gains

Married Filing Joint

- 0% up to \$ 83,350
- 15% up to \$ 517,200
- 20% over these amounts

Tax on 80 acres with \$14,000 gain per acre

= \$1,120,000 gain

\$ 185,637 Federal (If ordinary gain: \$339,366)

\$ 55,440 Illinois

Income Averaging

3 year look back

for 2022 >> look to 2021, 2020, 2019

Mathematically moves higher 2022 income to fill up unused lower brackets in 3 prior years

Effectively can allow 37% tax rate on 2022 income to be taxed at 12% or 22% if buckets available in 2021/2020/2019

If \$100,000 available @ 22%, saves 15% = \$15,000

Unintended Results from Higher Income

- **More Social Security benefits taxable**
- **Medicare Part B & D premium surcharges 2 years later**
- **Net Investment Income Tax (3.8%)**
- **Additional Medicare Tax (0.9%)**
- **Reduced Qualified Business Income Deduction (QBID)**

Considerations after End of Tax Year

Crop insurance deferral to following year (cash basis taxpayer)

Elect out of installment grain sales to increase 2022 income

Catch up omitted depreciation

Income Averaging (Sch J)

Expenses paid with vendor financing

Health Savings Account (HSA)

Individual Retirement Account (IRA)

Simplified Employee Pensions (SEP)

Improving Itemized Deduction Value

Donations of grain

Bunching deductions every other year

Qualified Charitable Distribution (QCD) from IRA

Pass Through Entity tax

- **State income tax for individual, paid by entity**
- **Entity deducts as business expense**

Pass Through Entity Tax

\$200,000	Partnership taxable income
4.95%	Illinois individual income tax rate
\$9,900	Illinois tax liability

**When paid by the individuals,
limited or zero tax benefit**

**When paid by the entity,
a new federal tax deduction**

Pass Through Entity Tax

\$9,900 Federal tax deduction (reduces K1 line 1)

22% Federal individual income tax rate

\$2,178 Federal tax liability saved

**Tax benefit may be reduced by 20% when
Qualified Business Income Deduction (QBID) is impacted**

**Federal tax deduction is added back
to Illinois income**

Pass Through Entity (PTE) Tax

Some entities will have 2 years of PTE deductions in 2022

Estimated tax payments are required by entity

Reduced estimated payments for individual

New deductions for itemizers and non-itemizers

Treats resident and non-resident owners alike

No more pass through withholding

Eliminates need to adjust distributions

Key Tax Amounts for 2023

Federal Estate Tax Exemption: **\$12,920,000**

Sec 179 deduction limit: **\$1,160,000**

Married Filing Joint top of 22% bracket: **\$190,750**

Married Filing Joint standard deduction: **\$27,700**

Annual Gift Exclusion: **\$17,000**

Tax Provisions **Expiring After 2025**

Qualified Business Income Deduction 20%

Reduction in Tax Brackets: old 15%/25%, now 12%/22%

Increased child tax credit: old \$1000, now \$2000

Higher standard deduction: old \$12,600, now \$25,900

Federal estate exemption reverts to \$5 million + inflation

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