

Farm Tax School

1.25.2022

Farm Tax Benefits:

- Depreciation Deduction
 - Each class of assets has a life and table that specified the amount of depreciation you are entitled to each year.
 - Current years capital purchased; you have the choice of using the option 179 Deprecation deduction. You can deduct up to the full amount of the asset value, up to the gross business income for the year. There is something called Bonus Depreciation that does not have this restriction.
 - The IRS giveth, the IRS taketh away. If you sell a fully depreciates asset there will be a tax on that gain as ordinary income.
 - IRS Publication 946

- Crop Insurance Proceeds
 - You must include in income any crop insurance proceeds you receive as the result of crop damage. You generally include them in the year you receive them. Treat as crop insurance proceeds the crop disaster payments you receive from the federal government as the result of destruction or damage to crops, or the inability to plant crops because of drought, flood, or any other natural disaster.
 - You may choose to postpone reporting until the following year (1040 Sch F line 8a and 8b)

- Farm Income Averaging
 - You may be able to average some or all the current year's farm income by spreading it out over the past three years. This may cut your taxes if your farm income is high in the current year and low in the prior three years (Schedule J of 1040),
 - Corporations, partnerships, S corporations, estates, and trusts **cannot** use farm income averaging.

- New Operating Losses
 - You can turn your net operating loss into a tax break, as the IRS lets you deduct the loss from your income on another year's tax return. With a net operating loss carryforward, you save your net operating loss deduction for your future earnings. With a net operating loss carryback, you can claim it against taxes paid in earlier years, giving you a retroactive refund. The carryforward and carryback rules changed significantly in the past four years with the passing of the Tax Cuts and Jobs Act and the CARES Act. And with a new administration, more changes are possible. If you plan on taking a net operating loss deduction, check the most recent tax news.

- Loan Repayments
 - You can only deduct the interest you paid on a loan if the loan is used for your farming business. You can't deduct interest you paid on a personal loan.

- Fuel and Road Use
 - Owners, operators, and tenants of farms and certain other persons may be eligible to claim a credit or refund of excise taxes on fuel used in the trade or business of farming, when used on a farm in the United States for farming purposes. (Federal Form 4136)

Not only are the proceeds of forgiven PPP loans exempt from federal income taxes, but you can also deduct the expenses that were paid off with the proceeds of the loan. The IRS stated in rulings last year that such a double-dip wasn't allowed, but Congress overruled those rulings in December 2020.