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2025 Producer Tax Update

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MAKING A DIFFERENCE IN MINNESOTA: ENVIRONMENT + FOOD & AGRICULTURE + COMMUNITIES + FAMILIES + YOUTH

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This information changes…often.

This is educational information, not tax or legal advice. Information is based on material from LGUTEF, Ruraltax.org, and IRS. Please be a good consumer of professional services.

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Source Acknowledgement

Land Grant University
Tax Education Foundation, Inc.

IRS
Department of the Treasury
Internal Revenue Service

RuralTax.org

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Agenda

- Farm Components for HR-1
- Income Tax Refresher
- Income Tax Planning Strategies

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ONE BIG BEAUTIFUL BILL ACT (OBBBA)

- The OBBBA contains $12.9 trillion in tax provisions.
- The Congressional Budget Office has estimated that the tax title of the Act will increase the deficit by $3.4 trillion over 10 years.
- While most of the tax provisions extend or modify current law, the title contains new additions to the tax code as well.

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Permanent Tax Provisions

Provision	Impact on Farmers
Estate and Gift Tax Exemption	Permanently **increases the exemption to $15 million** per person (indexed for inflation), making it much easier to pass the family farm to the next generation without incurring the "Death Tax."
100% Bonus Depreciation	**Permanently reinstates 100% bonus depreciation** for qualified property, allowing farmers to immediately deduct the full cost of new equipment, machinery, and vehicles, which incentivizes capital investment.
Section 179 Expensing	**Permanently increases the deduction limit to $2.5 million** (and the phase-out threshold to $4.0 million), offering significant tax relief for purchasing farm assets.

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Permanent Tax Provisions

Provision	Impact on Farmers
Qualified Business Income (QBI) Deduction	**Makes the 20% pass-through business income deduction permanent.**
Agricultural Loan Interest Exclusion	A new provision that allows qualified lenders to exclude **25% of interest income** on certain agricultural and rural real estate loans. This is intended to **lower borrowing costs** for farmers.

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Permanent Tax Provisions

Program/Area	Key Change and Impact
Price Loss Coverage (PLC) & Agricultural Risk Coverage (ARC)	**Increases Statutory Reference Prices** for covered commodities (corn, soybeans, wheat, rice, etc.) by **10% to 21%**, providing a stronger price floor and more robust safety net when market prices are low. The ARC revenue guarantee is also increased (e.g., from 86% to 90%).
New Base Acres	Allows a **one-time voluntary opportunity to allocate up to 30 million new base acres** based on recent planting history (2019–2023), increasing eligibility for future ARC/PLC payments for producers on land without previous base acres.

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Permanent Tax Provisions

Program/Area	Key Change and Impact
Commodity Payment Limits	**Increases the annual payment limit** for individuals from $125,000 to **$155,000** (with future inflation adjustments). This will increase the total support received by larger operations.
Crop Insurance	**Increases government-paid premium subsidies** for most coverage levels, making higher coverage more affordable. It also **expands premium support for beginning farmers** by extending the eligibility definition from five to ten years.

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TEMPORARY DEDUCTION FOR SENIORS

- For tax years 2025-2028, the Act provides seniors (those 65 years of age and older) with an **additional $6,000 deduction** under I.R.C § 151.
- If seniors are married, each spouse who is 65 and older is entitled to the deduction, **as long as they file a joint return** and meet the income requirements.
- The senior deduction begins to phase out for taxpayers with incomes of $75,000 (single) or $150,000 (MFJ). The deduction is available for seniors who take the standard deduction and for those who itemize deductions.
- Taxpayers must have a social security number to claim this deduction.

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A Tax Refresher

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Income Tax Basics

- Ordinary Farm Income
  - Income from sale of commodities, livestock, and/or custom services provided as part of the farming operation (reported on Schedule F)

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Income Tax Basics

- Capital Assets (not the textbook version)
  - Anything purchased that must be depreciated (machinery, breeding livestock, buildings) or whose purchase cost cannot be deducted until disposition (land).
  - Capital assets are subject to long or short-term capital gains treatment or depreciation recapture upon disposition.

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Income Tax Basics

- Sale of Capital Assets
  - Sale of Capital Assets are reported as “Depreciation Recapture” or “Capital Gain”. (Reported on Form 4797 and Schedule D)

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How is everything taxed?

- Wages and business income
  - Rate depends upon filing status
  - Rates run from 10% to 37%

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How is everything Taxed?

- Income subject to self-employment tax
  - Farm business and non-farm business income is taxed at the current bracket rate (regular tax)
  - Self-employment tax rate = (15.3%)(12.5 % OASDI & 2.8% Medicare)(OASDI cap is $ 168,600 for 2024)

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How is everything taxed?

- Rental/investment income (passive)
  - Taxed at the current bracket rate
  - Generally, not subject to SE Tax
- Wage income
  - Taxed at the current bracket rate
  - SE tax is paid in the manner of FICA and Medicare withholding on W-2

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Income Tax Basics

- Depreciation
  - Qualifying capital assets (machinery, breeding livestock, buildings and drainage tile) cannot be deducted as an ordinary farm expense in the year they are purchased. The expense must be spread over a period of years.
  - EXCEPTION: Purchases that fall under the new Tangible Property (Repair) Regulations.
  - Tangible Property Regulations call for recapture upon subsequent sale.

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Depreciation Recapture

- Typically results from the sale or trading of machinery
- Taxed as ordinary income but not subject to SE tax
- Reported on Form 4797

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Depreciation Recapture Example

- Sale of Tractor for $20,000
- Assumption is that the tractor was written off with Section 179 at purchase leaving zero basis.
- All $20,000 will be taxed as depreciation recapture.

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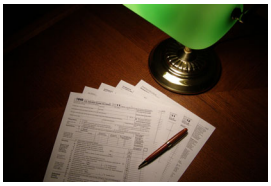
Like-Kind Exchanges

- TCJA modified LKE rules so that only real property qualifies.
  - Real Property includes land and any property attached directly to it.
  - Does not include machinery trades



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Like-Kind Exchanges - Ex. #1

- Machinery trade (**OLD METHOD**)
  - Assuming no basis in the tractor. The farmer would not recognize any income on this trade.

Action	FMV	Cash Paid
Trade Utility Tractors		
Old Tractor (traded unit)	$20,000	
New Tractor	$45,000	$25,000

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Like-Kind Exchanges – Ex. #2

- Machinery trade (**NEW METHOD**)
  - Assuming no basis in the tractor, the Farmer will **recognize $20,000 of depreciation recapture** and **pay full price for the combine**.

Action	FMV	Cash Paid
Trade Utility Tractors		
Old Tractor (traded unit)	$20,000	
New Tractor	$45,000	$45,000

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Capital Gains

- Breakpoints for 15% and 20% capital gains/qualified dividends rates are set as statutory dollar amounts, adjusted for inflation.

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2025 Capital Gains Rates

2025 Long-Term Capital Gains – Assets Held 12 Months or More

Tax Bracket/Rate	Taxable Income		
	Single	Married Filing Joint	Heads of Households
0%	$0 - $48,349	$0 - $96,699	$0-$64,749
15%	$48,350 - $533,399	$96,700 - $600,049	$64,750 - $566,699
20%	$533,400 +	$600,050 +	$566,700 +

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Tax Management/Planning

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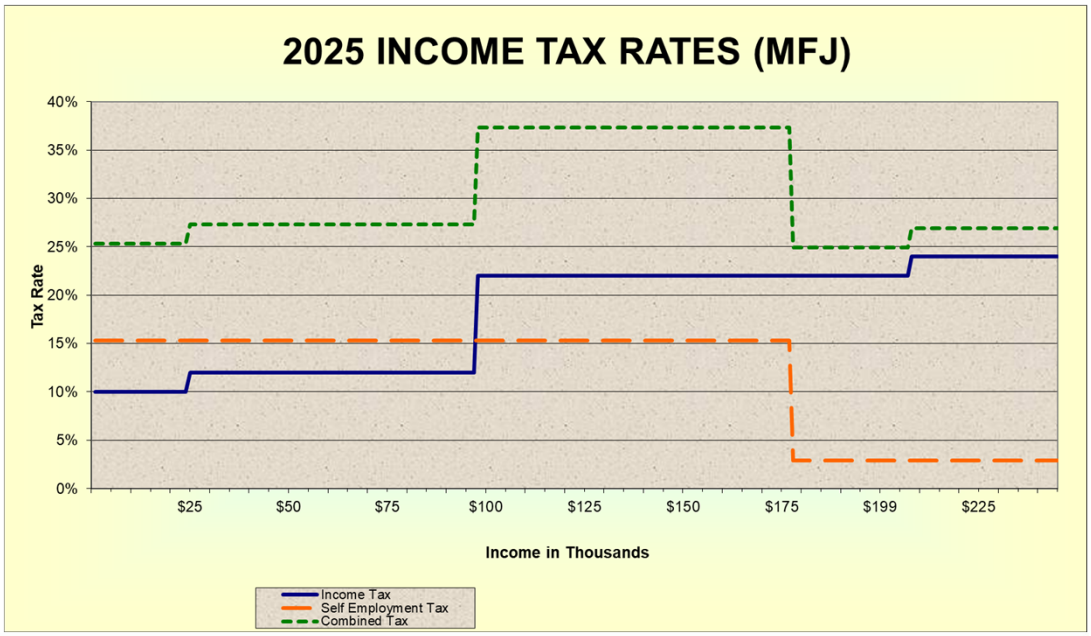

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Tax Planning in Low Income Years

- Accelerate Sales
- Postpone expenses
- Don't use accelerated depreciation
- Amortize fertilizer
- Capitalize repairs

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Tax Planning Strategies

- Pre-Pay Expenses
- Income Averaging
- Deferral of Income
  - Crop and/or Livestock sales
- Accelerated Depreciation
  - Section 179 and Bonus
- Crop Insurance Deferral

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Prepaying expenses

- Cash basis deduction generally limited if useful life beyond end of tax year
- 12-month rule provides an exception if benefits do not extend beyond the ***earlier of***
  - 12 months after the benefit begins, or
  - the end of the following tax year
- Example: One-year insurance premium paid in November is okay
- Planning Note - No prepaid interest, only to year-end

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Prepaid farm supplies

3-part test for prepaid expense deduction

1. **Payment, not deposit**
   - Facts and circumstances
   - Specific quantity at fixed price
2. **Valid business purpose**
   - Fixing price and supply
3. **No material distortion of income**

➢ Remember other expenses!

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Income Averaging

- Filed on Schedule J
- Allows taxpayers to utilize unused tax brackets from past years

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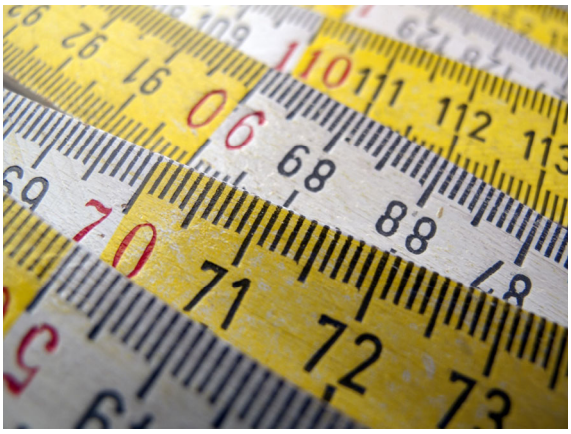
Income Averaging

- Only farm income qualifies
- Does not affect:
  - Self-employment income
  - Taxable income



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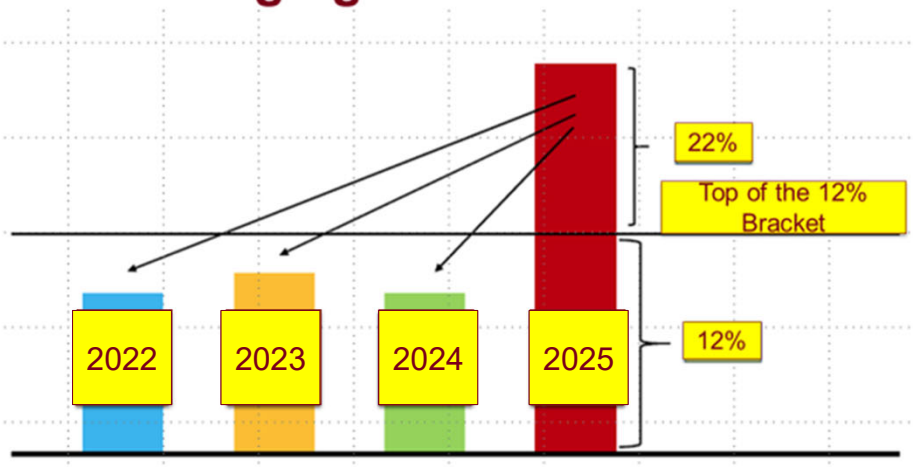
Income Averaging



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Defer Crop and Livestock Sales

- Postpone sales into next year. Income is taxable upon receipt.
  - Constructive receipt rules
- Transfer of ownership and telling the buyer to hold the check does not work. Must do a deferred payment contract (next slide).

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Deferred Sales (Deferred Sales Contract)

- Allowed under installment sale rules
- Producer must have binding contract with buyer
- No constructive receipt of income
- Seller is unsecured creditor
  - Risk if buyer goes out of business before payment

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Weather-Related Provisions for Livestock Sales

- Sales of animals due to weather-related conditions
- Shortage of feed or water
- Draft, dairy, and breeding animals
- Not sport or poultry
- Postpone gain to avoid bunching of income
- Sales in excess of normal practice

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Weather-Related Sales of Livestock

- Breeding Stock
  - If sold due to weather-related conditions, the gain is postponed for up to two years providing the producers replace the animals.
  - Replacement animals must be like-kind.
  - Deferral amount is based on the number of head above the normal cull rate.
  - Replacement period may be extended if weather conditions persist.
  - No disaster declaration is required

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Weather-Related Sales of Livestock

- Animals Raised for Sale and Breeding Stock (all livestock)
  - Weather-related sales of raised animals may be deferred into the following year
  - Based upon sales in excess of a normal year
  - Must be cash method farmer
  - Requires Federal disaster declaration
  - Election to defer filed with tax return

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Depreciating Assets

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Placed in Service

- Property is placed in service when it is ready and available for a specific use, whether in a business activity, an income-producing activity, a tax-exempt activity, or a personal activity.
- With farm equipment, this means that the equipment must be delivered, assembled, and ready for the use for which it is intended.
- It is not necessary that the equipment is actually used.

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Recovery Period for Farm Equipment & Machinery

- New farm equipment and machinery was made 5-year property under TCJA
- Applies to equipment placed in service after 12/31/2017
- Used farm equipment and machinery continues to be 7-year property
- The assets must be used in farming as defined by I.R.C. § 263A
- Equipment used in contract planting, spraying, harvesting is not used in farming
- ADS life continues to be 10 years for both new and used equipment
- **Grain bins, cotton ginning assets, and fences are still 7-year property (10-yr ADS)**

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Depreciation

- Section 179
  - Class life 3-15 qualifies
  - 2025 Max. is $2,500,000
  - Qualifying Purchase limit = $4,000,000
    - Above purchase limit, dollar-for-dollar reduction of allowable expense.
    - Related party rules (prohibited for lineal descendants).

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Property	GDS	ADS	179?	Type
Drainage Tile	15	20	YES	Integral
Paved Barn Lots	15	20	YES	Integral
Grain bins (but not shed used for flat storage)	7	10	YES	Storage
Poultry House	10	15	YES	Single Purpose
Agricultural Fences	7	10	YES	Integral
Trees and Vines Bearing Fruit or Nuts	10	20	YES	Integral
Peanut facility	7	10	YES	Storage
Orchards			YES	Integral
Irrigation Systems (If composed of masonry, concrete, tile, metal, or wood)	7	10	YES	Integral
Water Well for raising poultry and livestock or for irrigation	15	20	YES	Integral
Potato Facility	7	10	YES	Storage
Fruit Refrigerated Structure	7	10	YES	Storage
Machinery- New	5	10	YES	Personal Property
Machinery-Used	7	10	YES	Personal Property
Automobiles	5	5	YES	Personal Property
Cattle (dairy or breeding)	5	7	YES	Personal Property
Farm Building*	20	25	NO	Real Property

*Farm buildings are not eligible for section 179 because they are I.R.C. § 1250, not I.R.C. § 1245 property.

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Depreciation

- Bonus Depreciation (Additional first-year depreciation)
  - Class life 3 to 20-year property qualifies
    - New or Used (must be Qualifying Acquisition)
  - HR-1 permanently increases bonus depreciation to 100 percent of basis for property acquired after January 19, 2025. I.R.C. § 168(k). (Placed into service requirement still applies).
  - For property placed in service during the first taxable year ending after January 19, 2025, the taxpayer can elect to have 40 percent bonus depreciation apply.
  - Default is to take bonus. Must elect out by class life.
  - Related party rules are the same as Section 179

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Deferral of Crop Insurance

- Cash basis farmers can defer income, planning is important.
  - Deferral election applies to destruction or damage to crops that results in an insurance or disaster payment.
    - I.R.C. § 451(f); Treas. Reg. § 1.451-6(a)

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Deferral of Crop Insurance

- Report income on cash basis
- Establish that under normal business practice, income from crops would have been reported in following year.

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Deferral of Crop Insurance

- Rev. Rul. 74-145 requires taxpayer to show that more than 50% of income from **each** damaged crop(s) would be reported in the following year.
  - *Nelson v. Commissioner* (2008)

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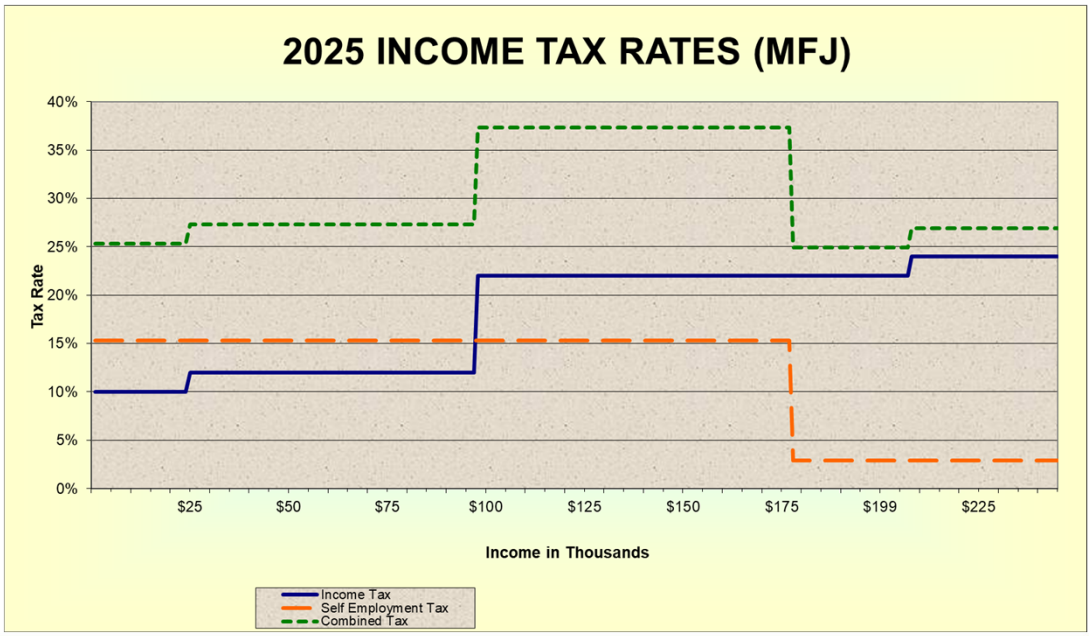

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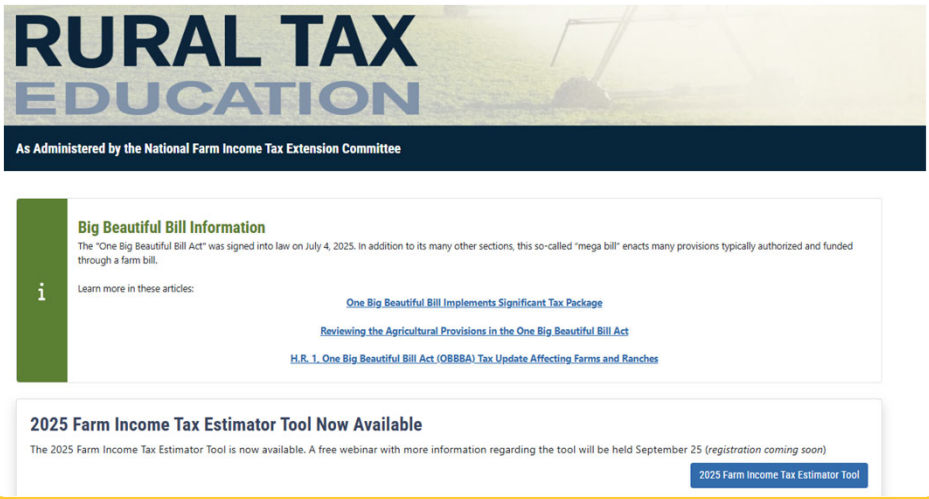
Use of Tax Planning Tool from RuralTax.ORG



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2025 Tax Brackets and Tax Rates

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	$0 to $11,925	$0 to $23,850	$0 to $17,000
12%	$11,925 to $48,475	$23,850 to $96,950	$17,000 to $64,850
22%	$48,475 to $103,350	$96,950 to $206,700	$64,850 to $103,350
24%	$103,350 to $197,300	$206,700 to $394,600	$103,350 to $197,300
32%	$197,300 to $250,525	$394,600 to $501,050	$197,300 to $250,500
35%	$250,525 to $626,350	$501,050 to $751,600	$250,500 to $626,350
37%	$626,350 or more	$751,600 or more	$626,350 or more

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Tax Planning Example

At the beginning of tax planning, the farmer brings in their accounting records, and they have a projected schedule F of $200,000. After taking regular deductions (standard deduction, qualified business income deduction, and half the SE tax), the income tax liability is as follows.

- Taxable Income = $123,923
- Federal Tax = $17,091
- Self-Employment Tax = $27,192
- Total Tax = $44,283
- Marginal Tax Rate = 22%

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Tax Planning Example (Continued)

To mitigate this income tax liability, the producer is going to pre-pay $20,000 of 2026 crop inputs and is also going to take $16,000 of Section 179 on a recently purchased piece of equipment. This adds $36,000 to the current farm expenses and reduces schedule F to $164,000. After the additional expense, the tax liability is:

- Taxable Income = $96,731
- Federal Tax = $11,131
- Self-Employment Tax = $23,172
- Total Tax = $34,303
- Marginal Tax Rate = 12%

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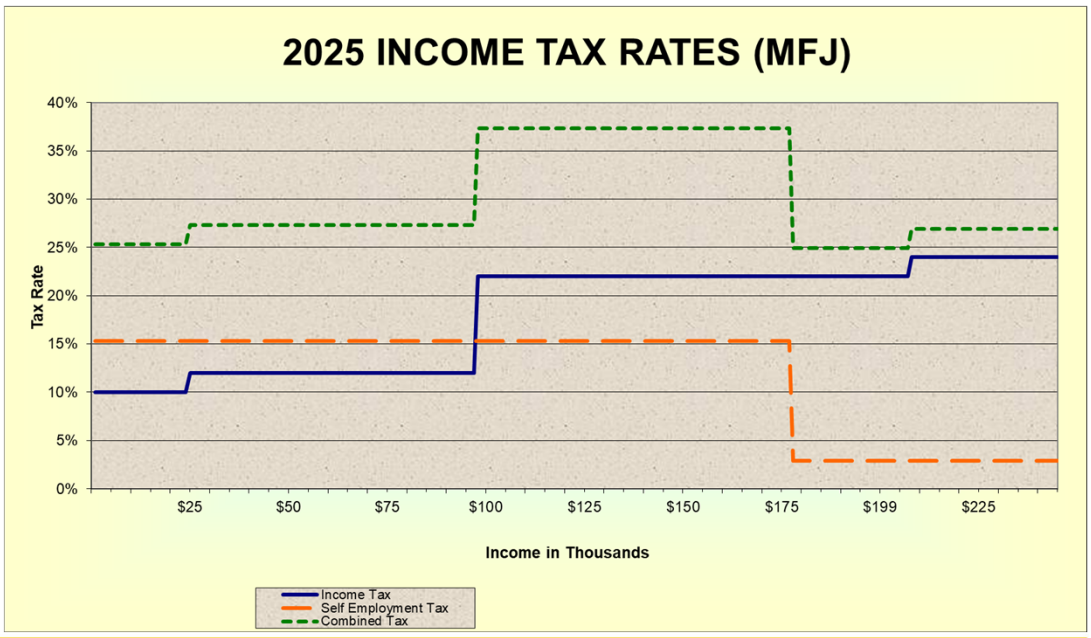

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Tax Planning Example (Continued)

The net change to the tax liability is listed below.

- The farmer spent an additional $36,000 in pre-payment and accelerated depreciation.
- The farmer cut the tax bill by $9,980.
- The farmer saved $0.277 of tax for every dollar of pre-payment and accelerated depreciation.
- Qualified Business Deduction (QBI) was reduced with increased expenses.

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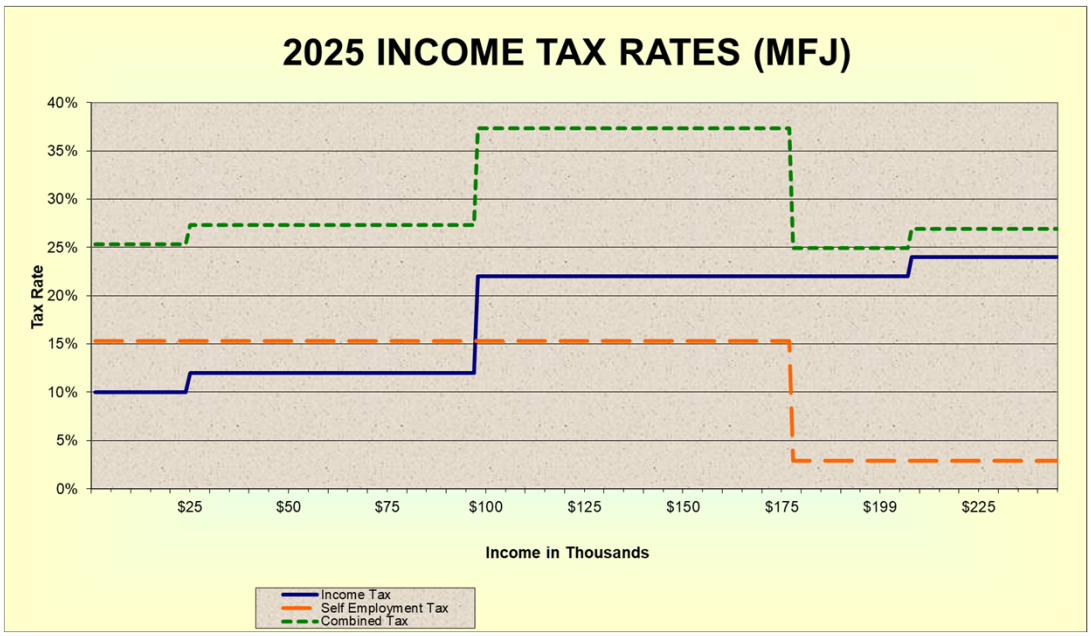

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Contact Information

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Thank you!!

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