

FCS Financial A New Tax Bill: What You Need To Know Now

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Speaker Introduction

Paul Neiffer, Principal, CliftonLarsonAllen

- Frequent national speaker on taxation, agricultural, farm bill and estate tax topics
- Current chair of the AICPA National Agriculture Conference committee.
- Past President of Farm Financial Standards Council
- Author of the “FarmCPA” Top Producer column
- Primary source for nationally recognized blog “FarmCPAToday.com”





Summary

- Overall tax rates decrease
- New Section 199A 20% farm deduction
- Limitations on itemized deductions
- Double of lifetime Estate/Gift tax exemption
- All of above reverts back to current law in 2026
- Increased Section 179 and bonus depreciation
- Other provisions



Married Filing Joint Tax Rates

Current Law	
Taxable Income	Tax Rate
-	10.0%
\$19,050	15.0%
\$77,400	25.0%
\$156,150	28.0%
\$237,950	33.0%
\$424,950	35.0%
\$480,050	39.6%

Final Bill	
Taxable Income	Tax Rate
-	10.0%
\$19,050	12.0%
\$77,400	22.0%
\$165,000	24.0%
\$315,000	32.0%
\$400,000	35.0%
\$600,000	37.0%



Single Tax Rates

Current Law	
Taxable Income	Tax Rate
-	10.0%
\$9,525	15.0%
\$38,700	25.0%
\$93,700	28.0%
\$195,450	33.0%
\$424,950	35.0%
\$426,700	39.6%

Final Bill	
Taxable Income	Tax Rate
-	10.0%
\$9,525	12.0%
\$38,700	22.0%
\$82,500	24.0%
\$157,500	32.0%
\$200,000	35.0%
\$500,000	37.0%

Note: The marriage penalty for the 37% tax bracket



Capital Gains & Kiddie Tax

- Capital Gains – No changes
 - Still retain **Zero Tax Rate** on effectively same income levels
 - ◇ Up to \$101,800 tax free for MFJ
 - ◇ Up to \$50,900 tax free for singles
 - Maximum rate still 20%
 - Retains Net Investment Income Tax of **3.8%**
- **Kiddie Tax no longer tied to Parent's Income**
 - **Makes grain gifts taxed at Trust and Estate Tax Rates**
 - ◇ **Essentially 37% on gifts over \$12,500**



Standard Deduction: 2018

Standard Deduction

- MFJ = \$24,000
- Single = \$12,000
- H of H = \$18,000

Personal Exemptions

- Repealed

Zero tax amount:

Joint
Single

2017
\$20,800
\$10,400

2018
\$24,000
\$12,000



New Section 199A Pass-Through Deduction

- 20% deduction on net farm income
- If income above threshold amount (\$207,500 single - \$415,000 MFJ), then limited to greater of:
 - 50% of wages paid
 - 25% of wages paid plus 2.5% of qualified property
- Plus 20% of REIT and PTP income
- Further limited to 20% of taxable income less capital gains less cooperative payments



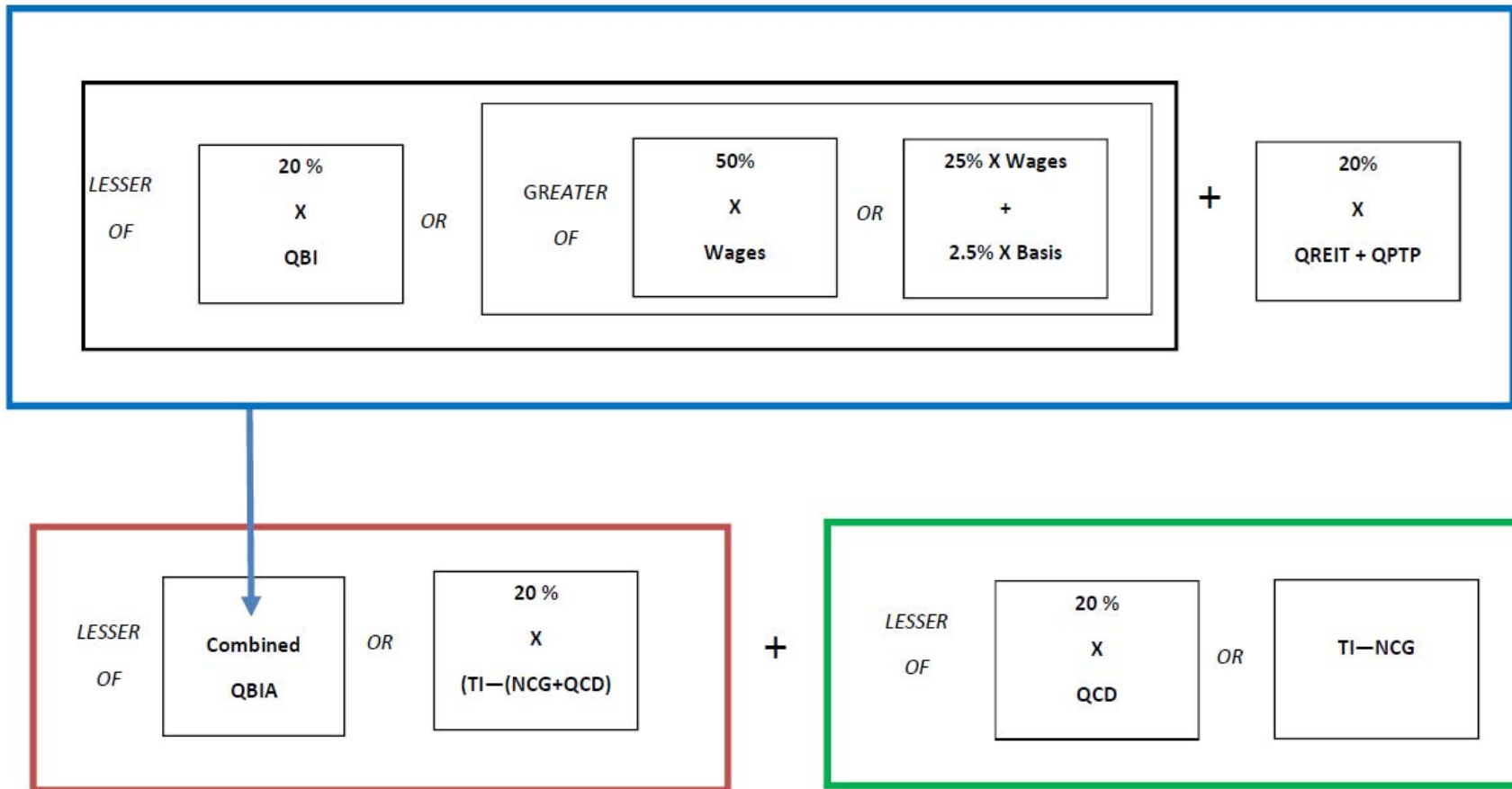
New Section 199A Deduction for Co-op Sales

- If farmer sells to a co-op and is a patron, the net deduction is the lesser of:
 - 20% of gross payments from the co-op, or
 - Taxable income less capital gains

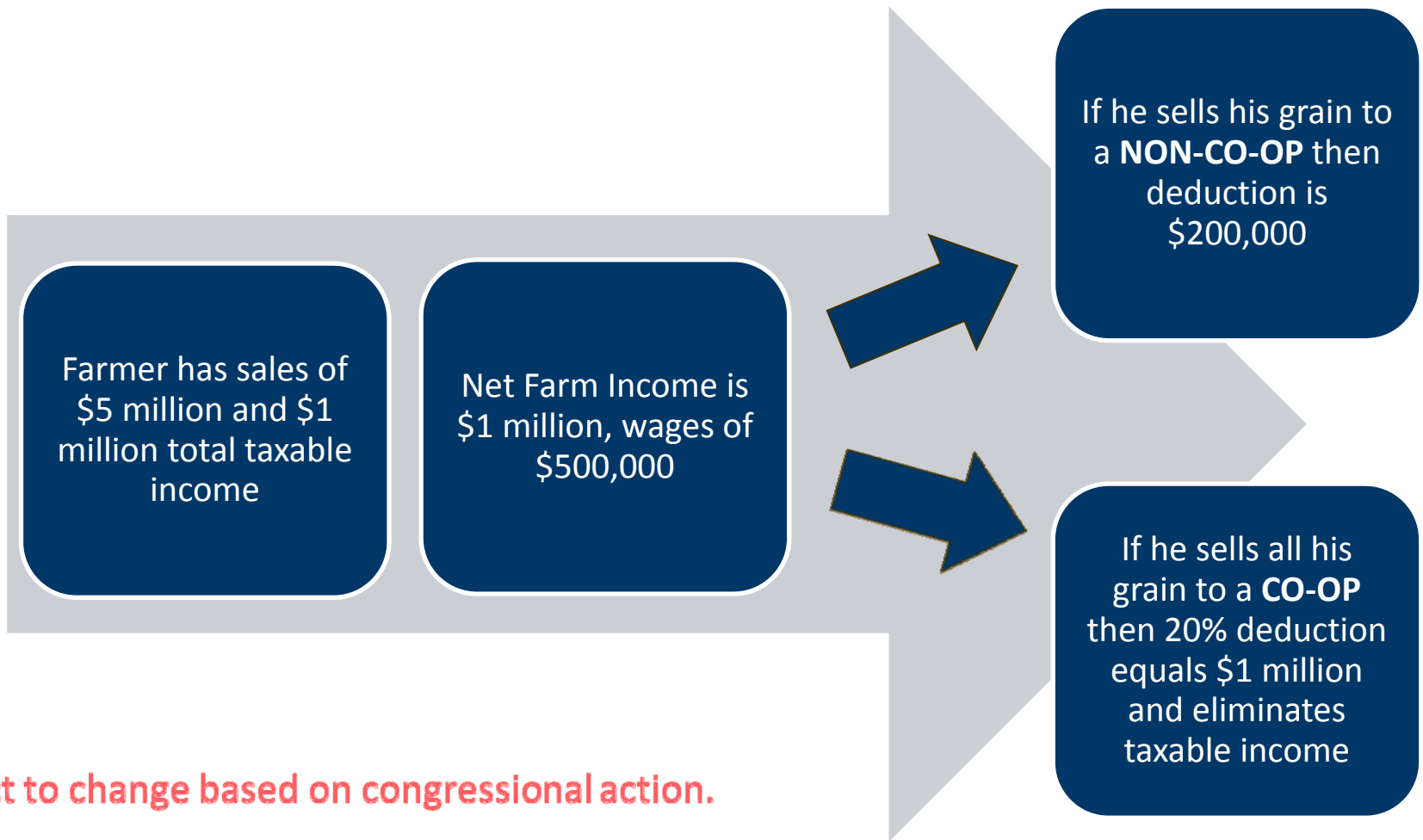
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Qualified Business Income Deduction

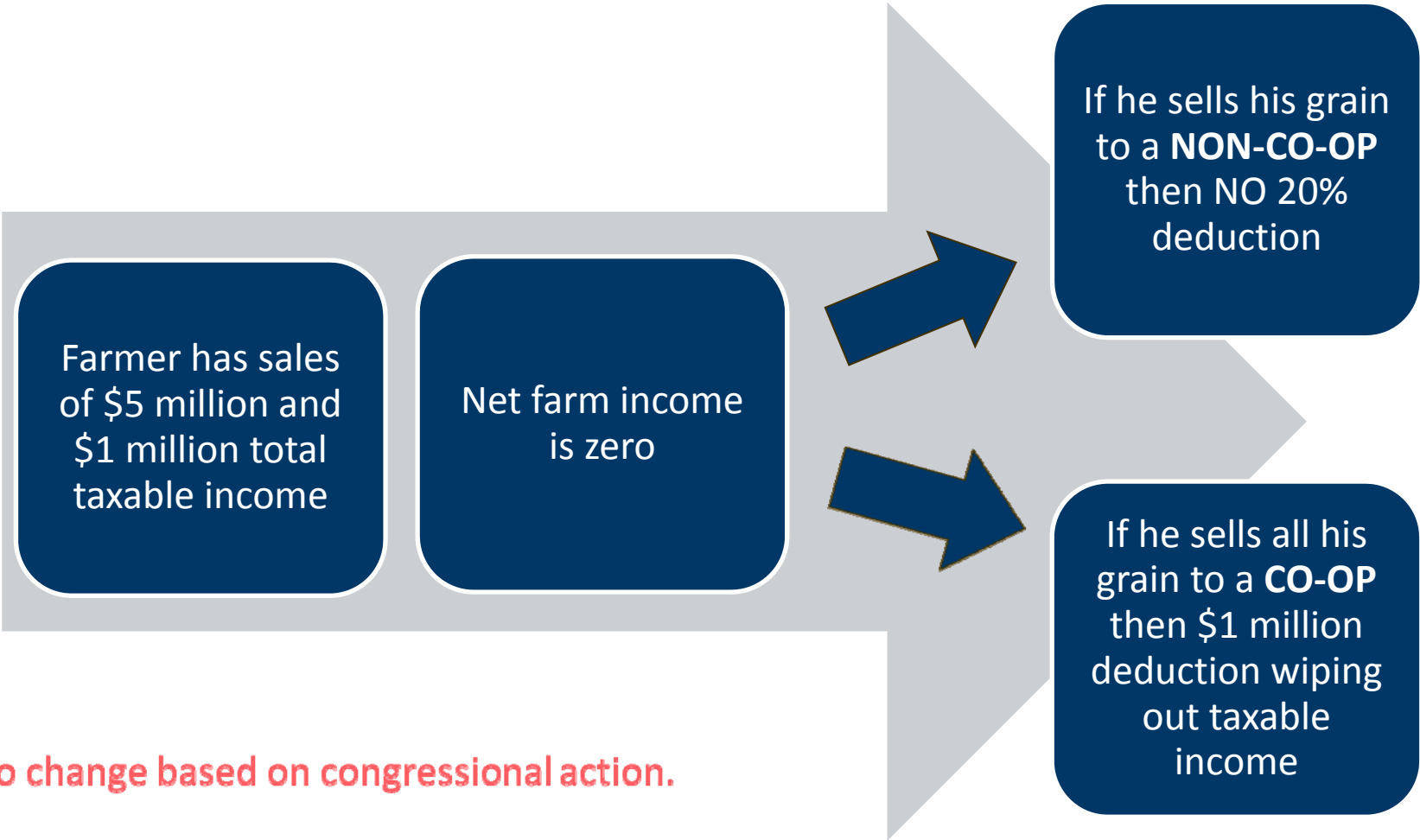


Section 199A Example



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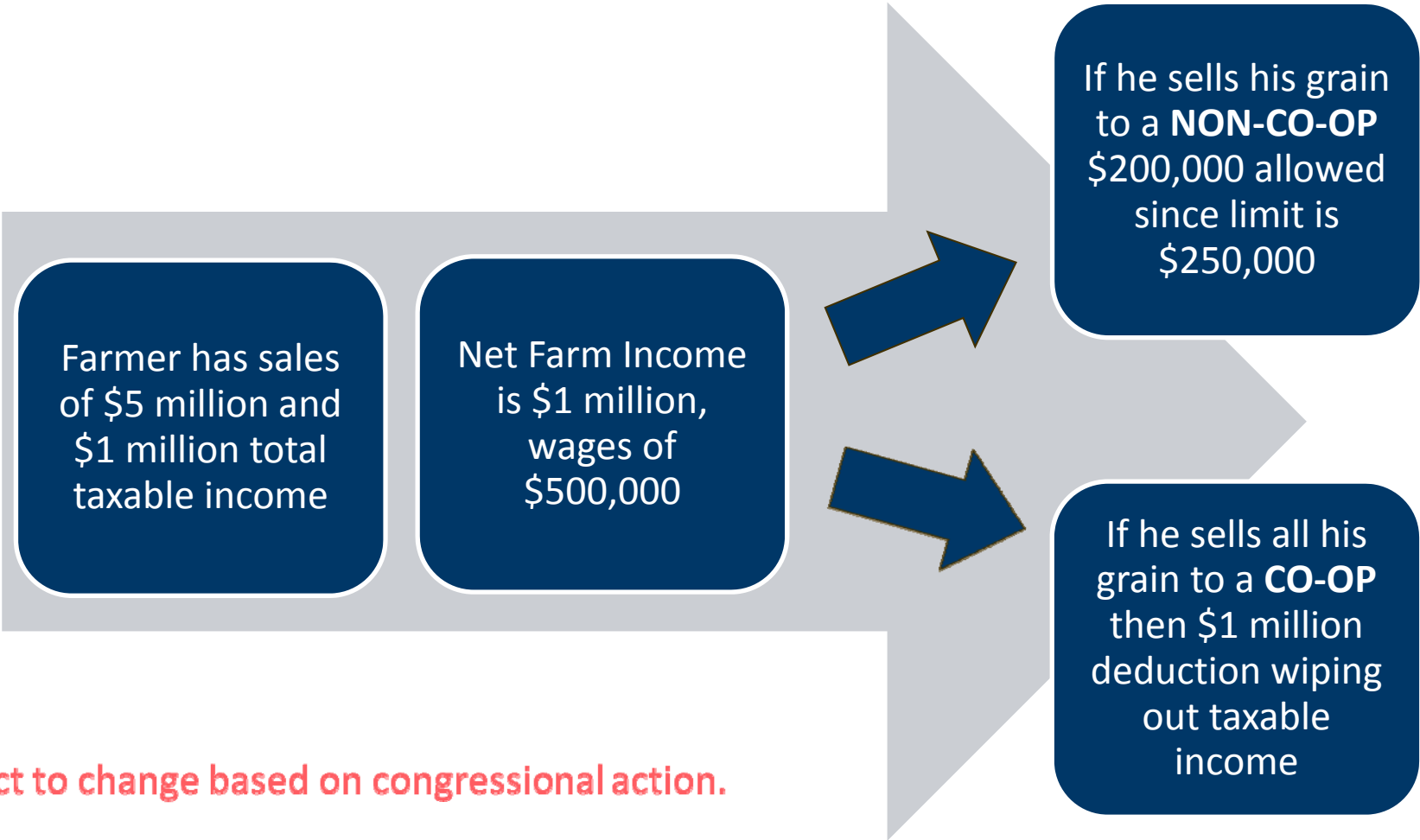
Section 199A Example



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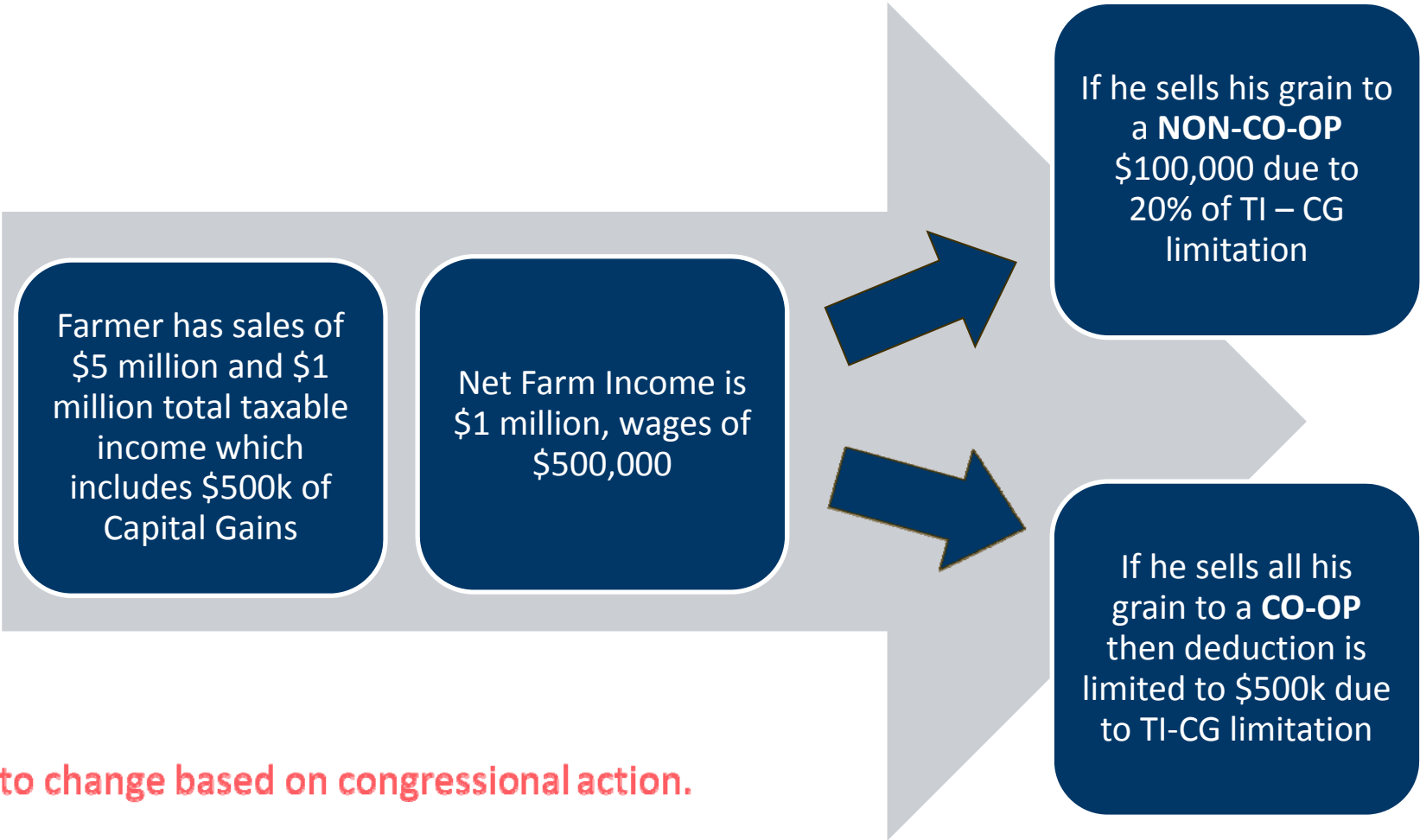


Section 199A Example



Subject to change based on congressional action.

Section 199A Example



Subject to change based on congressional action.

How Much is Co-Op 199A Really Worth?

Taxable income before Sec. 199A	\$ 1,000,000	\$ 500,000	\$ 100,000
Number of bushels needed to eliminate TI	1,428,571	714,286	142,857
Income tax with no Sec. 199A	\$ 310,979	\$ 126,379	\$ 13,879
Income tax with regular Sec. 199A	\$ 236,179	\$ 91,379	\$ 9,479
Maximum Tax Savings Per Bushel	\$ 0.17	\$ 0.13	\$ 0.07
Tax savings per bushel with extra 50% BU	\$ 0.11	\$ 0.09	\$ 0.04
Tax savings per bushel if TI is 50% less TI	\$ 0.06	\$ 0.05	\$ 0.03

Does it offset extra transportation and storage costs plus higher price paid by non-co-op, if any. Also, does not reduce self-employment tax. See January 7, 2018 blog post at www.farmcpatoday.com.

Subject to change based on congressional action.



Child and Family Tax Credits

- Child credit: Increase from \$1,000 to **\$2,000**
 - No change to “qualifying child” definition: < age 17
- Plus **\$500** credit for dependent not a qualifying child for \$2,000 credit
- Refundable portion = **\$1,400 & indexed**
- Phase-out begins at MFJ of \$400,000 AGI (up from \$110K); Single at \$200,000 (up from \$75K)



Itemized Deductions

- Overall limit/phase-out: Repeal
- Home mortgage interest: Repeal home equity 2018
- Residential acquisition debt: Grandfathered if incurred ≤ 12-16-17
- For new debt incurred after 12-15-17:
 - Residential acquisition debt limit of \$750,000 (was \$1M)
 - Can still have two homes



Itemized Deductions: Taxes

- Allow aggregate deduction of \$10,000 for income or sales tax, plus real property tax
- Does not affect payments for farmers, crop-share landlords and cash-rent landlords on their operations.
- This is only for personal taxes



Itemized Deductions

- Gambling loss and expenses: Limited to winnings
- Charitable: 50%-of-AGI limit to 60%
- Strategy: Prepay charitable via donor-advised fund (DAF)
 - Strategy is applicable in any high-rate year



Itemized and Other Deductions

- All Misc. 2% deductions gone
- Medical expenses allowed for excess of 7.5% of AGI for 2017 & 2018
- Pre- AGI alimony repealed & no income->payee
 - Effective for divorce decrees executed after 2018



Employer-provided Housing & Meals

- House proposed cap of \$50,000 on exclusion with phase-out
- Not available to $\geq 5\%$ owners
 - Must be reported as income to owner
 - C Corporation still allowed the deduction
- **This did not get included in final bill**
- Employer provided meals now deductible **at 50%** 1-1-18 to 12-31-25
- After 12-31-25, **no deduction** for employer provided meals on business premises, etc.



Estate, Gift and GST Tax

- Doubled exclusion: \$5M to \$10M + indexing for estates between 1-1-18 and 12-31-25
 - Deaths in 2017: Present exclusion is \$5,490,000
 - Will be **\$11.2 million for 2018**
- Retain annual gift tax exclusion **(\$15K)**
- Reverts back to current law in 2026



AMT

- Retained for individuals
- Higher Exemption Amount
 - \$109,400 up from \$78,750 (MFJ)
 - \$70,300 up from \$50,600 (Single)
- Higher Thresholds for Phase-out
 - \$1 million for MFJ, up from \$160,900
 - \$500,000 for singles, up from \$120,700

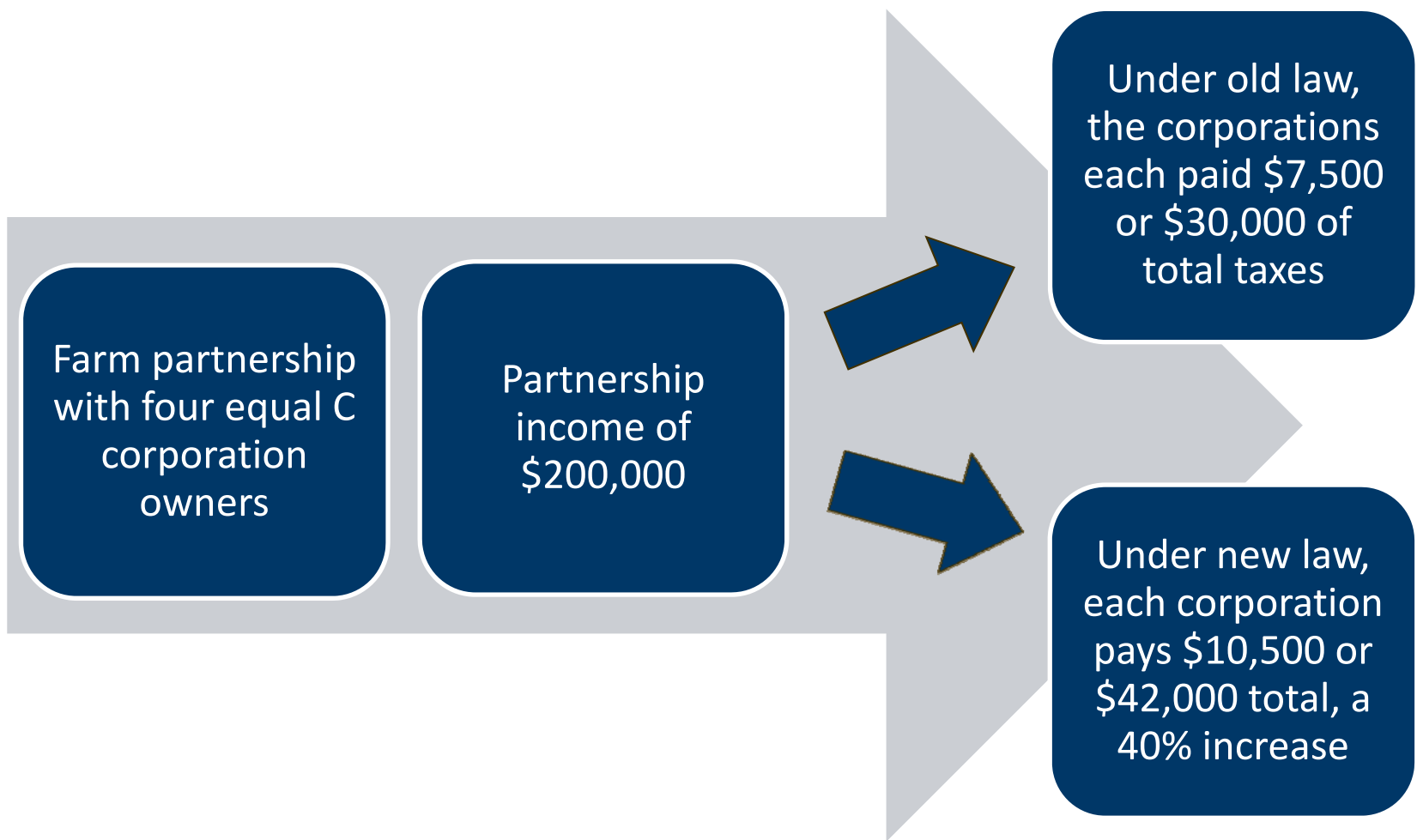


Corporate Taxes

- Flat 21% rate
- Corporate AMT repealed
- May be an **actual 40% tax increase** for most farmers who kept corporate taxable income under \$50,000



Corporate Tax Example



Section 179

- Bumps to **\$1 million in 2018** (indexed to inflation)
 - Phase-out starts at \$2.5 million (indexed)
 - Adds roofs, HVAC, Sec. Systems
- Can be used to optimize taxable income if farmer elects out of bonus depreciation



Bonus Depreciation

- Expense 100% acquired and placed in service >9/27/17 and before 1/1/2023
 - Includes new and used
- Phased-out beginning in 2023
 - 80% in 2023
 - 60% in 2024
 - 40% in 2025
 - 20% in 2026
 - Zero thereafter



Expansion of Cash Method of Accounting

- Farmers retain cash method of accounting
 - If gross revenues **under \$25 million**, then Sec. 263A does not apply for preproductive costs (orchards and vineyards). Not sure how to “elect” back in yet.
- Unlimited cash method still allowed for all non C corporation farming taxpayers
 - C corporations limited to \$25 million
 - Partnerships with a C corporation over \$25 million limited



Business Interest Expense

- Disallowed: **Excess of 30%** of business adjusted taxable income
 - Determined without interest expense, interest income, NOL, depreciation, amortization, depletion (EBIDTA)
 - ◇ **EBIT** is used beginning in 2022 (depreciation is deducted)
 - Determined at tax filer level (1065, 1120-S)
 - Excess carried forward
- **No disallowance** for farms with average gross receipts \leq \$25 million



Special Farmer Interest Provision

- If **gross revenue over \$25 million**, then farmer can elect to deduct 100% of business interest expense
 - Must use ADS for depreciation of 10 year + assets (longer lives)
 - Farm Equipment still enjoy shorter life
 - **Can't take bonus depreciation on 10 year or longer life assets**



Other Business Provisions

- Net Operating Loss: Limited to **80%** of pre-NOL taxable income
- Pre 2018 NOLs still allowed at **100%**
- Repeal carrybacks for non-farmers
- Allows two-year carryback for farms

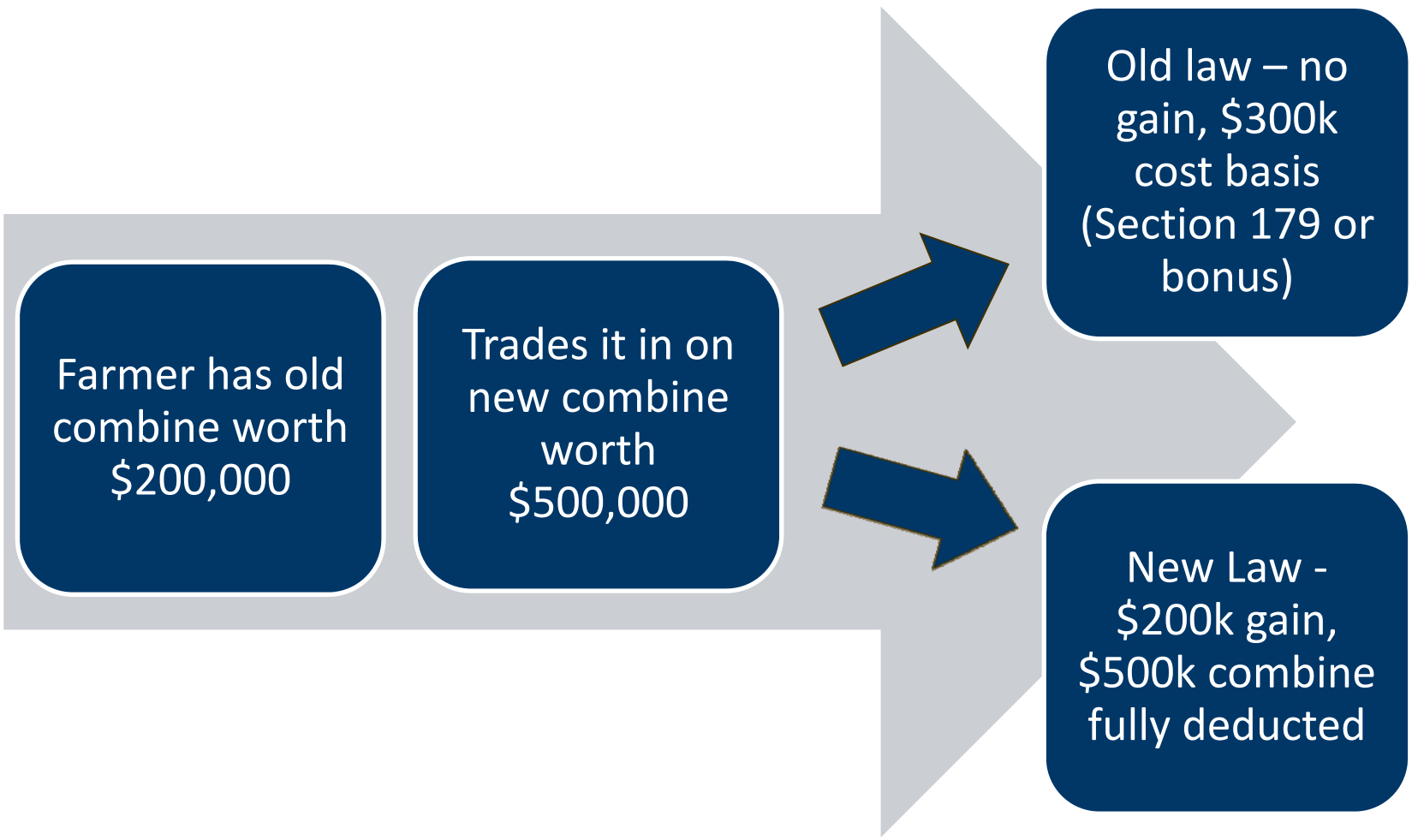


Other Farm Business Changes

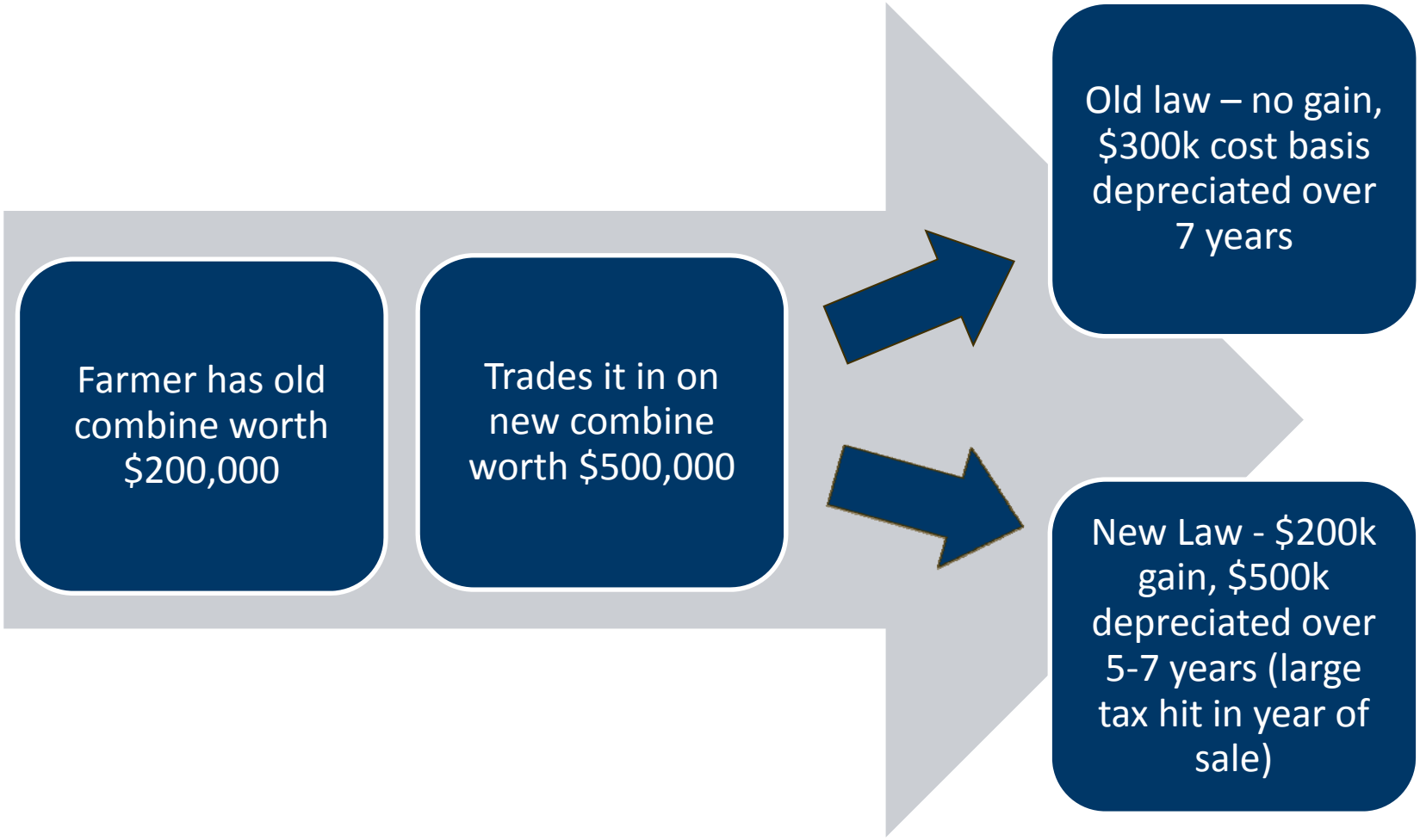
- Section 1031 exchanges for only real property
 - Personal property exchanges taxable; but asset expensing offsets the gain
- Section 199 domestic production deduction repealed
- Drops **NEW** farm machinery from 7 years to 5
 - Used farm equipment still at 7 years
- 200db depreciation on farm equipment
- Limits all net business losses to \$500k
 - Repeals & replaces current excess farm loss rules



Section 1031 Equipment Exchange Example



Section 1031 Equipment Exchange Example – State Law



Questions

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