Farm Finance 101: Tax Changes for 2019

With another year coming to a close and everyone starting to think about their year-end financials and getting ready for tax season! This year there have been some pretty big changes to the tax law that we think you should be aware of. Below are the most current and crucial updates that pertain to both your personal tax form 1040 and your farm related tax forms. As always, if you have questions regarding your specific tax situations, we recommend that you consult your accountant directly.

1040 CHANGES

The standard deduction has not changed to $12,000 for single and $24,000 for married filing jointly because of this increase, there are no longer "Personal Exemptions" the have been "suspended". This will mostly impact those with multiple dependents who were previously getting a large amount of personal exemptions. In addition, itemized deductions have changed such that there is no miscellaneous itemized deductions subject to the 2% flow, state and local income/property taxes are now capped at $10,000 and medical expenses are limited to 7.5% of adjusted gross income.
Capital Gains Brackets have also changed, now they are 0% if taxable income is less than $77,200 for married filing jointly and $38,600 for single. It is 15% if taxable income is greater than 77,201 and less than $479,000 married filing jointly, and greater than $38,601 and less than $425,800 for single.

DEDUCTIONS AND DEPRECIATION

The Qualified Business Income Deduction (Section 199A) allows owners of sole proprietorships, S corps and partnerships to deduct up t 20% of the income earned by their business. The calculation of this can be very complicated if you taxable income over $315,000 for married filing jointly. If you are a dairy farmers, milk cooperatives will share the pass through deduction on the 1099's they issue to farmers, there may be some limitations to this amount. There is still "bonus depreciation", you can only use this in the year of a NEW or previously unused acquisition of the asset and you can deduct 100% of the purchase price. "Section 179" direct expense depreciation is available in the year of purchase with a maximum of $1,000,000 if capital purchases in total are less than $2,500,000. New farm equipment will now have a 5 year class life while used farm equipment will keep the class life of 7 years. Finally, farm assets with 3,5,7 and 10 year class life will be depreciated using MACRS 200% declining balance while 15 and 20 year assets will maintain the 150% declining balance.

Credits

There were not specific changes to the NYS Farmers School Tax Credit, however it is always good to review the rules. To be eligible you must have 2/3 of your gross income from farming, and you must own qualifying agricultural property OR use property owned by a father, mother, grandmother, grandfather, brother and/or sister and you have a written agreement to eventually purchase the property and the owner consents to not claim the credit. Most importantly, the school taxes MUST BE PAID IN THE TAX YEAR in order to get the credit. The credit is 100% of the school taxes paid on qualifying property on 350 acres then 50% on any acreage beyond that amount.

Investment Tax Credit is also still available and it available take on capital purchases that were NOT direct expensed using “section 179” depreciation. The credit is 4% of the cost of the capital purchase that must be eligible property with a useful life of 4 years or more (excluding vehicles). The credit is NON-REFUNDABLE, meaning that it will offset any state tax owed. If you do not owe NYS tax, then the credit can be carried over for 10 years. IF you are in the first year of operating, then the credit is refundable.