How the Tax Cuts & Jobs Act Applies to Farmers & Ranchers

By Chaney Black

Over the past few weeks, we have discussed how the new Tax Cuts & Jobs Act will generally affect individual taxpayers and businesses. In this week's tax tip, we highlight the main features of the new tax bill that apply to farmers and ranchers. The items discussed below are those that we feel are most important to address, considering the questions we have received from many of our clients.

- **Property taxes are still deductible**
  - If you have deducted property taxes on agricultural land and other business property on Schedule F in the past, you will continue to be able to fully deduct them. The new law only applies to an individual's <u>persona</u>l real estate and state and local income taxes, which is now limited to 10,000 for those who itemize.
- **The ability to make capital investments has improved**
  - The new tax bill increases the amount of expenditures than can be deducted using Section 179 expensing from $500,000 to $1 million. The phaseout on this expensing provision does not apply until a farmer reaches $2.5 million in purchases. This applies to capital purchases such as breeding livestock, farm equipment, and single purpose structures.
  - Farmers can now take advantage of 100% bonus depreciation on qualified property (which now includes new and used assets) purchased after September 27, 2017 through 2022. This will allow farmers and ranchers to expense the entire amount of asset purchases in the first year, without being limited by section 179 limitations that existed under the old law.
- **Most farmers and ranchers can continue to deduct business interest**
  - The new law limiting the interest expense deduction only applies to those who have greater than $25 million in gross receipts.
- **The Section 199A – Qualified Business Income Deduction**
  - Beginning in 2018, farmers and ranchers will also be able to take a 20 percent deduction off their business income. There are two primary limitations to this deduction. First, a limitation applies if a taxpayer's taxable income is greater than $315,000 for those who are married filing jointly, and $157,500 if single. Second, the deduction is limited to 20 percent of the taxpayer's taxable income.

If you have any questions or concerns, please give us a call!

Thanks,

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Income Tax Preparer