**Implications of  Tax Law Changes – 2021**

Ron Dvergsten and Greg Dvergsten, FBM Instructors

**2021 Federal Joint Rates**​

**2021 taxable income         Tax Due & Rate**​

$0           - $19,900               10% of taxable income​

$19,901   - $81,250               $1990         + 12% over $19,900 ​ Ave. tax rate at $81,250 is 11.5%

$81,251   - $172,750             $9352         + 22% over $81,250​

$172,751 - $329,850             $29,482     + 24% over $172,750​ Ave. tax rate at $172,750 is 17%

$329,851 - $418,850             $67,186     + 32% over $329,850​

$418,851 - $628,300            $95,666     + 35% over $418,850​ Ave. tax rate at $628,300 is 26.9%

$628,301+                            $168,973.50 + 37% over $628,300

**2021 Federal Single Rates**

**2021 taxable income Tax Due & Rate​**

$0 - $9,950 10% of taxable income

$9,951 - $40,425 $995.00 +12% over $9,950​ Ave. tax rate at $40,425 is 11.5%

$40,426 - $86,375 $4652.00 +22% over $40,425​

$86,376 - $164,925 $14,761.00 +24% over $86,375 Ave. tax rate at $86,375 is 17.1%

$164,926 - $209,425 $33,613.00 +32% over $164,925​

$209,426 - $523,600 $47,853.00 +35% over $209,425​ Ave. tax rate at $523,600 is 30.1%

$523,601 + $157,814.25 +37% over $523,600

**Standard Deduction: 2021**

* Single $12,550​
* Joint $25,100

**2021 MN Tax Rates**

**Married-filing jointly**​

    5.35%                 6.80%                     7.85%              9.85%​

   0-$39,810   $39,811-$158,140   $158,141-$276,200    $276201 +​  ​

**Single** ​

   0-$27,230    $27,231-$89,440     $89,441-$166,040      $166,041 +

**SS & Medicare**

* SS maximum earnings for 2021-​
* Paid at 12.4% on first **$142,800 (up $5100 from 2020)** ​
* Employers continue to pay the 6.2% match for their employees​
* Self-employed Medicare rate remains at 2.9%--no ceiling​
* Medicare surtax: 0.9% on earned income over $200,000 for single filers and $250,000 for MFJ filers​
* Net Investment Income tax: 3.8% on certain net investment income over $200,000 for single filers and $250,000 for MFJ filers

**New C Corp Tax Rate is a Flat 21% (Proposed to be changed to a 3-tax bracket structure starting in 2022)**

**Tax Life of Asset Purchases**

* 5 years – New Machinery, Farm Vehicles, Breeding Livestock, Computers/Copiers, etc​
* 7 years – Used Farm Machinery & Equipment​
* 10 years - Single-purpose agricultural structures​
* 15 years - Tiling and other land improvements​
* 20 years - Farm Buildings, other than single-purpose structures

**Capital Gains- 2021**

-No major changes other than inflation adjustments- Brackets do not follow the new tax brackets, long-term gains are increased slightly for inflation on annual basis​

Rates based on taxable income​

  --**0%**   (Joint $80,800-Single $40,400)​

  --**15%** (Joint $80,801-$501,600 Single $40,401- $445,850) ​

  --**20%**(Joint above $501,601 Single above $445,851)​

​

* **Short-term gains**- taxed at regular federal rates​
* Gains are also subject to state taxation

**Like- Kind Exchange (IRC Sec. 1031)**

* The Tax Cuts & Jobs Act retained the Sec. 1031 like-kind exchange treatment for real property (farm land), but eliminated it for personal property (machinery, equipment) starting January 1, 2018. ​
* Considerable change in treatment of machinery/equipment trades​
* Example:  Purchase tractor listed at $250,000, with an equipment trade allowance of $100,000. Starting in 2018 the full purchase price of $250,000 can be expensed or put on depreciation schedule, and any recapture on the traded equipment would be subject to depreciation recapture.

**Farm Depreciation Changes**

* Beginning in 2018, the Act allows **new** farm equipment to be depreciated over a period of Five (5) years, instead of seven (7) years. ​
* **Used** equipment purchases remain 7 year property​
* It also removes the requirement that farm property is depreciated using the 150% declining balance method (except for 15 or 20-year property). ​
* Farmers can now use a 200% declining balance method. ​
* These provisions apply to property placed into service in 2018 or after.

**Section 179 and Bonus Depreciation - 2021**

* Federal Deduction Amount​
	+ **Section 179-**  $1,050,000 for 2021 ​

      Dollar for dollar reduction if purchases over $2,620,000​

Eliminated if qualifying purchases exceed $3.67 million​

     SUV’s limited to $26,200 (includes pickup with boxes less than 6 ft.)

 ​

**Bonus Depreciation changes for 2021**​

100% Bonus Depreciation 2020, reviewed each tax year​

Bonus depreciation can be used for both new and used equipment Purchases.

100% Bonus Depreciation in​ place through 2022 then phases down

 **Qualified Business Income (QBI)**

* QBI is Generally= Net Income- Capital Gain Income​
* Net Schedule F Income; including patron. dividends​
* Form 4797 depreciation recapture of Machinery ​
* Net Schedule C Income (Example: Trucking or Seed Sales)

**Calculating the QBI Deduction**

* If your Qualified Business income is below $326,600 for MFJ or $163,300 for singles: ​
* The New 199A deduction for QBI is the lesser of: ​
* 20% of QBI​
* 20% of (taxable income – capital gain income) ​

Example:  Taxable income = $100,000($44,000 wages, $68,000 in QBI from farming operation, minus $12,000 standard deduction) ​

199A Deduction = Lessor of: ​

20% of $68,000 =   $13,600 or​

20% of $100,000 = $20,000​

199A deduction is $13,600; reducing taxable income to $86,400

 **Coops Can Take “New DPAD”**

* Internal Revenue Code Section 199A(g) reintroduces DPAD, although it’s not called that ​
* This allows coops to take a deduction equal to 9% of “Qualified Production Activities Income” (QPAI) income-expenses. This deduction however is limited to 50% of W-2 wages paid. ​
* C- Corp’s cannot receive the 199A(g) deduction

**Child Tax Credits- Increased for 2021 and is fully refundable**

* $3600/child 5 and under
* $3000/child ages 6-17 (increased from $2000/child ages 16 and under)
* $2000/child if AGI is over $150,000 for MFJ and $75,000 single
* Child Tax Credit eliminated if AGI is over $400,000 for MFJ and $200,000 single

**Dependent Care Credit;**

New credit of up to $500 is available for each qualifying dependents other than children eligible for the child tax credit

**Child and Dependent Care Credit:** helps pay for the cost of child and dependent care. For 2021, if your AGI is less than $125,000, you can receive up to a 50% of the cost of care credit, up to $8000 for one dependent, and up to $16000 for 2 or more.

**Education Credits**​

* **HOPE** – (**Now American Opportunity Tax Credit**) 100% of first $2,000 of eligible tuition, books and fees, 25% of the next $2,000 ***(Max Credit = $2,500 / eligible student)***
* **LIFETIME LEARNING** – 20% of eligible tuition & fees (***Max Credit $2,000.00 per tax year / tax return)***
* **Phase Out Levels**​
* **AOTC $80,000-$90,000 for single & $160,000-$180,000 MFJ**​
* **LLC $56,000 - $66,000 for single & $112,000 - $132,000 MFJ**

**Higher Federal Estate Tax Limits for 2021**

* 2017 Rule $5.59 million per individual or $11.18 per couple​
* The new law doubles these exemptions: Now, for 2021, individuals $11.70 million lifetime exemption and married couples get to exclude $23.4 million. ​
* This includes gifts over the annual exclusion and the final inheritance. ​
* If exceeding these limits, the Federal Tax rate is a flat 40%. ​
* **Annual Gift Exclusion for 2021 remains at $15,000.** ​
* Minnesota does not follow the federal rules!

**Retirement and Health Savings Contributions**

* Traditional & Roth IRA Maximum Contribution Limit​
	+ $6,000 contribution if UNDER age 50​
	+ $7,000 if age 50+​
	+ NOTE: other qualified retirement plan contribution levels are much higher, ranging from $12,500-$24,000 (examples: 401k, 403b, Simple IRA, SAR SEP) ​
* (HSA) Maximum Contribution Limits​
	+ $3,600 individual / $7,200 family – if under 55​
	+ $4,600 individual / $8,200 family – 55 or over

**Health Insurance**

* 100% deductible against ordinary income for all individuals (1040 – bottom of page 1)​
* More are using HSA- Health Savings Account & Sec 105 plan (agbiz plan allows non-corp to claim on Schedule F)

**Equipment Leasing**

* Know your lease contract!!​

      **-Tax Lease,** or operating lease,

which treats lease payments as rental expense​

​

      **-Non-tax lease**, called capital lease,

Equipment dealer may call it a lease; IRS treats it as a financed ​purchase

**CCC Crop Loans–**​**How They Are Taxed**

2002 Tax Law changed regarding the selection of either the LOAN or INCOME method for tax reporting (from **one year to the next**) ​

* CCC loans are not included in income, unless​
	+ Section 77 election is made allowing you to claim the loan as income, this stays in effect until revoked by filing form 3115​
* A change from the INCOME to the LOAN method requires the completion of and filing IRS form 3115 (Application for Change in Accounting Method), this revokes the section 77 election and the loan is now treated as a loan for tax reporting purposes ​

**SPECIAL NOTE**: ​

* These changes can be made year by year, but you must choose an accounting method for the year treating all CCC loans the same in a given tax year.

**Crop Insurance Deferral**

* Crop insurance deferral remains the same. Remember the crop loss portion **qualifies** for deferral and the revenue portion does **not qualify** for deferral. ​
* Must have deferral history​
* Premium is deductible when deferring​
* Proceeds can be received and defer on tax return with statement attached​
* Prevent plant production loss payments are deferrable, revenue portion of PP is not

**CRP Payments Clarified**

* Retired Person-No self-employment tax​
* Active Farmer- Pays self-employment tax​
* Investor- No self-employment tax

**Other Items**

* Business mileage rate for 2021 $.56​
* Make sure the grain elevator 1099-PATR line up with your records. ​
* Income averaging is still an available option​
* **\***A recent court case in September of 2014 disallowed checks written the last day of the year with insufficient funds in the bank account to cover the checks were disallowed as deductible expenses for that tax year even if an operating line of credit was available.

**Many Itemized Deductions Eliminated**

* Unreimbursed employee expenses (including, home office expense, office expenses, uniform expenses, travel expenses, meal & entertainment expenses, license fees, tools used for work, and job search expenses​
* Tax Preparation expenses​
* Professional dues​
* Moving expenses​
* Safe deposit box rental​
* Investment fees and expenses

**Summary**

The key to your tax planning should be based on: ​

* **consistently managing your income and expense over a period of time.** ​
* **Capturing credits/deductions allowed by IRS**​​
* **Don’t mix tax strategy with crop marketing strategy**​
* **Managing prepays, deferred grain & livestock sales,**​​
* **And**, **making capital investments as needed to enhance business efficiency/productivity** as well as capturing tax savings. **Purchases must also fit the overall cash flow of the business.**
* **A Successful/Profitable farm will pay tax. Too much time is spent worrying about taxes & sometimes not enough on maximizing profits and cash flow.**
* **Do year-end tax planning to avoid any surprises especially this year with the many changes made to tax code!**