
Income Tax Management Tools: Use After the End of the Tax Year

January 2025

J C. Hobbs - Associate Extension Specialist
OSU Department of Agricultural Economics
Oklahoma State University

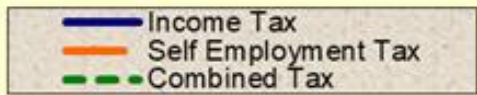
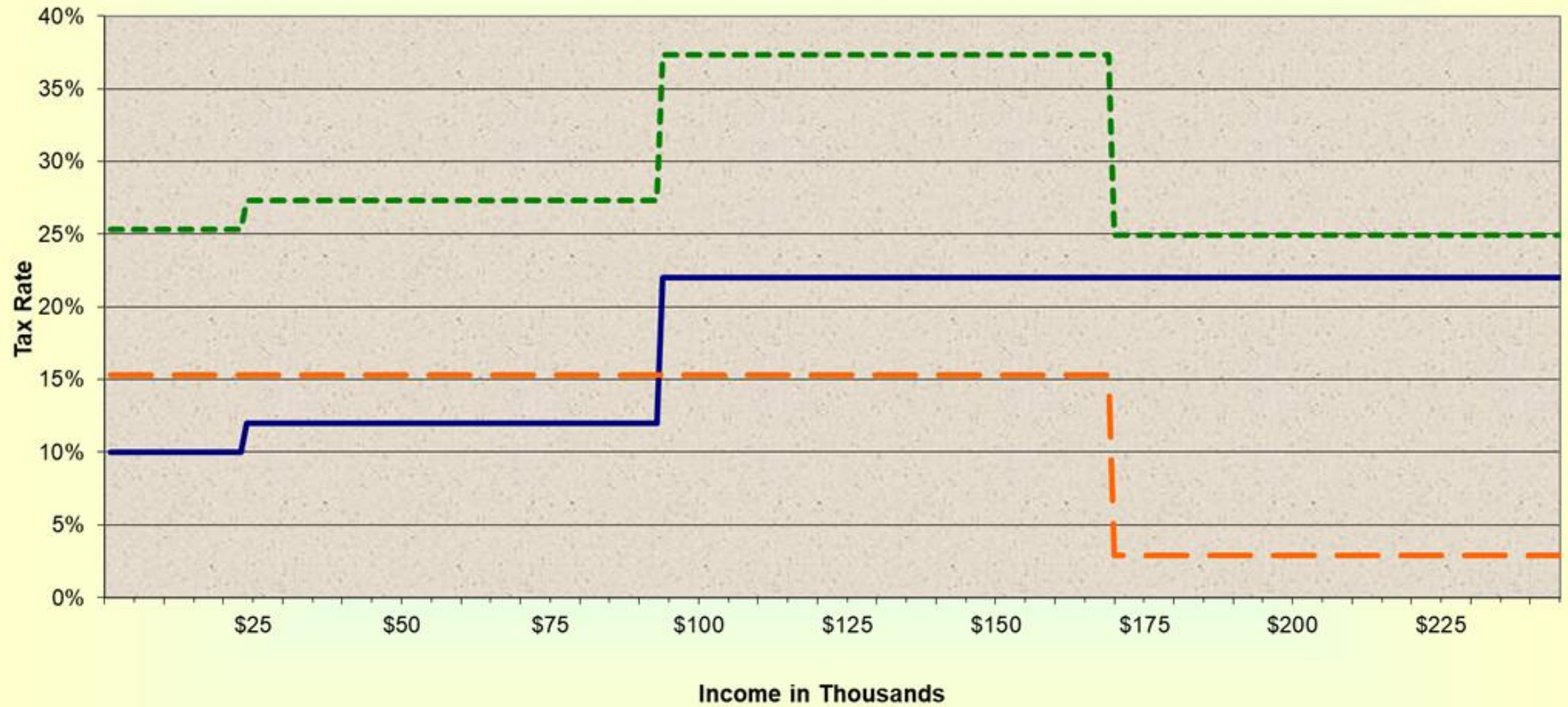
Tax Planning

- Ag producers have unique options for income tax planning
 - Many tools or options not available to main street businesses
- Working with your tax professional is your most effective tool!
- Leave yourself some wiggle room if possible
 - Sometimes, things just happen....

Topics

- Special Depreciation Allowance (Bonus Depreciation)
- Section 179 Expense Deduction
- Income Averaging
- Crop Insurance Proceeds Reporting
- Drought Sale of Livestock

2024 INCOME TAX RATES (MFJ)



Special Depreciation Allowance (Bonus Depreciation)

- Allowed percentages to change
 - 2024 – 60% depreciation allowance
 - 2025 – 40% depreciation allowance
 - 2026 – 20% depreciation allowance
 - 2027 – sunsets and goes away unless congress acts to change it
- New or used property qualifies that is purchased and placed in service during the tax year

Special Depreciation Allowance (Bonus Depreciation)

- \$100,000 tractor purchase
- Amount of Bonus Depreciation allowed for 2024 = \$60,000 $(100,000 \times 60\%)$
- Amount of Regular MACRS Depreciation allowed for 2024 = \$8,000 $((100,000 - 60,000) \times 0.200)$
- Total Depreciation allowed for 2024 = \$68,000 $(60,000 + 8,000)$

Section 179 Expense Deduction

- 2024 allowed amounts for qualifying equipment
- \$1,220,000 deduction limit (\$1,250,000 for 2025)
- \$3,050,000 phase-out threshold (\$3,130,000 for 2025)
- Also limited to the amount of net farm income
- Purchase of the \$100,000 tractor could be expensed to the amount of \$100,000 if net farm income is \$100,000 or more

Section 179 Expense Deduction

- \$100,000 tractor purchase
- Assume 200,000 of net farm income
- Expensing amount allowed for 2024 = \$100,000
- Compare to Bonus: only \$68,000 of depreciation allowed for 2024
- \$32,000 difference
- Tax evaluation is needed to determine the preferred option

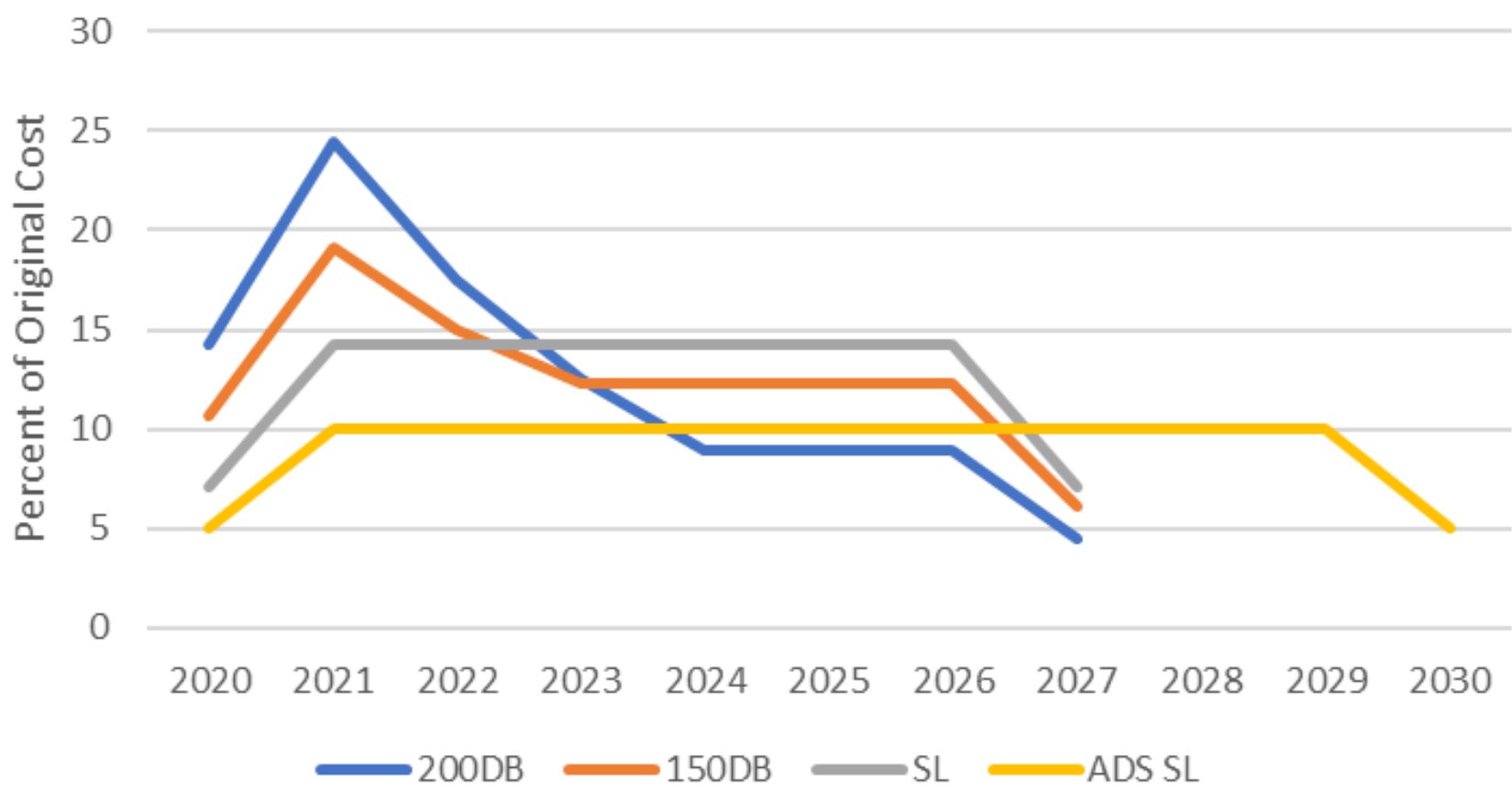
Bonus Depreciation v Section 179

- Presumption: Bonus Depreciation is used unless the taxpayer elects not to use it (elect out)
- Regular MACRS depreciation is then used unless the Sec. 179 Expensing Election is made
- Tax planning will be changing from now until Bonus sunsets (work with your tax preparer to determine the preferred tax management option)

Other Depreciation Options

- Elections available to slow down depreciation to reduce depreciation expense and increase taxable income
 - Default farm depreciation is MACRS 200DB
 - Elect to use MACRS 150DB
 - Elect to use straight-line (SL)
 - Elect to use SL and use Alternative Depreciation System (ADS)
 - ADS increases depreciable life (usually)

Depreciation Methods Over Time



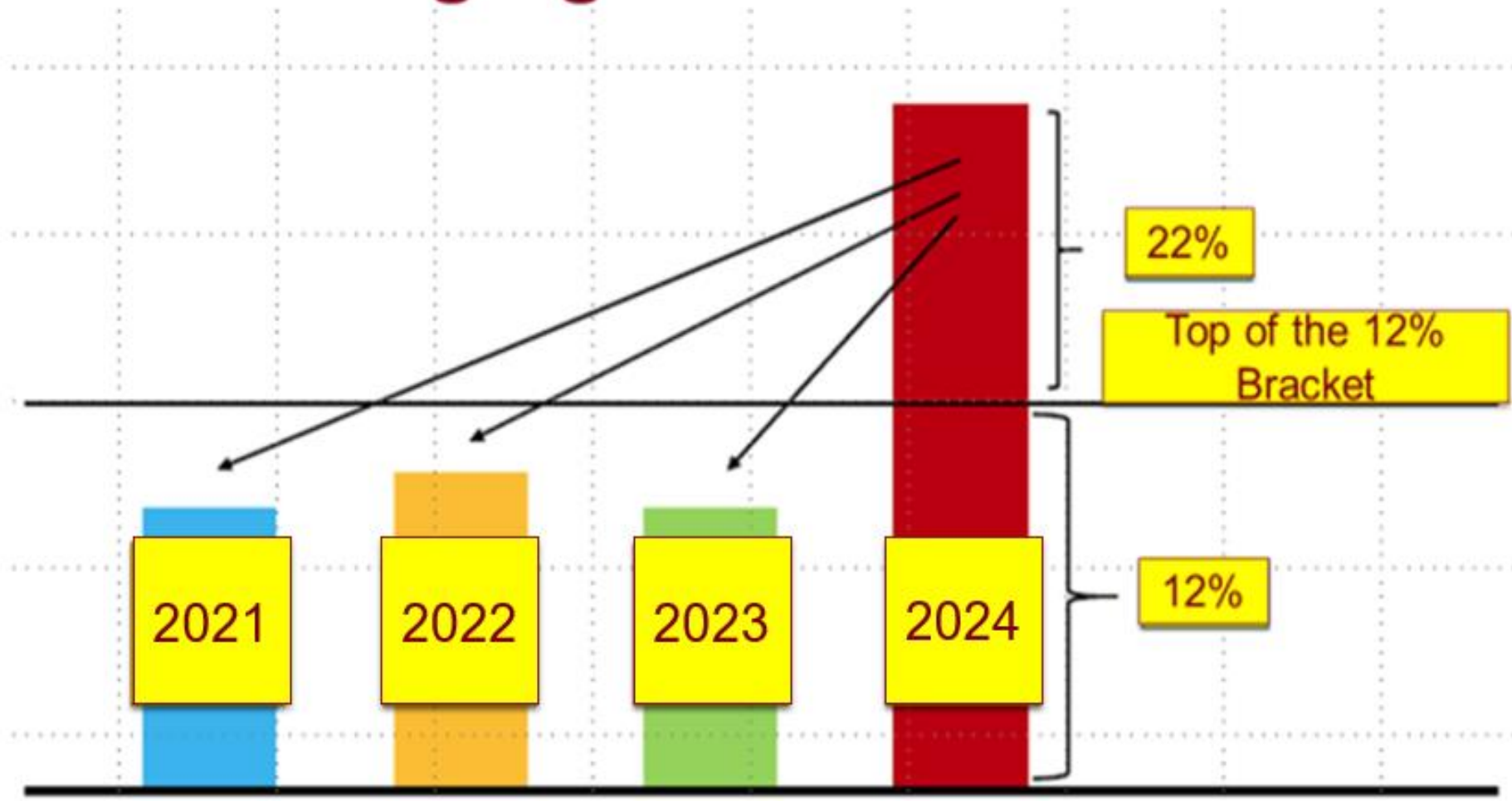
Income Averaging

- Special election available to farmers and fishermen (reported on Schedule J) to utilize unfilled brackets in previous years
- Elected Farm Income (2024 total amount to average) divided equally over the three prior base years (2021, 2022, 2023); overall tax is recalculated and compared
- Does not amend or change prior year returns
- Income averaging just about tax rates; goal is to fill lower brackets of the base years and reduce current year tax

Income Averaging

- Does not impact income subject to self-employment tax
- Can elect any amount as *Elected Farm Income* up to the total of
 - Farm income reported on Schedule F or Form 4835 (farm rent)
 - Gain from machinery or breeding livestock sales on Form 4797
 - Certain farm pass-through income
 - Wages from farming S corp. for >2% shareholder
 - Gain on land sales NOT eligible

Income Averaging



Income Averaging

- Original:

\$30,000 taxed at 22%

tax = \$6,600

- With Averaging:

\$10,000 taxed at 22%

\$20,000 taxed at 12%

tax = \$4,600

Tax savings: \$2,000

Tax Planning with Income Averaging

- Can be utilized in high income years
- The current benefit of income averaging is maximized when the average marginal tax rate for the base years equals the marginal tax rate of the election year
- Could also be beneficial to create 'gaps' for future years (Base year drops off after three years)
- Income tax for each year used as a future base-year will be calculated after any earlier year election

Crop Insurance Proceeds

- Potential to defer crop insurance proceeds, from crop damage or destruction, to the year following production
 - Available if you normally sell more than 50% of grain the following year
 - Cash basis taxpayers only
 - If qualified, all crop insurance proceeds must be deferred even if from different crops
- Revenue policies may have both a revenue and yield loss
 - Revenue portion of crop insurance cannot be deferred
- Rainfall or weather insurance proceeds cannot be deferred

Weather Related Livestock Sales

- Two elections available when weather conditions lead to sales in excess of normal practices
- §451(g)
 - - Applies to market animals and breeding stock
 - - Applies only to sales in excess of normal
 - - Requires federal disaster declaration
 - - Defer recognition of income to the following tax year

Weather Related Livestock Sales

■ §1033(e)

- - Applies only to breeding, dairy, and draft livestock
- - Applies only to sales in excess of normal
- - Does not require a federal disaster declaration
- - Gain is “held” until replacement is purchased within 2 years of drought ending (may be extended in conditions continue)
- - When replacement stock is purchased, basis of replacements is decreased by deferred gain

Weather Related Livestock Sales

- IR 2024-248 (released Sept. 30, 2024)
 - IRS extends relief to farmers and ranchers in 41 states, other areas impacted by drought; more time to replace livestock
- Notice 2024-70
 - Extension of Replacement Period for Livestock Sold on Account of Drought (58 Oklahoma counties)
- Notice 2006-82
 - Detailed instructions with example

Additional Thoughts

- Be sure to consult your tax advisor to evaluate the impact of these tax planning tools on your tax return.

In the long run:

Net farm income + Non-farm income

Should Be Greater Than

Family living expense + Income tax liability + Land principal payments

- Questions and Comments

Survey and Contact Information

Link to webinar survey

https://okstatecasnr.az1.qualtrics.com/jfe/form/SV_9MjtXsIEIIX5hNc

Questions and Comments

J C. Hobbs

E-mail: jc.hobbs@okstate.edu

580-237-7677

Oklahoma Cooperative Extension Service

Oklahoma State University

The End!
