Implications of the New Tax Code for the Beef Cattle Producer

May 10, 2018

Summary

Individuals

- Tax rates: individuals, trusts/estates, and other
- Estate and gift tax exclusions/exemptions
- Capital gains
- Other provisions

Businesses

- Tax rates
- Pass-through deduction
- Entity selection
- Asset expensing and depreciation
- Net operating losses
- Excess business losses
- Citrus provisions
- Other provisions
- 1031 "like-kind exchanges"
- Agriculture impact recap

Disclaimer

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Individuals

Tax Rates

Individuals

- Lower tax rates at most income levels

Household Income	Old *	New *
$1 – $19,050	10%	10%
$19,051 – $77,400	15%	12%
$77,401 – $156,150	25%	22%
$156,151 – $165,000	28%	22%
$165,001 – $237,950	28%	24%
$237,951 – $315,000	33%	24%
$315,001 – $400,000	33%	32%
$400,001 - $424,950	33%	35%
$424,951 - $480,050	35%	35%
$480,051 - $600,000	39.6%	35%
Over $600,000	39.6%	37%

* Married Filing Joint

Tax Rates

Trust/Estate & "Kiddie"

- Trust tax rates modified (see table)
- Kiddie Tax: Unearned income of children is now based on trust/estate tax rates
  - Formerly based on parent's personal tax rates

Income	Old	New
$0 - $2,550	15%	10%
$2,551 - $6,000	25%	24%
$6,001 – $9,150	28%	24%
$9,151 - $12,500	33%	35%
Over $12,500	39.6%	37%

Estates and Gift Taxes

Exemptions and Exclusions Increased

Income	Old	New *
Estate Tax Basic Exclusion	$5.6 million	$11.2 million
GST Exemption	$5.6 million	$11.2 million
Gifts, 709 (unified credit)	$5.6 million	$11.2 million
Gifts, no 709	$14,000	$15,000

* In 2026, these amounts will revert back to 2017 amounts, indexed for inflation.

Capital Gains

Capital Gains Rates

- No substantial changes, rates remain intact
  - 0% for households (MFJ) with less than $77,200 income
  - 15% for households (MFJ) with income between $77,200 and $479,000
  - 20% for households (MFJ) with income beyond $479,000
  - Obamacare taxes (3.8% NIT and 0.9% additional Medicare) remain

Other Provisions

Standard Deduction Roughly Doubled (and Indexed)

- Married Filing Joint $24,000
- Head of Household $18,000
- Single $12,000

Personal Exemptions Eliminated

- To help pay for other benefits (like the increased standard deduction)

2% Miscellaneous Deductions

- Repealed – deductions no longer available for certain items like unreimbursed employee expenses, investment expenses, etc.

State and Local Tax Deductions

- All state and local taxes, including property taxes, are now limited to $10,000 annually

Businesses

Tax Rates

Corporations

- Flat rate - lower for most corporations
- Not to be confused with S Corporations, which are “pass-through” entities

Income	Old	New
$1 – $50,000	15%	21%
$50,001 – $75,000	25%	21%
$75,001 – $10,000,000	34%	21%
Over $10,000,000	35%	21%

Pass-Through Deduction

Background: Repeal of § 199 Domestic Production Activities Deduction (DPAD)

- DPAD had certain unique benefits, like reducing adjusted gross income (AGI)
- DPAD was allowed only for taxpayers with domestic production activities. Generally, this included agricultural producers.
- DPAD was not limited by entity type
- In DPAD's place, a new deduction was provided…

Pass-Through Deduction

§ 199A Qualified Business Income (QBI) Deduction

- Generally **20%** of a taxpayer's QBI from a pass-through entity (partnership, S corporation, or sole proprietorship)
- "QBI" defined as the net amount of items of income, gain, deduction, and loss with respect to the trade or business - exceptions apply
- Does not lower adjusted gross income (AGI) or self-employment taxable income
- Not limited to domestic producers; however, taxpayers in certain service businesses are subject to phase-outs

** See additional handout material **

Pass-Through Deduction

QBI Deduction: Simplified Example

Farmer made $100,000 net income (all of it qualifying as QBI) from his farm in 2018. Rather than paying tax on $100,000, as he would have in prior years, he will be allowed a $20,000 deduction (20% of $100,000) against this QBI, and therefore will only pay tax on $80,000 of this income.

Considerations

- Requires separate calculations for each pass-through trade or business included on an individual's tax return
- Various exemptions, phase-outs, limitations, and other nuances apply – calculation or forecast can be complex

Entity Selection

Entity Selection Considerations

- Sole proprietorship
- Partnership
- S corporation
- C corporation
- Limited liability company (LLC)

** See additional handout material **

Asset Expensing/Depreciation

Section 179 expense

- Limit doubled to $1 million in 2018 (plus indexing)
- Phase-out starts at $2.5 million (plus indexing)
- Can be used to optimize taxable income
  - Cannot use Sec. 179 to deduct more than net taxable business income
- Tangible personal property
- “Qualified real property” now includes improvements to nonresidential real property: roofs, heating, ventilation, and A/C; fire protection and alarm systems; and security systems

Asset Expensing/Depreciation

Bonus Depreciation, Section 168

- Allowable amount doubled to 100%
- Now can include used property
- Phase out beginning in 2023
  - 80% in 2023
  - 60% in 2024
  - 40% in 2025
  - 20% in 2026
  - Zero afterwards

Asset Expensing/Depreciation

Farm Machinery & Equipment

- Recover period changed from 7 years to 5 years on new equipment only (exceptions apply)
- Most 3-, 5-, 7-, and 10-year MACRS farming property now allowed 200% declining balance
- 15- and 20-year MACRS farming property still required to use 150% declining balance

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Asset Expensing/Depreciation

Automobiles

- Higher base amounts of depreciation caps for passenger automobiles for which no bonus or Section 179 expense taken:
  - $10,000 for the year that a vehicle is placed in service,
  - $16,000 for the second year in the recovery period,
  - $9,600 for the third year in the recovery period,
  - $5,760 for the fourth, fifth and sixth year in the recovery period

Light SUV/Truck

- Subject to a $25,000 limitation, per-vehicle, on the amount that can be expensed under Code Sec. 179
  - 6,000 pound GVW, cargo area less than 6 feet

Heavy SUV/Truck

- Limit does not apply to 14,000 pound GVW or cargo area 6 feet or greater, or carries 9 or more passengers

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Net Operating Losses

Net Operating Loss Usage Limited

- Effective date: years ending after 12/31/17
- NOL Deduction – now limited 80% of taxable income
- Intervening year calculation
  - Max 80% NOL deduction
- Farmers carry back a NOL two years, rather than five years
  - Election allowed to forego farming loss carryback
- All other losses must be carried forward

** See additional handout material **

Net Operating Losses

Net Operating Loss Example

2018:	Taxpayer generates a $90,000 NOL, which carries forward	
2019:	Taxpayer has taxable income of	$100,000
Less:	2018 NOL carryover [2019 Limit ($100,000 x 80%)]	($80,000)
Equals:	Taxable Income for 2019	$20,000

The remaining 2018 NOL of $10,000 ($90,000 - $80,000) is carried forward indefinitely.

Excess Business Losses

Limitation on Excess Business Losses

- New law: 2018 to 2025
- Replaces limitation on excess farm losses for non-corporate taxpayers
- Limits ability to offset farm losses against other sources of income
- Target non-corporate taxpayers
- Coordination within passive activity losses rule
- Disallowed losses are treated as NOL's

** See additional handout material **

Citrus Provisions

Expensing / Uniform Capitalization (UNICAP)

- Expanded exception from required capitalization production costs for citrus producers with crop losses due to casualty
  - This exception now also applies to certain stakeholders (minority and subsequent owners) other than the taxpayer which owned the property
- Direct and indirect costs – preproduction
- Replanting costs
- Two years or more for production
- Hurricane and greening
- New investors

** See additional handout material **

Other Provisions

Meals & Entertainment

Starting in 2018, no deduction for:

- Activity considered to be entertainment, amusement, or recreation
- Membership dues for business, pleasure, recreation, or other social purposes
- On a facility of portion thereof used in connection with any of the above

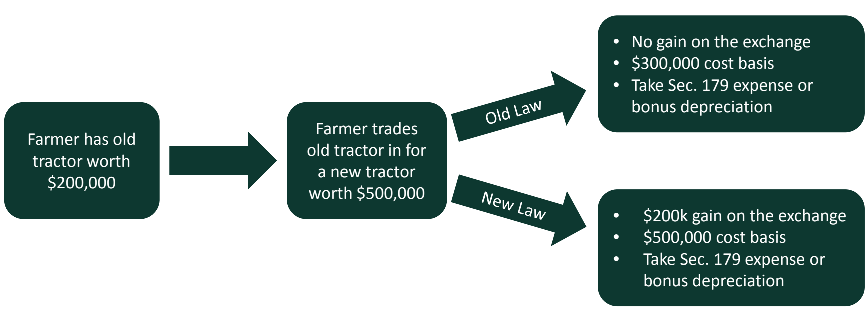
Cash Basis Method of Accounting

New allowable gross receipts threshold increased from $10 million to $25 million (average of three preceding years)

Section 1031 “Like-Kind Exchange”

Like-kind exchanges modified

- Now limited to real property exchanges (buildings, land)
- Setback for equipment-heavy industries like agriculture
  - However, the increase Sec. 179 expense and bonus depreciation limits helps



Agriculture Impact Recap

Positives

- 179 Expense / Depreciation
  - New equipment is now 5 year property, down from 7
- Pass-through deduction at 20%
- Cash basis
- Choice of entity: C corporation, S corporation, or partnership
- Estate 706/709
- Citrus: Preproduction costs/263A
- Tax Rates

Negatives

- 1031 Like-kind exchanges: now, only real property
- Kiddie tax
- Business meals and entertainment
- NOL's: carryback and 80% limitations

Questions?

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