

# Taxation of Farmers and Agriculture



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# AG Taxes Apply To

## ➤ Crop Production

- Oilseed & Grain Farming
- Vegetable & Melon Farming
- Fruit & Tree Nut Farming
- Greenhouse, Nursery & Floriculture Production
- Other Crop Farming

## ➤ Forestry and Logging

- Including Forest Nurseries & Timber Tracts

## ➤ Animal Production

- Beef Cattle Ranching & Farming
- Cattle Feedlots
- Dairy Cattle & Milk Production
- Hog & Pig Farming
- Poultry & Egg Production
- Sheep & Goat Farming
- Aquaculture
- Other Animal Production

# Current Tax Rate – 2014

	<u>Over</u>	<u>Rate</u>
➤ Income Tax MFJ	➤ \$457,600	39.6%
➤ Plus - Medicare Tax Rate		
➤ On Earned Income	➤ \$250,000	.9%
➤ On Net Investment Income	➤ \$250,000	3.8%
➤ Capital Gains Rates		
➤ Short Term		
➤ Long Term		
➤ If Tax Rate 10% or 15%	➤ 0%	
➤ If Tax Rate 25% to 35%	➤ 15%	
➤ If Tax Rate 39.6%	➤ 20%	

# Depreciation Expense

- Regular Methods
- IRC 179
  - Deduction Limit - \$25,000
  - Phase out \$125,000 - \$150,000
  - Can be new or used
  - Up to business net income
- BONUS - NONE FOR 2014

# IRS Issues

- 1099's – For Business Services
  - \$600 Paid
  - Veterinarian Services
  - Day labor
  - Cowboys
    - Horse
    - Dog
    - Stock Trailers
  - Attorneys
- Full Time vs Part Time Employees
  - 40 hours vs 30 Hours
  - Contract Services Test

# New Capitalization and Repair Rules

\* Effective 1/1/2014 \*

Impacts Majority of All Businesses

Any Deduction For...

- Repairs and Maintenance
- Materials and Supplies
- Rotable, Temporary and Spare Parts
- Improvement to Assets
- Changes or Modifications to Assets

# Capitalization and Repairs Cont.

- \$500 de minimis rule
- Materials and Supplies - On Hand
- Replacement
  - Damaged
  - Maintenance
- Change in Use -Materially Expands or Increases Use
- Restoration

# IRS Audit Issue

- Proper Records and Supporting Doc's
  - Separate Checking Accounts
  - Separate Credit Cards
  - QuickBooks
- Log of Activities
- Supporting Business use of Trucks
- Electronic Media
- Unreported Income - Examples



# Business vs Hobby Losses

- Part Time Farmer
- Profit Motive
- Business Plan
- Run Like a Business
- Active vs Passive - Time Spent
- Personal use for Pleasure
- IRS - View
  - 9 Point Questions
- Separate Business Activities

# Farmer's Taxes

- Cash Basis
- Income - Tax Reporting
  - Raised
  - Purchased
  - Timber
- Income Deferral
  - Crop Insurance
  - Feed and Hay
  - Herd Reduction / Liquidation

# Farmer's Taxes Cont.

- Land Preparation Cost
- Uniform Capitalization IRC 263A
  - Pre-productive Period
    - Citrus / Vineyard
    - Blueberry
  - Cost subject to IRC 263A
- Row Crops
- Livestock
- Alternative Ranching – Deer Ranches

# Farmer's Taxes Cont.

- Domestic Production Activities
- Income Averaging
- Prepaid Farm Expense
- IC-Disc Corporation
- Employing your Children
- Sale of your Residence with Farm
- Taxpayer Identity Theft Fraud

# Any Questions?

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