



2020/2021 Tax Update

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Agenda

- Farming changes
- Government payments
- Unexpected income sources
- Loans
- Tax planning strategies

Farming Changes

- Availability of government payments
 - Expected vs. unexpected
- Access to loans/grants
- Crop insurance claims (some from two different crop years)

Government Payments

- Coronavirus Food Assistance Program (CFAP and CFAP 2.0)
 - Taxable in the year received
 - Cannot be deferred
 - CFAP 3.0 in 2021
- Market Facilitation Payment (MFP)
 - 3rd payment received and taxable in 2020
 - Cannot be deferred
- Wildlife and Hurricane Indemnity Program Plus (WHIP +)
 - Expanded to include excess moisture
 - May be based on prior year's crop which cannot be deferred

Unexpected Sources

- Syngenta settlement income
 - Received 65% of the settlement in the spring of 2020
 - Remaining 35% was dated December 30, 2020 and not received until 2021
 - Taxable on Schedule F when received
- Economic Income Payments
 - Stimulus payments generated from the CARES Act
 - \$1,200 per taxpayer plus \$500 per qualifying child under the age of 17
 - Not taxable
 - Subject to income thresholds – will be reconciled on 2020 tax return

Unexpected Sources

- Economic Income Payments
 - Second Round of payments: \$1,200 per couple plus \$600 per qualifying child under the age of 17
 - Subject to income thresholds – will be reconciled on 2020 tax return
 - Will be direct deposited if IRS has information, otherwise you will receive as a paper check.
 - If IRS does not have correct information, you can claim the payment when you file your 2020 tax return in the spring of 2021.
 - Social Security retirement beneficiaries do not need to file to receive the rebate.

Loans

- Not generally important for tax because it is simply an influx of cash to be paid back over time
- Forgiven loans are considered cancellation of debt (taxable income)
- Two loans introduced in 2020
 - SBA introduced Economic Injury Disaster Loans (EIDL)
 - Paycheck Protection Program (PPP) loans

Loans

- Economic Injury Disaster Loans (EIDL)
 - Part of the loan includes \$1,000 advance per employee
 - Remainder of loan to be paid back
 - Advance will not be taxable, and expenses paid with funds will be tax deductible.

Loans

- Paycheck Protection Program (PPP) Loans
 - Designed to provide incentive to keep employees on payroll during the pandemic
 - If certain criteria are met, the loan may be 100% forgiven
 - Congress ensured that the forgiven loan would not be taxable income.
 - IRS has issued guidance business expenses paid for with the proceeds of PPP loans are tax deductible, consistent with the Congressional intent in the CARES Act.

Tax Planning Strategies

- Deferring crop insurance
 - Payment received for current year crop if normal business practice to sell in the following tax year
 - All or nothing
 - Revenue assurance is not deferrable

Tax Planning Strategies

- Deferred grain contracts
 - Normally taxable when income is received (Ex. 2021)
 - If grain is sold and delivered, can elect to pull that income back into the previous year (2020)
 - Must elect by contract
 - Final decision made when filing the tax return

Tax Planning Strategies

- Income averaging
 - Utilized in high income tax years
 - Elected farm income pushed back equally to the prior three tax returns
 - Tax is figured based on the tax brackets/rates in those prior years
 - Common strategy is to have three low tax returns followed by one higher tax return
 - This also works well with going above the social security tax limit (\$137,700 for 2020) and saving 12.4% social security tax on any self employment income above that

Tax Planning Strategies

- Depreciation
 - Bonus Depreciation
 - 100% effective until 12/31/2022
 - Qualifications
 - Useful life of 20 years or less & purchase from unrelated party.
 - New or used property
 - Unlike Section 179, it is not subject to an annual dollar limit, and is not limited to annual business profit.
 - Section 179
 - 2020 Deduction Limit = \$1,040,000 & 2021 Deduction Limit = \$1,050,000.
 - 2020 Phaseout = \$2,590,000 & 2021 Phaseout = \$2,620,000.
 - Qualifying Property = Farm Equipment/Vehicles., Grain Bins, Livestock

QUESTIONS?