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2020 Tax Update

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Agenda

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

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Farming Changes

- Availability of government payments
  - Expected vs. unexpected
- Access to loans/grants
- Changes to commodity prices
- Weather differences from the prior year
- Crop insurance claims (some from two different crop years)

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Government Payments

- Coronavirus Food Assistance Program (CFAP and CFAP 2.0)
  - Taxable in the year received
  - Cannot be deferred
- 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
  - Maybe based on prior year's crop which cannot be deferred

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Unexpected Sources

- Syngenta settlement income
  - Received 65% of the settlement in the spring of 2020
  - Remaining 35% expected to be received late 2020 or early 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

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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

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Loans

- Economic Injury Disaster Loans (EIDL)
  - Part of the loan includes $1,000 advance per employee
  - Remainder of loan to be paid back
  - Advance is taxable since the funds were used for deductible expenses and excluded from repayment

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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. However, they were silent on how to treat the expenses.
  - IRS has issued guidance that any expenses paid with PPP loan proceeds are not deductible if the loan is forgiven OR expected to be forgiven

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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

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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

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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

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QUESTIONS?

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