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TAX ISSUES 2011

RURAL TAX EDUCATION

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Welcome to the Rural Tax Education website. This website provides farmers and ranchers, other agricultural producers and Extension educators with a source for agriculturally related income and self-employment tax information that is both current and easy to understand.

Tax issues are important for agricultural operations because income and self-employment taxes are a major cost and also because more and more USDA programs are being linked to a producer's federal income tax return.

Hot Topic

"For the 2010 tax year only, health insurance purchased by the self-employed producer for himself and family will be deductible on Schedule F. This will reduce self-employment income."

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Webinars

Check back for upcoming dates.

Deferred Tax on Current Assets

- ⦿ Current liability to account for timing of payment of tax liability.
- ⦿ Tax that is deferred into a future year from:
 - Delaying selling of crops or livestock produced
 - Prepayment of expenses
 - Accelerating depreciation expense
- ⦿ Take value of all current assets that would be taxed if sold/collected and subtract all current liabilities that would be deductions if paid.
- ⦿ The net multiplied by tax rate is deferred tax on current assets.

Deferred Tax cont.

⦿ Reasons to do it:

- Keeps farmer in a lower tax bracket
- Keeps farmer from paying AMT tax.
- If the tax is the same dollars, paying it in the future is cheaper (you are using deflated dollars to do so). You could also have made money on the investment.

⦿ Reasons not to do it:

- Risk involved, it may hit the farmer at a time they are financially unable to cover it.
- May be higher tax rates in the future.

Tax rates 2012 and 2013

- ⦿ The top individual income tax rate would go from 35 percent in 2012 to 39.6% in 2013.
- ⦿ Capital gains and dividends
 - 20% for individuals in top tax bracket.
 - 15% for individuals in 15% to 35% tax bracket
 - Kept the 0% for low income earners (in 10% income bracket).

Tax rates 2012 and 2013

- ⦿ New for high earners (200K individuals, 250K married).
 - investment tax additional 3.8% on investment income
 - Additional .9% for Medicare payroll tax on wages above \$200K individuals, \$250K couples. (increases current 2.9% to 3.8%)

FICA TAX

- ⦿ The employer portion of the FICA tax remains at 6.2 percent
- ⦿ Employee portion goes back to this level.

Section 179 Election For Expensing Equipment

- In 2012, expense method depreciation (for federal tax purposes) would be set at \$139,000, with the phase-out beginning at \$560,000 of qualified property purchases for the year. Without subsequent legislation, the limit will fall to **\$25,000 (adjusted for inflation)** beginning in 2013.
- This increased it to \$500,000 for 2012 and 2013.

Additional First year Depreciation

- ⦿ The bill specifies that for qualified assets (original use of the asset by the taxpayer) placed in service by December 31, 2012, 50 percent bonus depreciation is available.
- ⦿ Extended to end of 2013

Current Extension - Estate Taxes

- ⦿ For deaths and taxable transfers in 2011 and 2012
 - The exemption for estate, gift and GSTT purposes would be \$5 million (\$5.12 million in 2012) and the tax rate would be 35 percent beyond that level.
 - The bill would also allow portability of the estate tax exemption between spouses for deaths in 2011 and 2012. So, the new applicable exclusion amount is the basic exclusion amount plus the portable amount carried over from the decedent's last spouse.
- ⦿ This was made permanent but the top rate is 40%