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Western Extension Committee Meetings  
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# TAX ISSUES 2014

Internet Explorer browser interface showing the address bar with <http://ruraltax.org/>, search bar, and navigation menu (File, Edit, View, Favorites, Tools, Help). The browser title is "Rural Tax".

# 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."

[Click here to read](#)

## Webinars

Check back for upcoming dates.

# 2013 Income Tax Rates

- ⦿ 2013 and future rates are to be: 10, 15, 25, 28, 33, 35, and 39.6 percent.
- ⦿ 39.6% rate applies to:
  - Single Filers with TI > \$400,000
  - Married Filers with TI > \$450,000
  - Head of Household Filers with TI > \$425,000
  - Married Filing Separate with TI > \$225,000

# Capital Gain Rates

## ◎ Capital gains for 2013

- Net capital gain is taxed at the 0% rate for taxpayers in the 10% and 15% income tax brackets.
- Net capital gain is taxed at the 15% rate for taxpayers in the 25%, 28%, 33%, and 35% income tax brackets.
- Net capital gain is taxed at the 20% rate for taxpayers in the 39.6% income tax bracket.

# Medicare Tax on Earned Income Starting 2013

- New Medicare Tax on earned income at 0.9% on wages and self-employment exceeding \$250,000 for joint returns and surviving spouses or \$200,000 single filers and all others.
- Applies only to the employees share of the Medicare tax ( not the employers) and to self-employment income.

# Net Investment Income Tax – Starting 2013

- ⦿ New Medicare Tax on unearned income at 3.8% rate if modified adjusted gross income exceeds \$250,000 for married filing joint or \$200,000 all others.
- ⦿ Net investment income - applies to interest, dividends, annuities, royalties and rent (unless it is from business activities).
- ⦿ Net income from the sale of capital investments including stock and real estate (unless it is from the sale of business property).

# Farmland Rental and Sale

- ⦿ Cash rent is subject to NIIT
- ⦿ Share rent on Form 4835 with no material participation has no Self Employment tax and possibly subject to NIIT.
- ⦿ Share rent with material participation is reported on Sch. F. (farm income) and subject to Self Employment tax , therefore no NIIT.
- ⦿ Sale of farm rental land may be subject to NIIT. No guidance.

# 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, 2013, 50 percent bonus depreciation is available.
- Nothing for 2014



# Section 179 Election For Expensing Equipment

- In 2012 and 2013, expense method depreciation (for federal tax purposes) was set at \$500,000, with the phase-out beginning at \$2 million of qualified property purchases for the year.
- Without subsequent legislation, the limit will fall to **\$25,000 with a phase out at \$200,000** beginning in 2014.

# Senate Finance Committee Tax Reform Proposal

- Section 179 –
  - 2014 - \$500,000 with phase out at \$2 million
  - Beyond - \$1 million with phase out at \$2 million indexed for inflation.
- Repeal MACRS use 100% declining balance.
- Repeals Like-kind exchanges
- Exclude a grower with less than \$10 million receipts from uniform cap. rules.

# Cont.

## ◎ Cash Accounting –

- C-corps decrease the threshold for requiring accrual accounting from \$25 million to \$10 million in gross receipts.
- S-corps, sole proprietors and partnerships would require accrual accounting above \$10 million in gross receipts (currently no limit).