



Farm Tax Focus December 2024

The Tax Playbook: Updates, Opportunities, and Tips for a Successful Filing Season

As we approach the end of 2024, it's crucial for taxpayers, especially those in the agricultural sector, to be aware of upcoming tax changes and plan accordingly. Here's a comprehensive look at key tax considerations and strategies for the upcoming years.

Now is a great time to get books updated, gather harvest data, analyze upcoming income and expenses, and schedule a meeting with your tax professional to efficiently determine income tax liabilities and execute tax savings strategies.

Navigating Political Tax Uncertainty: Why Now is the Time to Focus on Estate Planning

The uncertain political landscape brings added complexity to tax planning, especially with potential reforms on the horizon. This year's election results give a glimpse into what we may see with the sunset provisions of the Tax Cuts and Jobs Act (TCJA), set to expire at the end of 2025. Staying ahead of these changes is essential to protect your estate and minimize tax liabilities. Make it a priority to meet with your CPA and attorney soon, as many will be rushing to implement estate planning strategies before the TCJA provisions sunset, if no changes are made between now and the end of 2025. Planning early ensures that you're prepared, no matter how the tax laws may shift. Extending your business and individual income tax returns may be a good strategy this year to allow time for tax law reform to take shape and get a glimpse at what operating profits may look like for 2025. Remember, calendar year businesses have until September 15th and individuals have until October 15th to file extended income tax returns each year, but estimated tax due is still due at the original due dates of those returns.

Fertile Ground for Savings

Excess fertility deduction is a tax strategy that allows farmers to deduct the value of residual fertilizer in newly purchased or inherited farmland. While potentially beneficial, this approach comes with several risks and considerations:

The deduction is based on the concept that excess fertilizer in the soil can be treated as a separate, depreciable asset from the land itself. To claim this deduction, farmers must establish:

1. The presence and extent of excess fertilizer
2. The value of the excess fertilizer
3. The rate at which the nutrients will be depleted

However, there are significant risks associated with this strategy:

1. **IRS scrutiny:** The IRS has not formally approved a method for this deduction, but has acknowledged that a portion of purchase price may be allocated to fertilizer. While it may be allowable under certain circumstances, there's a risk that the IRS could reject the deduction upon audit, based on the reasonableness of the method used by the taxpayer.
2. **Documentation challenges:** Farmers must provide extensive documentation, including soil fertility studies and expert assessments, to substantiate their claims.
3. **Recapture on sale:** If the land is later sold, the amount deducted for excess fertility must be recaptured as ordinary income, potentially increasing the tax burden.
4. **State-level complications:** Some states may not recognize this deduction or may require additional documentation.
5. **Residual (excess) vs. Total fertility:** The residual method differs from total fertility of land that is being measured and marketed by firms recently. Total or available fertility reports measure the value of all of the macro and micro-nutrients in the top 6.5" of topsoil. This far exceeds the amount determined under the residual method and we suggest using a conservative approach on depreciable life until we have a definitive IRS ruling.

Given these risks, farmers considering this strategy should consult with qualified tax professionals and agronomists to ensure proper implementation and documentation. It's crucial to use realistic valuations based on actual soil tests, rather than inflated estimates.

FBS/MASA's Movement to Azure

With the closure of the AgCompass cloud-hosting platform, FBS/MASA is making a strategic move to Microsoft Azure. The migration to Azure aligns with the latest advancements in agricultural data management, allowing for industry-specific capabilities to connect farm data, enable organizations to leverage high-quality datasets, and develop solutions that power agriculture insights. Users have experienced a smooth transition to the powerful and reliable cloud-based environment. Check out MASA's website for more information on how you could benefit.

CommStock Family Farm Master Class

Sign up for a great event this February, hosted in Des Moines. The Family Farm Masterclass is designed to help farmers and ag leaders enhance their management skills and prepare for future growth and transitions. Featuring top-tier speakers, like Dick Wittman, this event provides insights on advancing your management practices. Attendees from across the country will have the opportunity to network with other producers who share similar goals. Here is a quick agenda for the intense two-day class:

Day 1: A focus on best management strategies, corporate governance, and succession planning. The day includes interactive sessions with real-world case studies and practical applications for your own operation
Day 2: Nationally recognized speakers who will explore topics of risk management, entrepreneurship, leadership, and professional farming practices. The day concludes with a keynote address from Willie Robertson of Duck Dynasty.

