Taxes! Few like to pay them and even fewer understand them. With the passing of the recent Tax Cuts & Jobs Act, they are the hot topic of conversation. Included in the new tax act are many changes to the existing law, some of which will benefit area farmers.

The main benefit for all individuals, not just farmers, is the reduction in overall tax rates. Previously, they ranged from 10%-39.6%. Under the new law, tax rates will range from 10%-37%. Most individuals will see an approximate 3% reduction in their federal tax rates. Also affecting most individual taxpayers will be the doubling of standard deductions and elimination of personal exemptions.

Depreciation deductions under the new tax law have been modified to be more beneficial to farmers and allow for quicker write-offs of asset purchases as well as providing greater flexibility in how to accelerate the write-offs in the year of purchase. The Section 179 expensing has been increased to allow for up to $1 million of write-offs per year, up from $500,000. Bonus depreciation has been modified to allow for 100% write-offs for both new and used purchases, up from 50% write-off on new asset purchases only. Section 179 expensing can be used on most farm assets including all farm machinery, grain bins, and land tiling expenditures while bonus depreciation can also be used on these items as well as barns and machine sheds.

In these times of lower commodity prices and high input costs, some farmers may experience net operating losses on their tax returns. Under the new tax act, farm losses are only allowed to be carried back 2 years but can be carried forward indefinitely. In addition, they can only be allowed to offset 80% of that year’s taxable income. Under previous law, losses could be carried back 5 years and forward 20 years and offset 100% of taxable income. For non-farm losses, carrybacks are no longer allowed and can only be carried forward to offset 80% of future taxable income.

Estate taxes also saw some changes. Federal exemption was increased to $11 million per individual with annual increases for inflation. Portability is still allowed, meaning that a married couple can essentially pass up to $22 million of assets through to the next generation, free from federal estate tax. However, the Illinois estate exemption remains at $4 million. Careful estate planning will remain extremely important, even with increased federal exemptions.

Lastly, the most talked about and challenging provision of the new law, is the Qualified Business Income Deduction, or 199A deduction. This is a deduction of up to 20% of your net business income, whether you’re in a flow-through entity (S-Corporation or partnership) or a Schedule F farmer, limited to 20% of your taxable income. Additional limitations exist for higher income earners above $315,000 in gross income ($157,500 for single filers). This replaced the previous Domestic Production Activity Deduction used by many farmers which was 9% of farm net income.

The Qualified Business Income Deduction, as it is currently written, allows for a 20% deduction of gross sales to a CO-OP limited to 100% of taxable income for farmers who are also patrons of the CO-OP the grain is being sold to. While many people believe this part of the law will be changed, it is still important to mention and monitor as the year progresses. C-Corporations also experienced some changes with the new tax law. Instead of a graduated tax rate ranging from 15% to 39%, C-Corporations now have a flat 21% tax rate on all taxable income. Under prior law, the first $50,000 of taxable income had a 15% tax rate, thus as a result of the new tax law, the first $50,000 of taxable income for C-Corporations will actually see a 6% tax increase.