# TelFarm Newsletter

Volume 18, Issue 1

Spring 2018

## TelFarm Participation Awards

Congratulations to the following farms for reaching these milestones last year and thank you for working with us!

### 50 Years—

- **DeMann Farms LLC**—Martin
- **Lakewood Pines Farms**—Lake Odessa
- **Hale's Dairy Farm**—Jonesville
- **Ferry Farms, LLC**—Litchfield
- **Reed Farms**—Jonesville
- **Eldred Farms**—Blanchard
- **Hahn Farms**—Evart
- **Meekhof Dairy LLC**—Cadillac
- **D & D Miller Farms LLC**—Sandusky
- **Bent Farms LLC**—Marcellus
- **Keinath Brothers**—Vassar
- **Steven Trinkle**—Dexter

### 25 Years—

- **Dennis Dominiak**—Dowagiac
- **Gerald May**—St. Louis


## Current Pc Mars version is 2.5.4.0

Iowa Farm Business Association has just released a new patch for Pc Mars. The biggest fix is the capital purchase wizard to reflect updates in the tax law (which will be discussed further in this newsletter). Please visit the Pc Mars website (www.pcmars.com) to download the most recent patch. You have to be running 2.5.0.0 or higher to be able to download the patch from the website. If you are running a lower version and cannot find the 2.5 disk that was sent near the beginning of 2017, please contact the TelFarm office. We can help you get updated.

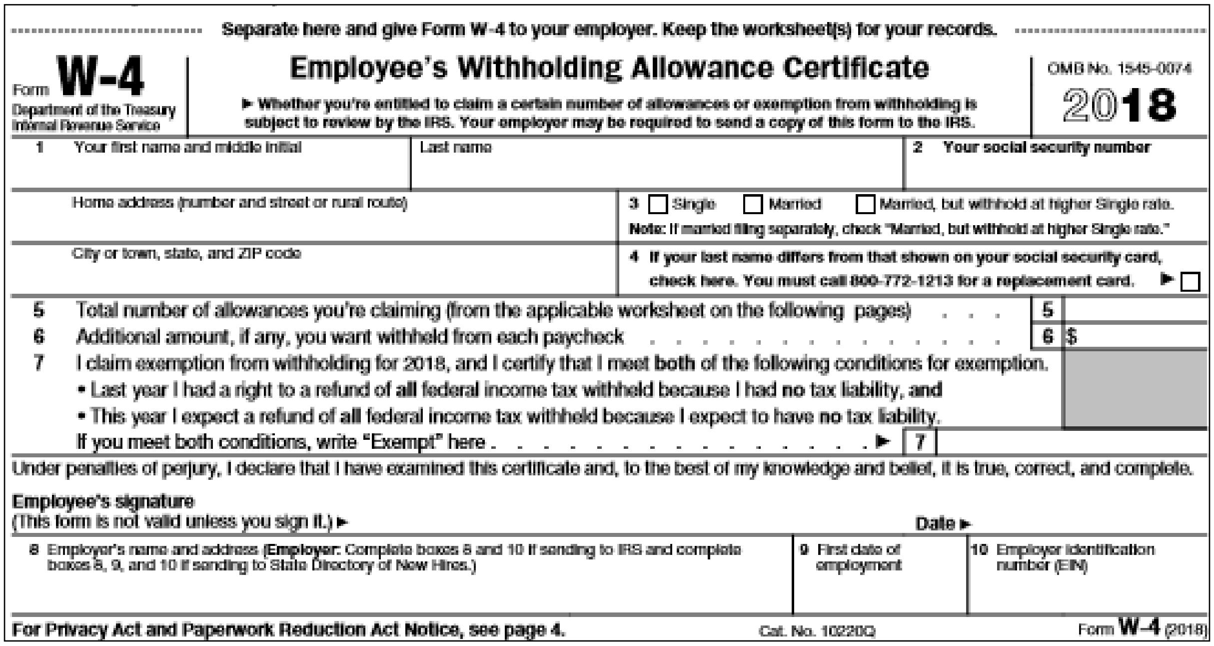
## Managing Farm Stress

Farmers know how to take care of their animals and crops, taking careful steps to ensure that they are healthy and safe. Unfortunately, farmers don't take the same care in monitoring and managing their own mental and physical stress and fatigue. Stress becomes especially palpable when commodity prices are low, and caring for your own health and wellness in this high-stress profession is as important as caring for your bottom line. Whether these stresses come from a financial issue or the stresses of everyday life, MSU Extension can help. If you're concerned about yourself, a family member, a friend or a neighbor MSU Extension has resources and educators that can help you identify and manage stress.

Visit the MSUE Managing Farm Stress website— https://www.canr.msu.edu/managing_farm_stress/

# Changes to Withholding Calculations

Due to the revised tax brackets, changes to the standard deductions and the elimination of personal exemptions, there are changes to how you calculate withholding for employees. We want to remind you that as employers, it is not your responsibility to figure out what level of deductions your employees need. They should fill out a new W-4 that the IRS recently released. Once they complete that and give you the portion of it shown here, then you can figure out withholdings based on what they report to you. A copy of the current W-4 can be found at https://www.irs.gov/pub/irs-pdf/fw4.pdf.



Separate here and give Form W-4 to your employer. Keep the worksheet(s) for your records.

Form **W-4** Department of the Treasury Internal Revenue Service

**Employee's Withholding Allowance Certificate**

► Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

OMB No. 1545-0074 **2018**

1 Your first name and middle initial | Last name | 2 Your social security number

Home address (number and street or rural route) | 3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: If married filing separately, check "Married, but withhold at higher Single rate."

City or town, state, and ZIP code | 4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ► ☐

5 Total number of allowances you're claiming (from the applicable worksheet on the following pages) . . . . 5

6 Additional amount, if any, you want withheld from each paycheck . . . . . . . . . . . . . . . . 6 $

7 I claim exemption from withholding for 2018, and I certify that I meet **both** of the following conditions for exemption.
• Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and**
• This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability.
If you meet both conditions, write "Exempt" here . . . . . . . . . . . . . . . . . ► 7

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

**Employee's signature**
(This form is not valid unless you sign it.) ► Date ►

8 Employer's name and address (**Employer:** Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.) | 9 First date of employment | 10 Employer identification number (EIN)

**For Privacy Act and Paperwork Reduction Act Notice, see page 4.** Cat. No. 10220Q Form **W-4** (2018)

# The 199A "20%" Deduction

## How it Works

While corporations received a large tax cut from 35% to 21%, other businesses were given the Section 199A deduction to ensure that they would not be left out.

Any taxpayer that is not a C corporation may qualify including sole proprietorships, partnerships and, S corporations. The Section 199A deduction is most useful for taxpayers engaged in a "qualified trade or business" or QTB, such as farm or Schedule F business. Qualifying taxpayers will be able to deduct up to 20 percent of qualified business income or QBI. This is generally the business net income. QBI does not include wage income, reasonable compensation, guaranteed payments, interest income, dividend income, or capital gain. (IRC Sect. 199A (e)(4)).

The 199A deduction is restricted to the taxable income. For taxpayers with taxable income greater than $315,000 (MFJ) and $157,500 (singles) the 199A deduction would generally be limited to 50% of W-2 wages paid or 25% of W-2 wages paid plus 2% of unadjusted basis of qualified property. This limitation would be phased in over the next $100,000 of income (MFJ) and $50,000 of income (single).

## Cooperatives

One major problem was cooperatives and their patrons. This has resulted in a need for congressional correction.

According to Bloomberg on January 11, 2018, Senators Thune and Hoeven, sponsors of the cooperative provisions, stated that the law, as written, had unintentional consequences. Both Senators vowed to find a reasonable solution.

In a press release issued January 12, 2018, USDA Under Secretary for Marketing and Regulatory Programs Greg Ibach stated, "The aim of the Tax Cuts and Jobs Act was to spur economic growth . . . While the goal was to preserve in

*Continued on next page*

### 199A Continued

Section 199A for cooperatives and their patrons, the unintended consequences of the current language disadvantage the independent operators in the same industry. The federal tax code should not pick winners and losers in the marketplace. We applaud Congress for acknowledging and moving to correct the disparity, and our expectation is that a solution is forthcoming. USDA stands ready to assist in any way necessary."

A literal interpretation of the new law would suggest that it provides a significantly larger Sect. 199A deduction to some member farmers marketing their products through a cooperative than to farmers selling to a non-cooperative. An agreement to modify this has been reached, but we will see if it gets passed.

# Depreciation Updates

## Farm Equipment Depreciation

Beginning in 2018, the Tax Cuts and Jobs Act will allow new farm equipment to be depreciated over a period of five years, instead of seven years. The Act also removed the requirement that farm property is depreciated using the 150% declining balance method (except for 15 and 20-year property). Farm assets may now be depreciated using the 200% declining balance method, the same as non-farm taxpayers. Straight-line depreciation is still available. The Alternate Depreciation System (ADS) is still required for many of our fruit and vegetable farms who choose not to capitalize pre-productive expenses. These provisions apply to property placed in service after December 31, 2017.

## New Tax Law and Equipment Trades

The Act preserved the like-kind exchange treatment (Sect. 1031) for real property, but eliminated it for personal property so it impacts machinery and equipment trades.

### Pre-Tax Cut Treatment

Gains or losses on the value of the trade-in, typically called the trade-in allowance, were required to be deferred. This meant that if a farmer traded-in a fully depreciated piece of machinery the taxable gain recognition on the depreciation recapture was deferred. The gain recognition was rolled ahead until such time as the replacement property was sold.

### New Law

Without Sect. 1031 exchange treatment being available to machinery and equipment (personal property) trades, the machinery "trade-in" value will become a taxable event or a "sale". The result will then be a sale of the traded-in item at the trade-in allowance value and the new basis for the replacement item will be the value of the trade-in allowance plus the cash boot paid above the trade-in value. The full replacement basis (trade-in value plus the cash boot) will then be available for regular depreciation, Bonus Depreciation or Section 179 Expense Election which has been increased.

For most farms, the net result will reduce self-employment taxes.

Call the TelFarm Center if you have concerns or questions regarding this area or completing your Form 3.

**Wishing you a safe planting season this spring!**

# New Tax Brackets

The new individual tax brackets below are applicable through 2025. In addition to changing the tax brackets, the Standard Deduction for individuals is $12,000 and $24,000 for married filing jointly. The personal exemption have been eliminated. The 0.9% additional Medicare tax still applies at higher incomes. The Net Investment Income Tax (NIIT) also still applies at higher incomes.

Capital gains taxes will be not see drastic changes in 2018. Long-term capital gains, which includes raised breeding stock sales and gain on asset sales such as timber held for over a year, will still have the three tax brackets. See the table below. Short-term gain, which is recaptured depreciation on asset sales and gain on assets held less than a year (two years on some breeding livestock), is taxed as ordinary income with your other taxable income.

## Married Filing Jointly Table

| Taxable Income | Tax is this amount plus this percentage | Of the amount |
|---|---|---|
| $0—$19,050 | $0 plus 10% | $0 |
| $19,050—$77,400 | $1,905 plus 12% | $19,050 |
| $77,400—$165,000 | $8,907 plus 22% | $77,400 |
| $165,000—$315,000 | $28,179 plus 24% | $165,000 |
| $315,000—$400,000 | $64,179 plus 32% | $315,000 |
| $400,000—$600,000 | $91,379 plus 35% | $400,000 |
| Above $600,000 | $161,379 plus 37% | $600,000 |

## Single Table

| Taxable Income Bracket | Tax is this amount plus this percentage | Of the amount over |
|---|---|---|
| $0—$9,525 | $0 plus 10% | $0 |
| $9,525—$38,700 | $952.50 plus 12% | $9,525 |
| $38,700—$82,500 | $4,453.50 plus 22% | $38,700 |
| $82,500—$157,500 | $14,089.50 plus 24% | $82,500 |
| $157,500—$200,000 | $32,089.50 plus 32% | $157,500 |
| $200,000—$500,000 | $45,689.50 plus 35% | $200,000 |
| Above $500,000 | $150,689.50 plus 37% | $500,000 |

## Long-Term Capital Gains Tax Rates

| Tax Rate | Single | Married Filing Jointly |
|---|---|---|
| 0% | $0-$38,600 | $0-77,200 |
| 15% | $38,600-$425,800 | $77,200-$479,000 |
| 20% | $425,800 or more | $479,000 or more |

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