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CORPORATE FARMER

Corporate Farmer Tax Tips

The House Ways and Means Committee has released their version of the proposed tax changes entitled "Responsibly Funding our Priorities".

Included in their proposal:

- A top corporate tax rate of 26.5%. However, the first $400,000 of corporate taxable income will be at 18%, the next $4.6 million will remain at 21%. For most, farmers this is actually a 14.28% reduction in tax since most farm corporate income will now be taxed at 18% instead of 21%.
- Top individual tax rate of 39.6% beginning at $450,000 for married couples and $400,000 for singles. This is up from the current 37% top rate and will kick in much sooner.
- Finally, on ordinary tax rates; if your taxable income is over $400,000 (single) or $500,000 (married couples), then the extra 3.8% net investment income tax will apply on all of your farm income over those hurdles (the first $400/500,000 is exempt).

- The top capital gains rate will be 25% instead of 20%. However, you will also owe the 3.8% net investment income tax, therefore, the reality is a top rate of 28.8%. Sales occurring in 2021 before the enactment would retain the current 20% top rate.
- The 20% Section 199A qualified business income deduction will be limited to $400,000 for singles and $500,000 for married couples. Trusts and estates will be limited to $10,000. This limit applies only to the 199A(a) deduction. Not the 199A(g) DPAD deduction that passes through from the Cooperatives.
- The current lifetime estate tax exemption of $10 million indexed (currently $11.7 million) will revert four years early. Instead of it reverting to $5 million (indexed to inflation) in 2026, it will revert in 2022. The top estate tax rate of 40% will remain.
- Farmers who own their own land will get a greatly enhanced Section 2032A estate tax deduction. Under current rules, you can reduce a taxable estate by about $1.2 million for farmland. This would now get increased to $11.7 million (assuming it is indexed but not sure). The drawback is that heirs would lose the step-up on any assets subject to the Section 2032A reduction and the definition of a family farm is fairly restrictive. It must be actively farmed by the family for 10 years and if you blow it in year 10, you owe the tax plus interest and you only get a step-up for the estate tax paid. A married couple could potentially get a $33 million+ combined exemption/deduction.

Notably (and happily) absent from the proposal:

- No changes to step-up in basis. If their plan goes through as is, there will be no transfer tax on appreciated assets at death or during lifetime.
- No additional self-employment tax on earnings over $400,000 as outlined in President Biden's green book.
- No changes to Section 1031 exchanges.

We will be watching for the Senate's version...

Candice Brandau Larson, EA
Corporate Farmer

Corporate Farmer
1307 6th St SW #1,

MASON CITY, IA 50401

United States

1-800-472-6931
news@corporatefarmer.com