

Tax Updates

Summer 2018

for Farmers



Depreciation: Recovery Period & Method

- The cost recovery period is shortened for farm machinery and equipment from 7 to 5 years for NEW items. Used items stay at 7 years.
- Additionally, farmers are now permitted to use 200 declining balance instead of 150 declining balance for 10-year or less property.
- The bottom line is if regular depreciation is taken on farm equipment, the cost of the equipment will be recouped more quickly.
- The same for Kentucky.** Kentucky recovery period and method follows the federal period and method.

Depreciation: Section 179 Expensing

- The limit on Section 179 expensing was increased to \$1M from \$500,000 on qualifying capital expenditures.
- There is a dollar for dollar reduction at \$2.5M of capital expenditure indexed, beginning in 2019.
- Eligible property is expanded to include tangible personal property in connection with the providing of lodging and to include replacement roofs, HVAC, alarm and security systems in nonresidential real property.
- Limited in Kentucky.** Section 179 expensing is limited to \$25K in Kentucky. There is a dollar for dollar reduction once capital expenditures of qualifying property reaches \$200,000.

Depreciation: Bonus Depreciation

- Bonus depreciation has been increased to 100% (up from 50%) through 2022 for all businesses.
- Bonus depreciation now includes used property, so both new and used property qualify.
- Bonus depreciation has no cap and can be used to create a loss.
- Bonus depreciation must be used for all assets of the same class; therefore, it is not as flexible as Section 179.
- Bonus depreciation will be reduced to 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026. Expires in 2027.
- Not available in Kentucky.**

Capital Gains: Sale of Assets

- A capital gain occurs on the sale of assets held longer than 1 year, when the sales price is greater than original price.
- Typically sale of land, raised breeding livestock, timber, stocks, futures.
 - Capital gains rate is 0%, if taxable income is less than \$77,200.
 - Capital gains rate is 15%, if taxable income is between \$77,200 and \$479,000.
 - Capital gains rate is 20%, if taxable income is greater than \$479,000.
 - Kentucky capital gains rate is 5%** on the sale of all assets.

Form 1099: Rules for Farmers

- No changes for 2018.
- A 1099-Misc must be sent if farmer paid the eligible vendor labor or rent of \$600 or more during the year.
- An eligible vendor is an individual, sole proprietor business, partnership, or LLC disregarded for tax purposes or filing a partnership tax return.

Unemployment: Rules for Farmers

- Farmers are not required to have unemployment insurance on their employees unless either of the following two requirements is met:
 1. Payroll exceeds \$20,000 in any calendar quarter or
 2. Farmer has at least 10 employees in any calendar quarter.

Sales Tax: Issues for Farmers

- Farmers are exempt from paying sales tax on certain machinery, supplies, parts, etc. that are directly related to the farming business.
- Items not eligible for the sales tax exemption include hand tools, certain farm machinery accessories, bedding material, lawn equipment, and more.
- Farmers who sell items to others for non-farm purposes should be charging sales tax.

Sales Tax: Huge Changes in Kentucky!!

- HB 487 became effective on July 1, 2018, enacting significant changes to Ky Sales & Excise Tax laws.
- In addition to goods being subject to Kentucky Sales Tax, many services and admissions are now as well. Examples include admissions to events & activities such as bowling centers, skating rinks, health spas, swimming pools, tennis courts, weight training facilities, and golf courses.
- Additionally, labor and installation charges are included when the services are rendered in installing or applying taxable tangible personal property. Stand-alone labor and installation services are not subject to sales and use tax.
- Effective July 1, 2018, charges for the provision of the following services also became subject to sales tax: landscaping services, janitorial services, small animal veterinary services, pet care services, industrial laundry, non-coin operated laundry and dry cleaning services, linen supply services, indoor skin tanning services, non-medical diet and weight reducing services, limousine services, and extended warranty services to cover tangible personal property.

IRA: Contribution Limits

- Traditional & Roth IRAs: \$5,500, or \$6,500 if over age 50.
- Simple IRA: \$12,500, or \$15,500 if over age 50.
- SEP IRA: Lesser of 25% of compensation of \$54,000.

HSA: Qualifications & Contributions

- Qualifications for a Health Savings Account are as follows:
 - High Deductible Health Care Plan: \$1,350 for individual and \$2,700 for family.
 - Out of Pocket Maximum: \$6,650 for individual and \$13,300 for family.
 - Contribution Limits are \$3,450 for individual and \$6,850 for family.