



2021 Tax Update –

Refresher, Taxes, Drought Deferrals, COVID Payments - Strategies



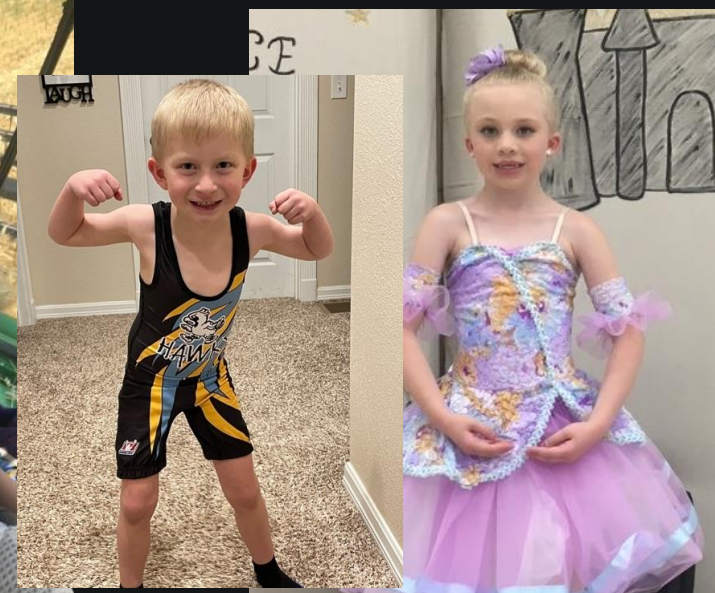
Before...



2021 Year In Review



After...



Kenley – 8 Carter – 5



Before...



After...



Refresher – Common Topics



Farm & Ranch Tax Schedule: INCOME

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)			
1a	Sales of livestock and other resale items (see instructions)	1a	
b	Cost or other basis of livestock or other items reported on line 1a	1b	
c	Subtract line 1b from line 1a	1c	
2	Sales of livestock, produce, grains, and other products you raised	2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	
3b	Taxable amount	3b	
4a	Agricultural program payments (see instructions)	4a	
4b	Taxable amount	4b	
5a	Commodity Credit Corporation (CCC) loans reported under election	5a	
b	CCC loans forfeited	5b	
5c	Taxable amount	5c	
6	Crop insurance proceeds and federal crop disaster payments (see instructions)		
a	Amount received in 2018	6a	
6b	Taxable amount	6b	
c	If election to defer to 2019 is attached, check here <input type="checkbox"/>	6d	Amount deferred from 2017
7	Custom hire (machine work) income	7	
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	8	
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions	9	

- Farms & Ranches – usually file returns on a cash basis
- Businesses are structured as C-Corporations, S-Corporations, LLCs, General Partnerships or Sole-Proprietor
- Actively engaged businesses file a Schedule F.
 - Categories of Income:
 - Sale of items purchased for resale,
 - sale of raised products, cooperative distributions, ag program payments, CCC loans, crop insurance, custom hire income and fuel tax refunds.

Farm & Ranch Tax Schedule: EXPENSES

- Some deductions are different based on structures: groceries (meals), labor, housing repairs & utilities.
 - Employee benefit programs – qualified plan
 - Custom Hire vs. Labor Hired
- *Important for Qualified Business Income Deduction.

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.			
10	Car and truck expenses (see instructions). Also attach Form 4562	10	
11	Chemicals	11	
12	Conservation expenses (see instructions)	12	
13	Custom hire (machine work) .	13	
14	Depreciation and section 179 expense (see instructions) .	14	
15	Employee benefit programs other than on line 23	15	
16	Feed	16	
17	Fertilizers and lime	17	
18	Freight and trucking	18	
19	Gasoline, fuel, and oil	19	
20	Insurance (other than health)	20	
21	Interest (see instructions)		
a	Mortgage (paid to banks, etc.)	21a	
b	Other	21b	
22	Labor hired (less employment credits)	22	
23	Pension and profit-sharing plans	23	
24	Rent or lease (see instructions):		
a	Vehicles, machinery, equipment	24a	
b	Other (land, animals, etc.) . .	24b	
25	Repairs and maintenance . .	25	
26	Seeds and plants	26	
27	Storage and warehousing . .	27	
28	Supplies	28	
29	Taxes	29	
30	Utilities	30	
31	Veterinary, breeding, and medicine	31	
32	Other expenses (specify):		
a	.....	32a	
b	.....	32b	
c	.....	32c	
d	.....	32d	
e	.....	32e	
f	.....	32f	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions ►	33	

Wages paid with Commodities

- Payment for agricultural labor in a form other than cash.
- Not subject to FICA “payroll taxes”.
- Not subject to federal or state unemployment, if employer stays under the limits. (\$21,000 paid in one quarter in MT for State UI.)
- Employer treats the wages as a sale of the commodity and offsets wages.
- Must issue the employee a W-2 with the wage in box 1 being equal to the value of the commodity on the day of transfer.
- Employee has wage income and a corresponding gain or loss on the sale due to market fluctuations and discounts.
- Wage is a transfer of ownership, control, rights & risks and must be properly documented.

Types of “Other Expenses”

- Advertising / Promotional – Common spot for charitable donations
 - Bank Charges & Non-Amortized Loan Fees
 - Conservation Expenses
 - Dues/Membership Fees
 - Legal & Professional Costs
 - Travel & Lodging
 - Education & Training
 - Meals/Provisions

*See Next Slide – 2021 Rule Change

Meal & Entertainment Deduction

Entertainment – Tickets for the event are not deductible.
Food and beverages provided during the events are 100% deductible, if:

- Purchased separately at event or venue
 - Cannot be lavish or extravagant
- Taxpayer must be present at time of consumption

Meals – For 2021 and 2022, Meals provided by a Restaurant are 100% deductible.
Cost includes: cost of food, beverages, tips, delivery fees & sales tax.
UberEats, GrubHub & DoorDash purchases qualify.

- Does not have to be on restaurant premises just has to be purchased from the establishment.

Meal & Entertainment Deduction, continued:

Restaurant – Does not include businesses that sell “pre-packaged” food. Grocery stores, drug stores, beer, wine or liquor stores, convenience stores, vending machines, newsstands or kiosks.

- You can buy snacks/meals from these places, the deduction is just limited to 50% of the total cost.
- Restaurant purchases can be for a client meeting, business trip or just for convenience between jobs.
- Costs of social activities for employees is still fully deductible: Branding dinner, harvest dinner, holiday party, etc.
- **Practical Note:** If you pay with a credit card, be sure to designate the meals bought at a restaurant. Do not group these with “groceries”.

Additional Expense Details

- Common Non-Deductible Items: Personal or living expenses.
 - Taxes, insurance & repairs pertaining to vacation property or personal-use assets such as boats, luxury autos, etc.
 - Value of deceased livestock that was raised.
 - Expenses of raising anything used by your family: garden.

[Deducting Farm Expenses: An Overview | Center for Agricultural Law and Taxation \(iastate.edu\)](#)

- Other Issues: Automobile Deductions – 2021 Standard Mileage \$.56
2022 Standard Mileage \$.585 or Actual Costs.
- Repairs & Maintenance – Routine costs to restore an asset to previous operating condition or keep an asset in its current condition.

Depreciation Notes

- Like-kind exchanges no longer apply to machinery & equipment
 - Cost basis of asset purchased with trade-in, is total acquisition cost.
 - The value of the trade is considered sale proceeds of traded asset.
Will create taxable income from the sale of the asset.
- If land is purchased, need to allocate purchase price to fences, structures, land improvements, grain bins, irrigation equipment.
- In year of purchase, can take Bonus depreciation or Section 179.
 - If not fully written off, then depreciated over IRS lives:

Farm Buildings – 10/20-yrs	Machinery & Equipment – 5/7-yrs
Fences & Bins – 7-yrs	Autos – 5-yrs
Livestock – 5-yrs	Land Improvements – 15-yrs

Taxable Income & Taxes



Taxes – Self Employment Tax:

- Sole-Proprietors, Partners & Members are subject to SE Tax
 - Self Employment (15.3% Addt'l Tax)
 - Watch for deferred self-employment tax payments from your 2020 returns. 50% was due 12/31/21 and the other 50% is due 12/31/22.

2021 Tax Brackets for Single Individual		
Tax Rate	Taxable Income (Single)	2021 Tax Payable Amount
10%	Up to \$9,950	10% of the taxable income
12%	\$9,951 to \$40,525	\$995 plus 12% of excess over \$9,950
22%	\$40,526 to \$86,375	\$4,664 plus 22% of excess over \$40,525
24%	\$86,376 to \$164,925	\$14,751 plus 24% of excess over \$86,375
32%	\$164,926 to \$209,425	\$33,603 plus 32% of excess over \$164,925
35%	\$209,426 to \$523,600	\$49,177 plus 35% of excess over \$209,425
37%	Over \$523,601	\$159,138 plus 37% of excess over \$523,600

2021 Tax Brackets for Married Filing Jointly / Surviving Spouse		
Tax Rate	Taxable Income (Married Filing Jointly)	2021 Tax Payable Amount
10%	Up to \$19,900	10% of the taxable income
12%	\$19,901 to \$81,050	\$1,990 plus 12% of excess over \$19,900
22%	\$81,051 to \$172,750	\$9,328 plus 22% of excess over \$81,250
24%	\$172,751 to \$329,850	\$29,502 plus 24% of excess over \$172,750
32%	\$329,851 to \$418,850	\$67,205 plus 32% of excess over \$39,850
35%	\$418,851 to \$628,300	\$98,355 plus 35% of excess over \$418,850
37%	Over \$628,300	\$171,662 plus 37% of excess over \$628,300

2021 Tax Brackets for Heads of Households		
Tax Rate	Taxable Income (Head of Household)	2021 Tax Payable Amount
10%	Up to \$14,200	10% of the taxable income
12%	\$14,201 to \$54,200	\$1,420 plus 12% of excess over \$14,100
22%	\$54,201 to \$86,350	\$6,220 plus 22% of excess over \$53,700
24%	\$86,351 to \$164,900	\$13,293 plus 24% of excess over \$85,500
32%	\$164,901 to \$209,400	\$32,144 plus 32% of excess over \$163,300
35%	\$209,401 to \$523,600	\$47,719 plus 35% of excess over \$207,350
37%	Over \$523,600	\$157,689 plus 37% of excess over \$518,400

2021 Tax Brackets for Married Individuals Filing Separate		
Tax Rate	Taxable Income (Married Filing Separately)	2021 Tax Payable Amount
10%	Up to \$9,950	10% of the taxable income
12%	\$9,950 to \$40,525	\$988 plus 12% of excess over \$9,875
22%	\$40,526 to \$86,375	\$4,664 plus 22% of excess over \$40,125
24%	\$86,376 to \$164,925	\$14,751 plus 24% of excess over \$85,525
32%	\$164,926 to \$209,425	\$33,603 plus 32% of excess over \$163,300
35%	\$209,426 to \$314,150	\$49,177 plus 35% of excess over \$207,350
37%	Over \$314,150	\$85,831 plus 37% of excess over \$311,025

Note: Taxable Income is income after deductions. It is not your total income for the year.

Standard Deductions:

Single - \$12,550

HOH - \$18,800

MFJ - \$25,100

MFS - \$12,550

Taxes – Self Employment Tax, continued:

Net Income from Self Employment	\$ 30,000.00
1/2 of SE Tax (\$30,000 x .153 x .50)	2,295.00
Adjusted Gross Income	\$ 27,705.00
Standard Deduction *single	(12,550.00)
Taxable Income	\$ 15,155.00
Income Tax (12% Bracket)	1,619.60
SE Tax (\$30,000 x .153)	4,590.00
Total Federal Tax Payable	\$ 6,209.60
\$6,200 in tax on \$30,000 farm/ranch profit is 20.67% tax. & you still have to pay some tax to Montana!	

If your income was \$60,000,
total tax is \$14,358 (23.93%) + MT

If your income was \$75,000,
total tax is \$23,724 (31.64%) + MT

This is applicable for farmers &
ranchers filing a Schedule F with
their personal return & for those
filing as a Partnership.

S-Corporation owners: Same calculation,
except you get to “avoid” this SE tax.

Taxes – Self Employment Tax, continued:

- If self-employed earnings are less than \$400, no SE tax is owed.
- Can elect an alternative self-employment tax if gross farm income on Sch F is greater than \$8,460 or net farm profits are greater than \$6,107. (2020 rates)
 - Can reduce the payment of additional tax through an increase in Earned Income Credit.
 - Can give you SE tax if you want to show “Work Credits” for future social security & disability benefits.

Montana State Tax Rates, 2021:

Tax Rate	Single	Married
1%	\$0 - \$3,100	\$0 - \$3,100
2%	\$3,101 - \$5,500	\$3,101 - \$5,500
3%	\$5,501 - \$8,400	\$5,501 - \$8,400
4%	\$8,401 - \$11,300	\$8,401 - \$11,300
5%	\$11,301 - \$14,500	\$11,301 - \$14,500
6%	\$14,501 - \$18,700	\$14,501 - \$18,700
6.9%	\$18,701 - No limit	\$18,701 - No limit

Changes coming to Montana taxes: 2022 – 2024

[Simplification of Montana Income Taxation - Montana Department of Revenue \(mtrevenue.gov\)](https://mtrevenue.gov)

Corporate Income Taxes

Corporation

Corporate Net Income	\$ 30,000.00	\$ 60,000.00	\$ 75,000.00
Federal Tax (21%)	6,300.00	12,600.00	15,750.00
MT Tax (greater of \$50 or 6.75%)	2,025.00	4,050.00	5,062.50
Total Tax (27.75%)	\$ 8,325.00	\$ 16,650.00	\$ 20,812.50

Comparison

Net Income from Self Employment	\$ 30,000.00	\$ 60,000.00	\$ 75,000.00
1/2 of SE Tax	2,295.00	4,590.00	5,737.50
Adjusted Gross Income	\$ 27,705.00	\$ 55,410.00	\$ 69,262.50
Standard Deduction *single	(12,550.00)	(12,550.00)	(12,550.00)
Taxable Income	\$ 15,155.00	\$ 42,860.00	\$ 56,712.50
Income Tax	1,619.60	5,177.70	12,248.50
SE Tax (15.3%)	4,590.00	9,180.00	11,475.00
Total Federal Tax Payable	\$ 6,209.60	\$ 14,357.70	\$ 23,723.50
MT Tax Payable	\$ 909.30	\$ 2,957.34	\$ 3,913.16
Total Tax to Pay	\$ 7,118.90	\$ 17,315.04	\$ 27,636.66
	23.73%	28.86%	36.85%

Considerations:

Expenses that are deductible for the Corporation and not for others.

After tax cash in Corporation is not in the hands of the individual.

There will be other taxes to pay to get that cash out of the Corporation.

Options for Deferring Income



Income Deferrals

- Deferred Crop Insurance
 - If proceeds were received in the year of the loss, they can be deferred into next year, if that is when the crop would have been sold.
- Deferred Payment Contracts
 - Contract by contract basis, requires an agreement with 3rd party. Contract should be signed, dated, with bushels & fixed price. Can take contract value as income in year of delivery or when check is received.
- Livestock Sale Deferrals
 - Forced to sell more cattle than normal due to USDA designated disaster then excess sale proceeds can be deferred.

Income Deferrals, continued:

Section 451(g) - For breeding or market livestock sales.

Section 1033(e) - For replacement breeding stock over a 2-year (disease) or 4-year (adverse conditions) span. (Longer if drought continues.)

Deferral amount pertains to the amount over and above your normal amount of culling.

- Resources:
- [Livestock Sales.pdf \(ruraltax.org\)](#)
- [Weather-Related Sales of Livestock, AGW1009 | MU Extension \(missouri.edu\)](#)
- [Montana County Drought Status Maps - Home \(mt.gov\)](#) [Montana | Drought.gov](#)
- [Disaster Designation Information \(usda.gov\)](#)

Expense Deferrals

Fertilizer & Lime

- Taxpayers may make an election, with their tax return, to capitalize the fertilizer expense and depreciate it over the term of its useful life.
- In English – if you have fertilizer on hand at the end of your year, you can elect to not take the expense in the current year and rather deduct the cost of the fertilizer in the year it is applied.
 - You cannot just leave the expense off your return, you must file the election and disclose the proper information.

Credits – New & Old



Child Tax Credit

- For 2021 – the credit went from \$2,000 per child to:
\$3,600 for children age 5 and under at the end of 2021.
\$3,000 for children age 6 to 17 at the end of the 2021.
- Most taxpayers received an advanced payment of this credit during 2021.
You will receive a letter from the IRS indicating the amount paid.
Your 2021 tax credit is then reduced by the amount received during 2021.
- It is also reduced for taxpayers with AGI of:

MFJ	\$150,000	MFS	\$75,000
HOH	\$112,500	Single	\$75,000
- There is still a \$500 nonrefundable credit for “other dependents”.

Earned Income Credit

- To qualify – have to have earned income (wages, SE income) under \$57,414.
Have investment income (dividends, interest, gains) under \$10,000.
Have a valid SSN, be a US citizen and not have excess of foreign income.
- For 2021 – taxpayers can elect to use their 2019 earned income to calculate the credit for 2021, if the amount of income in 2019 was greater than 2021.

# Kids	Maximum Credit	Income Limit: Single, HOH, MFS	Income Limit: MFJ
0	\$ 1,502	\$ 21,430	\$ 27,380
1	\$ 3,618	\$ 42,158	\$ 48,108
2	\$ 5,980	\$ 47,915	\$ 53,865
3 or more	\$ 6,728	\$ 51,464	\$ 57,414

Fuel Tax Credits

- Federal Fuel Tax Credit – Refundable & filed with tax return.
 - Unleaded gasoline and clear diesel used on the farm for farming purposes and for off-highway business use.
 - Not included: transporting livestock, crops or equipment lawn mowing or other personal use.
 - Does include: generators, compressors, for cleaning and for large equipment: bulldozers, graders, forklifts.
- Montana Fuel Tax Refund Application
 - Separate form: www.mdt.mt.gov
 - Must be filed within 36 months of purchase.

Other Various Topics & 2021 Changes



COVID Payments & Opportunities

- Ag Program Payments – CFAP
Are taxable income in the year they were received.
- PPP Loans – Are not taxable income and you can deduct the expenses paid for with the funds.
If not forgiven, treated as a low interest loan.
- FSA updated their ELAP policy to help cover costs of feed transport and in some cases, water hauling. The deadline to apply is January 31, 2022.
[elap-general-fact-sheet.pdf \(usda.gov\)](https://www.usda.gov/oc/ELAP-general-fact-sheet.pdf)
- Livestock Forage Disaster Program – Deadline January 31, 2022
[livestock forage program lfp-fact sheet.pdf \(usda.gov\)](https://www.usda.gov/oc/livestock-forage-program-lfp-fact-sheet.pdf)

Other Farm/Ranch Topics

- Farm Income Averaging - tax savings strategy that allows taxpayers to spread elected farm income into lower tax brackets that were not used in the prior three years.
Not applicable for Corporations.
- Section 199A – Qualified Business Income Deduction
Up to 20% of taxable income is exempt from tax.
Income from a qualified activity, wages paid and basis of qualified assets are all taken into consideration.
Not applicable for Corporations.
- Research & Development Credit – Deduct expenses & get refundable credit
Qualified activities: testing soil additives, new irrigation, disease control, new product development, new grazing practices, new harvest techniques.

Other Farm/Ranch Topics

Net Operating Loss

- Unused losses coming into 2021 from 2018, 2019 & 2020 are limited to 80% of your 2021 taxable income.
- Losses for taxable years beginning after December 31, 2020 are limited to 80% of taxable income.
- Losses are carried forward only. No option, currently, to carryback.
- No offset of self-employment income tax.
- Can't use Section 179 to get a NOL – it generates a Sec. 179 carryover. This could get you down to \$0 taxable income in 2022.
- Bonus depreciation will generate a NOL.

Strategic Planning

Is your cattle deferral the right thing for you?

- There is capital gain treatment for the sale of breeding stock. (maximum 20% tax rate.) So you can take the income now, pay the tax and use the after-tax income however you chose.
- If you decide to reinvest in cattle, you can then deduct 100% of the cost of the cattle in the year of purchase.
- If you defer, you do not pay tax now but you do not deduct your future investment in replacements.
- Will you truly reinvest in cattle in the next four years?
- Could your after-tax cash do other things for you that better fit your long term plan?

Strategic Planning

I'm cash heavy, what do I do?

- Did you sell holdover grain because the price was double what it was last year?
- Did you receive substantial CFAP payments & PLC & ARC payments?
- Did you sell your calves, breeding stock and feed reserves?
 - It's ok to pay tax.
 - Invest in depreciable assets, wisely.
 - Invest in infrastructure.
 - Principle debt payments are not deductible.
 - Look at commodity wages, retirement plans, etc.

Strategic Planning

Gather your team – Attorney, Banker, Accountant, Investment Advisor

Look at investments, retirement plans, untaken compensation, quantify your deferrals, plan for 2023, 2024, 2025.

Biden Plan – 2022?

What will 2022 bring? Drought, prices, opportunities, recession...

For beginning farmers & ranchers – what can you do now to set yourself up for success & to ride the tide?

For those with pending retirement dates – what can you do now to ensure the longevity of your farm or ranch? Can you take cash now to fuel future?

Do you have wills, estate plans? Have you discussed them?

MRA

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ACCOUNTING

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Sally Salveson, CPA

Malta, MT

sally@ourmtroots.com

(406) 808-6406



Britney Tempel, CPA

Joplin, MT

britney@ourmtroots.com

(406) 808-6426



Shardae Hankinson, CPA

Havre, MT

shardae@ourmtroots.com

(406) 808-6423