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TAX CUTS AND JOBS ACT

Issue:

The Tax Cuts and Jobs Act of 2017 has the potential to benefit most farm and ranch businesses. Important provisions include reduced tax rates, the new business income deduction, provisions to allow the matching of income and expenses, immediate cost recovery and an increase in the estate tax exemption. USDA's Economic Research Service documented the expected benefits of the tax reform in its June publication "Estimated Effects of the Tax Cuts and Jobs Act on Farms and Farm Households."

Many of the pass-through business provisions of the Tax Cuts and Jobs Act are temporary and should be made permanent. More than 98 percent of farm and ranches operate as pass-through businesses – sole proprietorships, partnerships and Sub S corporations. Failure to extend important pass-through provisions will result in a tax increase for farmers and ranchers and leave them without ways to deal with the cyclical and unpredictable nature of their businesses.

Background:

The Tax Cuts and Jobs Act left in place many tax provisions important to farmers and ranchers.

- Stepped-up Basis for Inherited Property
- Cash Accounting
- Deduction for Business Interest Expense (limited when gross receipts exceed $25 million)
- Continue Like-Kind Exchange for Land and Buildings (ends for equipment and livestock)
- Business Deduction for Real Estate and Personal Property Taxes

The Tax Cuts and Jobs Act contains many permanent provisions that help farmers and ranchers.

- Sect. 179 Small Business Expensing Increased to $1 million
- Indefinite Carry Forward of Deductions Indexed for Inflation
- Depreciation for Farm Equipment Shortened from 7 to 5 years
- New Flat 21 percent Corporate Tax Rate
- Repeal of the Corporate Alternative Minimum Tax (AMT)

However, many of the provisions that help pass-through business are temporary and should be made permanent.

- Reduced Pass-Through Tax Rates and Expanded Brackets: If not extended, the result will be a tax increase on the majority of farm and ranch businesses. (Expires 12/31/25)
- New Sect. 199A 20 percent Business Income Deduction (phase-out starts when taxable income exceeds $315,000/joint): Repealing the business income deduction would expand the tax base of pass-through businesses, erasing much of the benefit of tax reform legislation. (Expires 12/31/25)
- Unlimited Bonus Depreciation (Expensing): If not continued, farmers and ranchers will be unable to offset income with deductions for their business expenses. This is especially critical

because like-kind exchanges for equipment and livestock are repealed. (Phase out starts 2023)
- Doubled Estate Tax Exemption to $11 million person/$22 million couple: If the exemption is allowed to revert back more farms and ranches will be subject to estate taxes. And, as long as the exemption level is temporary money must be spent on estate tax planning rather than on growing farm and ranch businesses. (Expires 12/31/25)
- Increased Alternative Minimum Tax Threshold for Individuals: Rollback of the higher AMT threshold will cancel out important deductions and credits put in place by tax reform. (Expires 12/31/25)

Legislative Status:

Farm Bureau supports H.R. 1149, the Main Street Tax Certainty Act, to make the deduction for qualified business income permanent (Sect. 199A).

AFBF Policy:

The temporary provisions of the Tax Cuts and Jobs Act that benefit pass-through businesses should be made permanent. More than 98 percent of farms and ranches operate as pass-through businesses – sole proprietorships, partnerships and Sub S corporations. Failure to extend important pass-through provisions will result in a tax increase for farmers and ranchers and leave them without ways to deal with the cyclical and unpredictable nature of their businesses.

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