

Taxes: A Farmer's Perspective

AAE 320

Goal

- Understand from a practical perspective how major types of taxes work for farmers

Taxes paid by Farmers

- Property (real estate) taxes
- Sales taxes
- Employment taxes
- Income taxes
- Self-employment taxes
- Gift taxes
- Estate (death) taxes



Our focus in AAE 320

Income Taxes

- IRS form 1040: Income taxes (see handout)
- List income sources
 - Wages/salaries
 - Dividends, pensions, social security, ...
 - Line 6: from Schedule 1
- Adjusted Gross Income (AGI): Line 7
- Schedule 1
 - Business income (Schedule C or C-EZ)
 - Capital Gain/Loss (Schedule D)
 - Depreciation recapture (form 4797)
 - Farm Income/Loss (Schedule F)
 - Adjustments
 - Deductible part of SE Tax (Schedule SE)
- 1040 Line 9: 20% business income deduction

Income Taxes

- Itemized Deductions (Schedule A)
 - If choose to itemize, deduct property taxes paid, state taxes and mortgage interest on home here
 - Calculate Taxable Income
- Big change for 2018: Standard Deduction
 - 2017 & before: \$5,800 single, \$11,600 married filing joint
 - 2018: now \$12,000 and \$24,000
- Calculate taxable income as AGI minus deductions, then calculate Income Tax (line 44) from tax tables by bracket
 - Adjustments for various credits and other taxes

US has Progressive Income Tax

Single

Taxable Income	Tax Rate
\$0 - \$9,525	10% of taxable income
\$9,526 - \$38,700	\$952.50 <i>plus</i> 12% of the amount over \$9,525
\$38,701 - \$82,500	\$4,453.50 <i>plus</i> 22% of the amount over \$38,700
\$82,501 - \$157,500	\$14,089.50 <i>plus</i> 24% of the amount over \$82,500
\$157,501 - \$200,000	\$32,089.50 <i>plus</i> 32% of the amount over \$157,500
\$200,001 - \$500,000	\$45,689.50 <i>plus</i> 35% of the amount over \$200,000
\$500,001 or more	\$150,689.50 <i>plus</i> 37% of the amount over \$500,000

Married Filing Jointly or Qualifying Widow(er)

Taxable Income	Tax Rate
\$0 - \$19,050	10% of taxable income
\$19,051 - \$77,400	\$1,905 <i>plus</i> 12% of the amount over \$19,050
\$77,401 - \$165,000	\$8,907 <i>plus</i> 22% of the amount over \$77,400
\$165,001 - \$315,000	\$28,179 <i>plus</i> 24% of the amount over \$165,000
\$315,001 - \$400,000	\$64,179 <i>plus</i> 32% of the amount over \$315,000
\$400,001 - \$600,000	\$91,379 <i>plus</i> 35% of the amount over \$400,000
\$600,001 or more	\$161,379 <i>plus</i> 37% of the amount over \$600,000

US has Progressive Income Tax

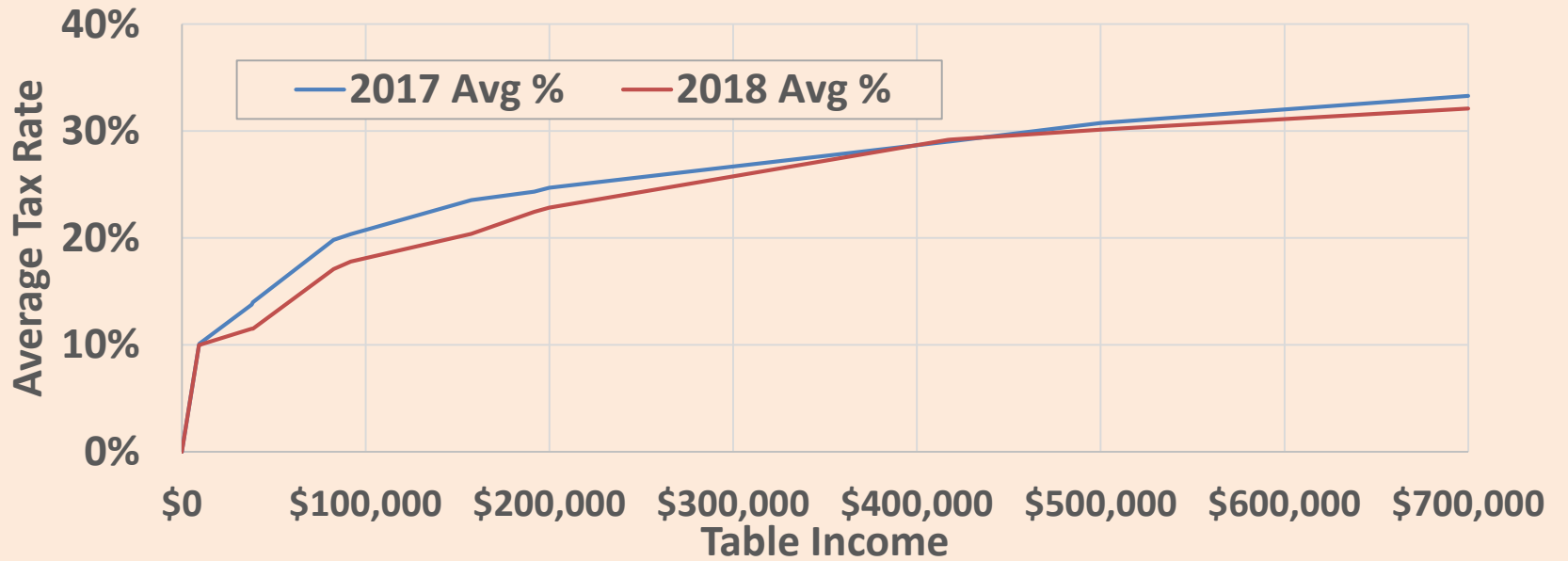
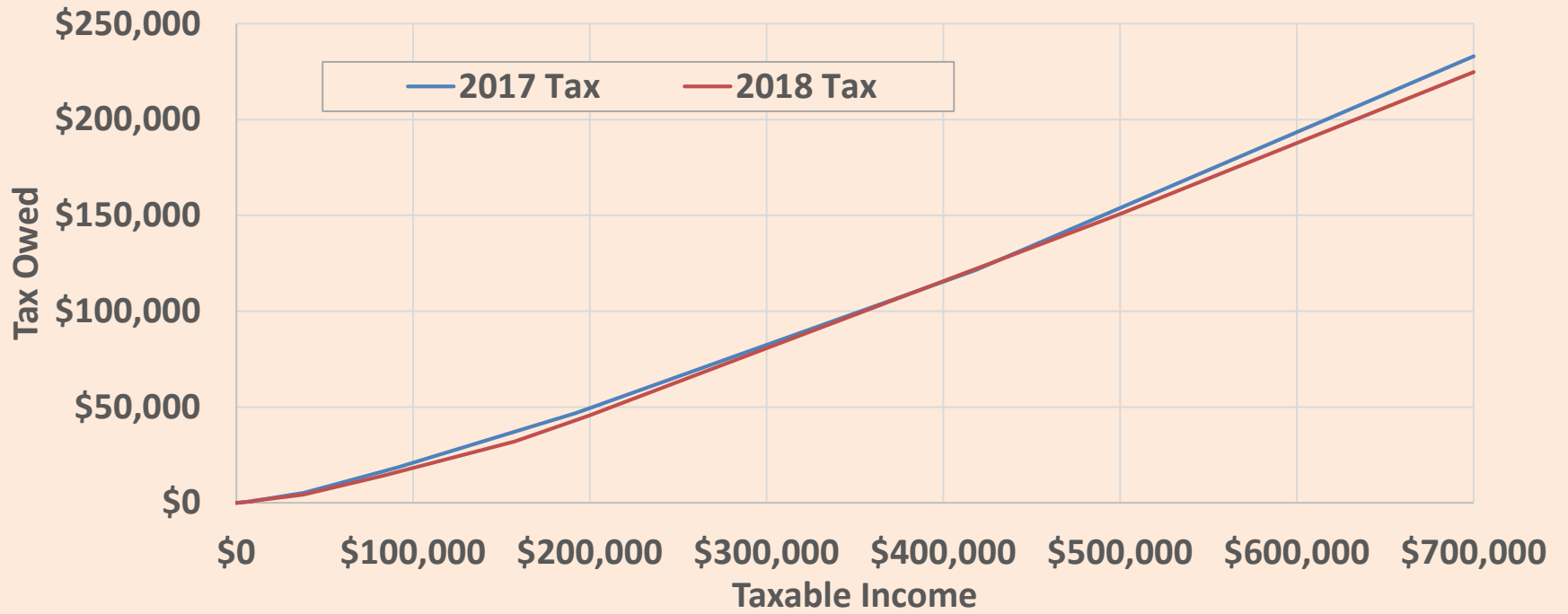
Rate	Single	Married Filing Joint
10%	< \$9,525	< \$19,050
12%	\$9,526-\$38,700	\$19,051-\$77,400
22%	\$38,701-\$82,500	\$77,401-\$165,000
24%	\$82,501-\$157,500	\$165,001-\$315,000
32%	\$157,500-\$200,000	\$315,001-\$400,000
35%	\$200,001-\$500,000	\$400,001-\$600,000
37%	>\$500,000	>\$600,000

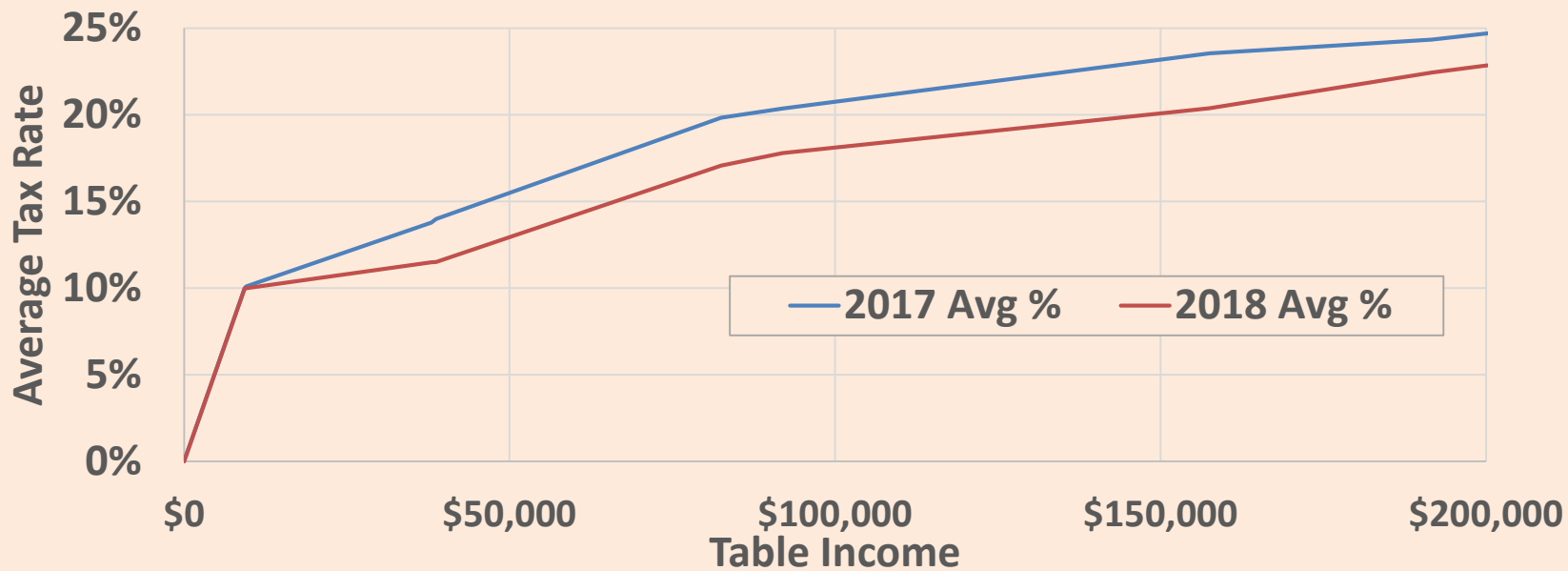
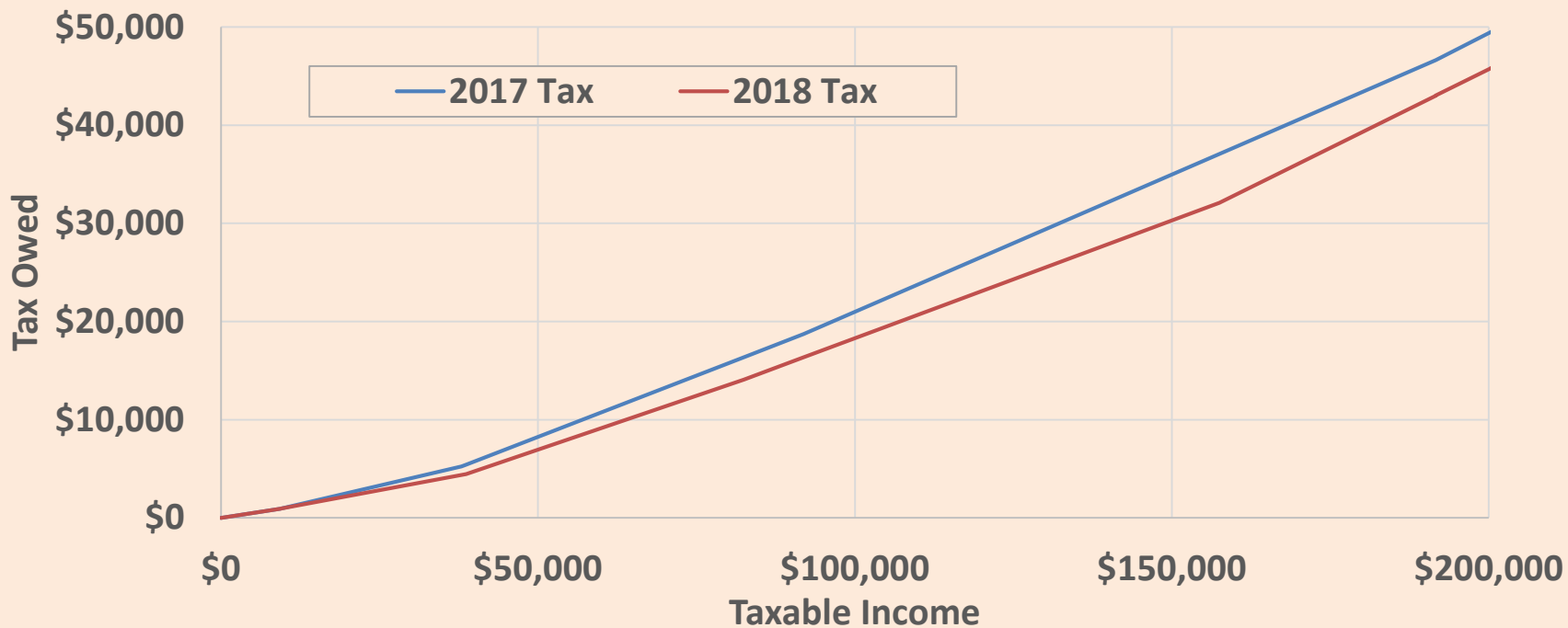
For 2017		New for 2018	
Rate	Single	Rate	Single
10%	< \$9,325	10%	< \$9,525
15%	\$9,326-\$37,950	12%	\$9,526-\$38,700
25%	\$37,951-\$91,900	22%	\$38,701-\$82,500
28%	\$91,901-\$191,650	24%	\$82,501-\$157,500
33%	\$191,651-\$416,700	32%	\$157,500-\$200,000
35%	\$416,701-\$418,400	35%	\$200,001-\$500,000
39.6%	>\$418,401	37%	>\$500,000

- **Brackets indexed by inflation, so increase a bit each year**

For 2017		New for 2018	
Rate	Married Filing Joint	Rate	Married Filing Joint
10%	< \$18,650	10%	< \$19,050
15%	\$18,651-\$75,900	12%	\$19,051-\$77,400
25%	\$75,901-\$153,100	22%	\$77,401-\$165,000
28%	\$153,501-\$233,350	24%	\$165,001-\$315,000
33%	\$233,351-\$416,700	32%	\$315,001-\$400,000
35%	\$416,701-\$470,000	35%	\$400,001-\$600,000
39.6%	>\$470,000	37%	>\$600,000

- **Changes in 2018: Some brackets and some rates changed**





Other Taxes

- Self-Employment Tax: (Schedule SE)
- Not on Form 1040, but on Schedule 1
- Property taxes, Sales taxes, Employment taxes
- Gift Taxes: of you give something to someone, you may owe gift tax (Gift tax return form 709)
- Estate tax: when you die, your estate may owe taxes (Estate tax return form 706)