

Billy and Bobbi are married and file a joint income tax return each year. The following table shows the purchase price for items that were purchased, depreciation claimed, and fair market value (sale price) of their farm assets.

Asset	Purchase Price	Depreciation Claimed	Fair Market Value (= Sale Price)
Feed	\$155,000	\$0	\$165,000
Feeder calves	(Raised)	\$0	\$58,000
Dairy heifers (under 24 months old)	(Raised)	\$0	\$38,000
Dairy cows	(Raised)	\$0	\$180,000
Machinery	\$430,000	\$410,000	\$195,000
Buildings	\$580,000	\$450,000	\$220,000
Land	\$600,000	\$0	\$4,500,000
Total	\$1,765,000	\$860,000	\$5,356,000

Billy and Bobbi are planning their transfer of the farm assets to their son, Rob. They have asked the following questions. Please answer them.

1. If they sell all of the farm assets to Rob for their fair market value, how much gain do they have to report on their income tax return for each asset?

FYI, Basis = Purchase Price – Depreciation or 0 if raised asset and Gain = Sale Price – Basis.

Asset	Sale Price	Purchase Price	Depreciation	Basis	Gain
Feed	\$165,000	\$155,000	\$0		
Feeder calves	\$58,000	(Raised)	\$0		
Heifers	\$38,000	(Raised)	\$0		
Cows	\$180,000	(Raised)	\$0		
Machinery	\$195,000	\$430,000	\$410,000		
Buildings	\$220,000	\$580,000	\$450,000		
Land	\$4,500,000	\$600,000	\$0		
Total	\$5,356,000	\$1,765,000	\$860,000		

2. Note the character of the gain for each asset by entering the amount of gain subject to ordinary income tax, self-employment tax, and/or capital gains tax in each column below.

	Ordinary Income	Self-Employment	Capital Gains
Feed			
Feeder calves			
Heifers			
Cows			
Machinery			
Buildings			
Land			
Sum Total			

3. Using the following Tax Table, calculate the income taxes Billy and Bobbi must pay on the sale of the assets that result in ordinary income. Assume that they have **\$60,000** of taxable income from other sources in addition to the income from the sale of assets.

If taxable income is over: but not over: the tax is:

\$0, \$19,050	10% of the amount over \$0
\$19,051, \$77,400	\$1,905 plus 12% of the amount over \$19,050
\$77,401, \$165,000	\$8,907 plus 22% of the amount over \$77,400
\$165,001, \$315,000	\$28,179 plus 24% of the amount over \$165,000
\$315,001, \$400,000	\$64,179 plus 32% of the amount over \$315,000
\$400,001, \$600,000	\$91,379 plus 35% of the amount over \$400,000
\$600,001, no limit	\$161,379 plus 37% of the amount over \$600,000

Total Ordinary Income from Question 2 + 60,000 = _____

Ordinary Income Tax Due = _____

4. Assume all of the self-employment income is Billy's self-employment income. Using an effective self-employment tax rate of 15.3% on the first \$128,400 of self-employment income and 2.9% on the self-employment income over \$128,400, calculate Billy's self-employment tax liability from the sale of the assets.

Total Self-Employment Income from Question 2 = _____

Self-Employment Tax Due = _____

5. Using a 20% tax rate on capital gains, calculate Billy and Bobbi's tax on capital gains and losses from the sale of the assets.

Total Capital Gains from Question 2 = _____

Capital Gains Tax Due = _____

6. If Billy and Bobbi gave the assets to Rob rather than sold them to him, what is Rob's income tax basis in each of the assets?

Asset	Rob's Income Tax Basis
Feed	
Feeder calves	
Heifers	
Cows	
Machinery	
Buildings	
Land	

7. If Rob sold the assets for their fair market value immediately after Billy and Bobbi gave them to him, what is his gain or loss on each of the assets?

Asset	Rob's Gain
Feed	
Feeder calves	
Heifers	
Cows	
Machinery	
Buildings	
Land	

8. Assume Billy and Bobbi owned all of the assets as survivorship marital property and Billy died. If the assets had the fair market value listed above, what is Bobbi's income tax basis in each of the assets?

Asset	Bobbi's Income Tax Basis
Feed	
Feeder calves	
Heifers	
Cows	
Machinery	
Buildings	
Land	

9. If Billy died and then Bobbi sold all of the assets to Rob immediately, what is Bobbi's gain or loss on each of the assets? What is Rob's income tax basis in each of the assets?

Asset	Bobbi's Gain	Rob's Income Tax Basis
Feed		
Feeder calves		
Heifers		
Cows		
Machinery		
Buildings		
Land		