



Taxes: A Farmer's Perspective

AAE 320

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Agricultural & Applied Economics

Learning Goal

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

Taxes Commonly 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
- List income sources
 - Wages/salaries
 - Dividends, pensions, social security, ...
 - Bring in Schedule 1: Line 6
- Calculate Adjusted Gross Income (AGI): Line 7
- 20% business income deduction Line 9

Schedule 1

- Business income: Schedule C or C-EZ (line 12)
- Capital Gain/Loss: Schedule D (line 13)
- Depreciation Recapture: Form 4797 (line 14)
- Farm Income/Loss: Schedule F (line 18)

Adjustments on Schedule 1

- Deductible part of SE Tax: Schedule SE (line 27)

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 in 2018: Standard Deduction Increased
 - Before 2018: \$5,800 single, \$11,600 married filing joint
 - 2018 & After: now \$12,000 single and \$24,000 married filing joint
- 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 a Progressive Income Tax

Tax Brackets for 2020

Rate	Single	Married Filing Joint
10%	< \$9,875	< \$19,750
12%	\$9,876-\$40,125	\$19,751-\$80,250
22%	\$40,126-\$85,525	\$80,251-\$171,050
24%	\$85,526-\$163,300	\$171,051-\$326,600
32%	\$163,301-\$207,350	\$326,601-\$414,700
35%	\$207,351-\$518,400	\$414,701-\$622,050
37%	>\$518,400	>\$622,050

Brackets indexed for inflation, so cut offs adjusted annually

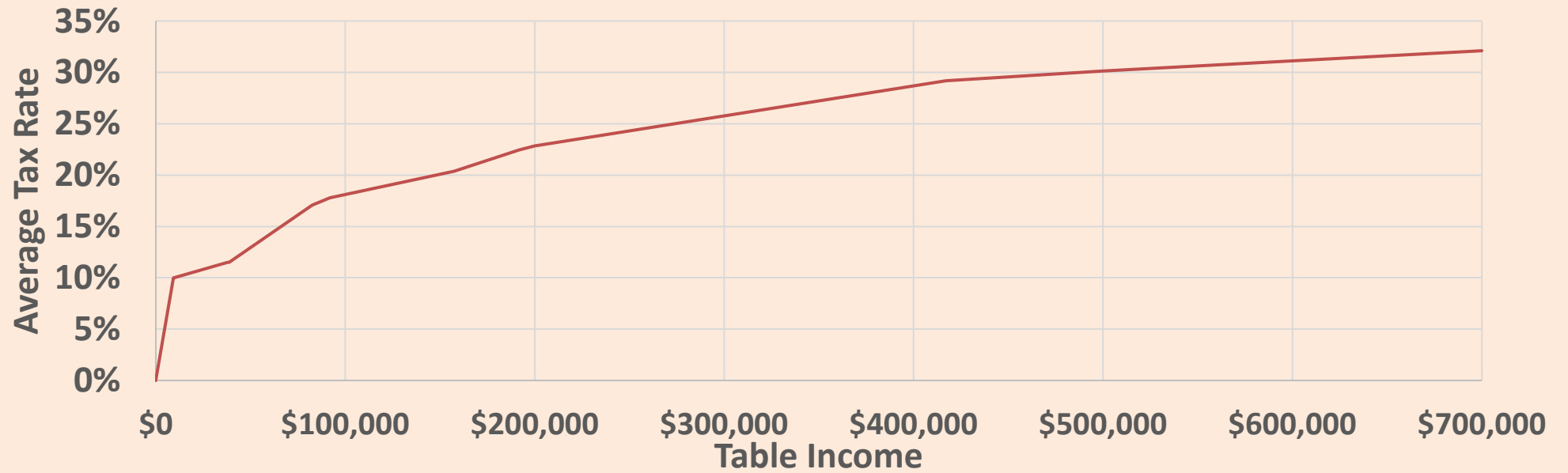
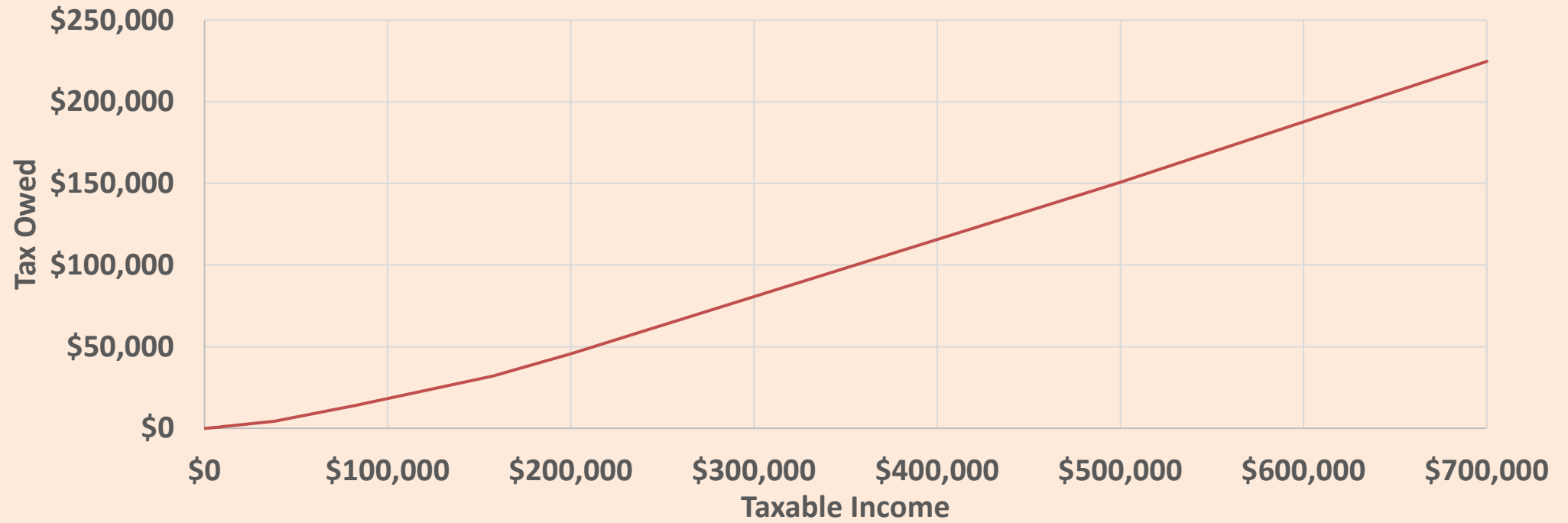
Individual Taxpayers

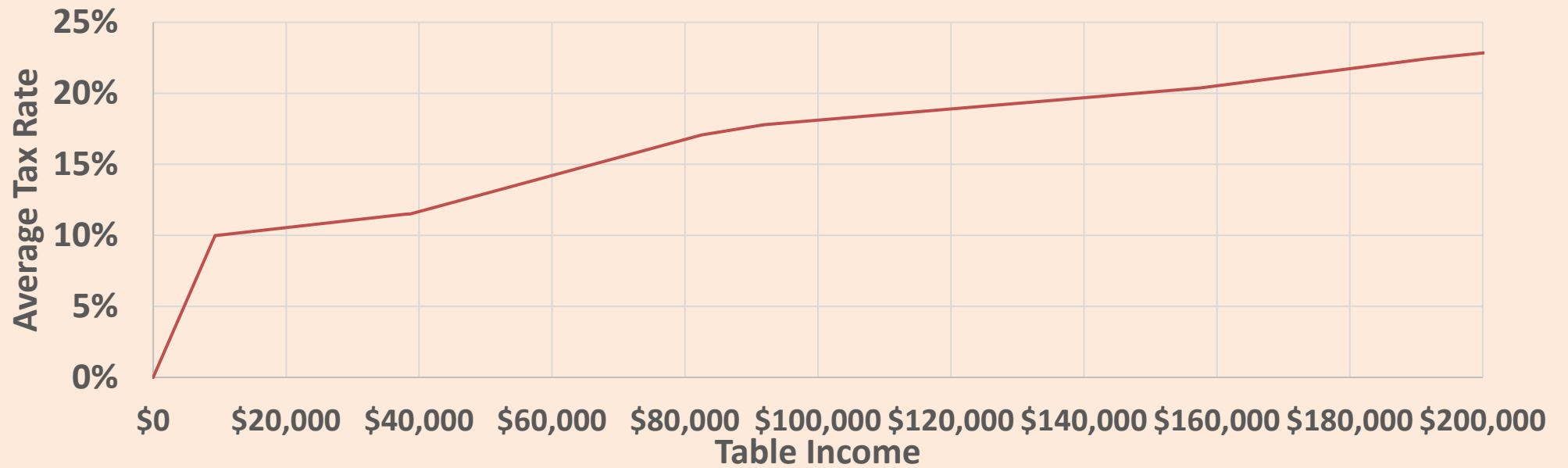
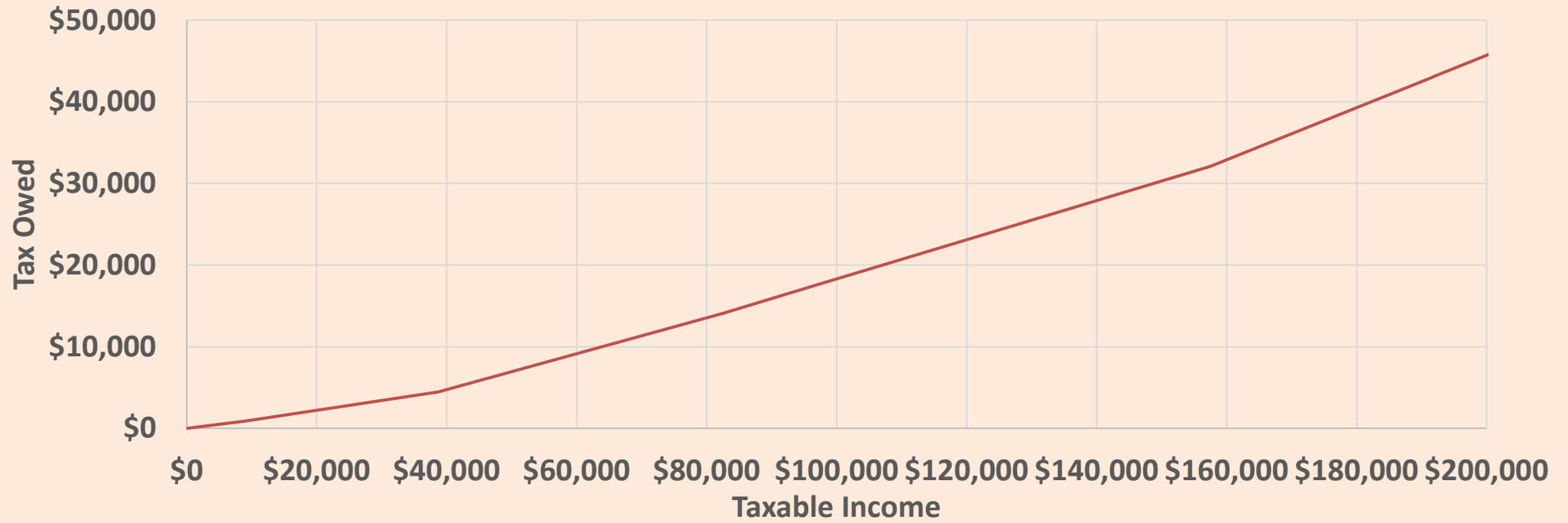
If Taxable Income Is Between:	The Tax Due Is:
0 - \$9,875	10% of taxable income
\$9,876 - \$40,125	\$987.50 + 12% of the amount over \$9,875
\$40,126 - \$85,525	\$4,617.50 + 22% of the amount over \$40,125
\$85,526 - \$163,300	\$14,605.50 + 24% of the amount over \$85,525
\$163,301 - \$207,350	\$33,271.50 + 32% of the amount over \$163,300
\$207,351 - \$518,400	\$47,367.50 + 35% of the amount over \$207,350
\$518,400	\$156,235 + 37% of the amount over \$518,400

Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is Between:	The Tax Due Is:
0 - \$19,750	10% of taxable income
\$19,751 - \$80,250	\$1,975 + 12% of the amount over \$19,750
\$80,251 - \$171,050	\$9,235 + 22% of the amount over \$80,250
\$171,051 - \$326,600	\$29,211 + 24% of the amount over \$171,050
\$326,601 - \$414,700	\$66,543 + 32% of the amount over \$326,600
\$414,701 - \$622,050	\$94,735 + 35% of the amount over \$414,700
\$622,051	\$167,307.50 + 37% of the amount over \$622,050

US has a
Progressive
Income Tax





Self-Employment Tax: (Schedule SE)

- If you have self-employment income (Schedule F, CRP Payments, Schedule K-1, Schedule C), file Schedule SE
- Employment taxes are 15.3% on first \$132,900 earned and 2.9% on anything above \$132,900 (indexed for inflation)
- Normally your employer pays $\frac{1}{2}$ of your employment taxes, but if you are self-employed, so you are your employer
- Schedule SE line 5: calculate self-employment taxes owed
- Schedule SE line 6: deduce 50% of SE taxes from your income, as though your employer paid them

Other Taxes

- Property taxes, Sales taxes, Employment taxes
- Gift Taxes: If 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)