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Tax Planning Opportunities under the Tax Cuts and Jobs Act

As we approach the holiday season, or tax-planning season as we like to call it, there are major tax changes that will require proactive planning with your Farm Credit East tax professional. The tax law changes that have been in the news may seem overwhelming, but it is more important than ever to spend time optimizing tax strategies to reduce your tax liability. Here are some of the important tax planning strategies to consider.

199A

If you operate your business as anything other than a C-corporation (we'll discuss C-corporations later) and are unaware of how Section 199A (also known as the "20 percent deduction") will impact your business, make sure it is the first thing discussed with your tax professional. This deduction, which essentially replaces the old Domestic Production Activities Deduction (DPAD), is brand new and quite complicated.

Under section 199A, there are limitations that may affect whether you receive the full benefit. Some items that impact 199A include wages, taxable income and the basis of assets. Furthermore, not all rental arrangements will qualify and some will require special elections made on the tax return. The 199A deduction can be substantial and does have a multi-year impact. This will require careful analysis and tax planning in order to optimize the deduction not only this year, but also for all future years.

C-corporations

C-corporations do not qualify for the 20 percent deduction. Rather, they are now taxed at a flat 21 percent corporate rate. While this is a tax reduction for the vast majority of C-corporations, many farming C-corporations previously kept taxable income below \$50,000 and were taxed at a 15 percent rate. If you fall into that category and are now facing that 40 percent tax rate increase from 15 to 21 percent tax, it may make sense to discuss converting to an S-corporation, if possible.

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Some of you may be reading this and wondering whether it makes sense to convert your business to a C-corporation. The answer is most likely no, but it depends! Several factors affect this analysis – this is something that you should bring up to your tax professional.

Increased Depreciation Tools

Tax reform increased the limits for Section 179 expensing to up to \$1 million as well as bonus depreciation (50 to 100 percent, including the ability to claim it on used property). The increased bonus depreciation is also available for orchards and vineyards in the year of planting.

The law also changes the recovery period from seven to five years for new farm equipment and now permits a faster depreciation method. It is important to remember that while liberalized expensing tools are available, your preparer should use judgment when electing depreciation methods so that you do not create a Net Operating Loss (NOL) if not desired. This is because the new law limits the ability to offset only 80 percent of taxable income and only allows for a two-year carryback for farmers.

Standard and Itemized Deductions

From 2018 until 2026, there is a \$10,000 limit on state and local taxes for those taxpayers who itemize. However, the standard deductions have doubled from previous law. Married taxpayers who file jointly will now have a \$24,000 standard deduction. In addition, there are no personal exemptions at the federal level.

One strategy for people who spend a lot on medical expenses or charitable contributions is to “bunch” those expenses into a single year. For example, a taxpayer may take the standard deduction in one year and then bunch medical and charitable items into the next in order to optimize those deductions. Tax rates are lower and many people will have a lower tax liability year over year, but any one person’s outcome will depend on his or her specific circumstances.

State Differences

Every year, states across the country pass budgets and modify their respective tax codes. Due to the Tax Cuts and Jobs Act (TCJA), this year was one of the busiest for states in a long time. Not every change in the TCJA will affect taxpayers with respect to state income tax. For example, the Section 199A deduction will not be available for farmers in Farm Credit East’s territory due to a function of how those states derive their taxable income (in fact, only a small handful of states across the country will afford the deduction to their taxpayers). Likewise, every Northeast state that has an estate tax has a lower estate threshold than the current \$11.18 million per person that exists at the federal level.

All states within Farm Credit East’s territory and across the country have passed legislation in response to the TCJA. New York taxpayers may now itemize at the state level even if they do not itemize federally. In other words, it is still important to keep receipts for your charitable contributions and medical expenses! Additionally, Connecticut recently enacted a tax on the state’s flow-through entities. This will affect all Connecticut partnerships (including LLCs taxed as partnerships) and S-corporations.

Every state in Farm Credit East’s territory has nuances to their tax code that make them different from each other and from the federal tax law. This is another reason why it’s important to discuss your situation with your local tax professional. A holistic tax plan includes not only federal taxes but also state taxes over a multi-year period.

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A final word on tax planning, tax changes and tax fees

This past year has been very busy for those of us who operate in the tax world. Not only did we see the most substantial change in over 30 years at the federal level, but the slew of changes at the state levels have been just as intense in many cases.

While Section 199A will require extra tax planning considerations this fall, other changes, like Connecticut's new pass-through tax, will increase the time and complexity of each return it impacts. New Yorkers may spend extra time itemizing this year despite taking the standard deduction at the federal level. Particularly related to Section 199A, the IRS estimates that the 8.8 million pass-through businesses will spend 2.75 hours annually reporting this deduction. Farm Credit East, ACA is committed to continuing to provide excellent value to your individual tax situation at a competitive price. [Contact us](#) today to learn more.

A Glimpse into the State of Northeast Agriculture, Commercial Fishing and Forest Products Industries

As 2018 draws to a close, Farm Credit East has pulled together a summary report reflecting on the 2018 year in the dairy, timber, cash field, livestock, fruit, greenhouse and nursery, fishing, and vegetable industries.

Overall Outlook

Farm Credit East expects 2018 net farm income to come in somewhat below 2016 and 2017 levels, due mainly to weak commodity prices. A significant factor in this decline is the decrease in milk prices, which have begun to rise, but were extremely low during the first half of the year. Prices for grains and oilseeds also remain weak. Relatively good performance is expected from the green industry, vegetables and ag retail, but this is outweighed by declines in the commodity sectors.

Inflation is starting to show up in many input costs. One of the major cost increases is energy and related expenses. Tighter labor markets and increases of some states' minimum wages have contributed to rising labor costs. Transportation costs (and availability) are another factor due not only to fuel costs, but also to a continuing nationwide driver shortage and the implementation of electronic driver logs for long-haul truckers.

Continued tough rhetoric between the U.S., China and other nations about trade and tariffs has many in the agriculture community concerned. Many sectors of U.S. agriculture, forestry and commercial fishing are highly dependent on exports. Even for those producers whose products are not directly exported, the price they receive domestically may be heavily influenced by international trade.

Dairy

Prices were extremely low this spring, dropping below \$14 per cwt in February for many farms. Since then, prices have modestly improved and will likely continue to do so for the remainder of the year. Prices are projected to remain stable into the first half of 2019. Production, cow numbers, dairy exports, trade and dairy risk management are also discussed. [Click here](#) to read more.

Cash Field

It was a great growing year for much of the U.S., and USDA projects the national average corn yield at over 180 bushels per acre (bu/acre), a record that exceeds last year's yield by more than four bushels. This is expected

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to result in a national corn crop of 14.8 billion bushels, which is 174 million bushels above USDA's August estimate. Soybean yields are also projected to break records, forecast at 53.1 bu/acre. If achieved, this would yield 4.69 billion bushels, 279 million more than last year. [Click here](#) to read more.

Timber

There is a tremendous diversity of businesses in the forest products industry, and their economics often do not track together. For lumber, 2018 will bring record to near-record profits to most spruce/fir and white pine sawmills within the Northeast, yet hardwood lumber prices have been more problematic. Pulp and paper markets look bright, with improving paper markets supporting Northeast capital projects. Transportation costs, trucker shortages and the impact of electronic driver logs have been a challenge for the industry all around. [Click here](#) to read more.

Livestock

Beef and dairy cull cow prices have fallen from last year, but recreational equine markets are tracking upward with the general economy. New York horse racing has been stable. [Click here](#) to read more.

Fruit

New York's 2018 apple production is forecast at 31 million bushels (1.3 billion lbs.), slightly over last year, and roughly on par with the state's five-year average. Peaches, juice grapes, wine, small fruits and cranberries are also discussed. [Click here](#) to read more.

Aquatic

Reports indicate that it was a good (but not great) year for the Maine lobster industry. Read more about lobster, scallops and groundfish in this fishing sector update. [Click here](#) to read more.

Greenhouse and Nursery

2018 was generally a good year for greenhouse and nursery growers, tracking along with the general economy and increased consumer spending. Revenues are slightly up over last year, but many growers had hoped for an even greater increase than what was realized. Meanwhile, costs are increasing which is causing margin pressure. [Click here](#) to read more.

Vegetable

In the New York processing market, vegetable acres appear to remain stable for the coming year. Across New York, yields were generally good, but New England faced a wet summer and fall affecting yields and growers' ability to get into fields. New Jersey's results were mixed. The 2018 Maine potato harvest yields are considered average, with good crop quality. [Click here](#) to read more.

For the full industry updates, visit FarmCreditEast.com/Snapshots.

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