Farmers See Tax Changes in Annual Reporting in 2012

Farms will see several changes that will impact when and how they report 2012 income taxes.

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The fiscal cliff created the opportunity for a number of changes in the tax rules regulating when a farm must complete and file their annual income tax returns. For 2012, farm income tax returns have received a deadline extension from the normal March 1, 2013, date to file their tax returns without penalty, if they have not made estimates. With the tax deadline extended, farm producers now have until April 15, 2013, to file their tax returns without a penalty.

Farms that elect to delay completing and filing their tax returns after March 1, 2013, will need to include a Form 2110F as part of their return. The Form 2110F is a waiver that was part of the enactment of the American Taxpayer Relief Act (ATRA). To qualify, at least two-thirds of the taxpayer's gross income must be from farming in either 2011 or 2012. Much of the guidance from the IRS is still in process due to the late enactment of ATRA after the end of 2012.

Some of the changes and a major point that may impact farms as they prepare their 2012 income tax returns:

- The 179 expense election for 2012 was set at $500,000 retroactively because of the ATRA. This allowance provides an option for accelerated depreciation on new or used machinery or equipment purchases for the year of its purchase. There is a dollar-for-dollar phaseout if your farm purchased more than $2 million of depreciable capital assets during 2012. This change is a major increase from the $139,000 that was originally stated in the 2012 rules.

In addition, a farm has a 50% bonus depreciation of adjusted basis after the 179 expensing. This option only applies to new property placed in service during 2012 that has a depreciable recovery period of 20 years or less. Your farm can take the bonus depreciation or can select the election to opt out of having the 50% bonus applied to all new property that is grouped by class (3-, 5-, 7-, 10-, 15- or 20-year property) but everything within a class must be treated the same. Your tax professional can help you consider what will work best for your farm situation:

- Long-term capital gains and qualified dividend income now has a new 20% tax rate for individuals in the higher tax brackets. Capital gains are still taxed at a 0% rate for individuals in the 10% or 15% tax bracket. Those in the middle brackets (above the 15% tax bracket but below the 39.6% bracket) will pay 15% capital gains taxes. While those in the top income bracket (incomes above $400,000 for individual or $450,000 for married filing jointly) have a new 20% capital gains tax level.
- The annual individual retirement account contribution is $5,000 for 2012 or $6,000 for individuals 50 years or older.
- Crop insurance proceeds, if received in 2012, may be deferred to 2013 if you qualify. You must use cash accounting and show that, under normal business practices, the sale of damaged crops would occur in a future tax year.
- Income averaging is still available to qualifying farmers who can elect to compute their current tax liability by averaging all or part of the current year elected farm income. They would then average their 2012 income over the prior three-year tax rates, using up unused lower tax brackets in 2009, 2010 and 2011 period. This calculation is done on Schedule J.

Information on agricultural tax topics can be found in the *Farmer's Tax Guide*, publication 225. You can also find this publication and other IRS forms by calling the IRS directly at 1-800-829-1040.

Several tax-related articles are available on Michigan State University (MSU) Extension's Telfarm Farm Accounting systems website and additional helpful links can be found on my website by looking under the Tax Information Resource tab.

Editor's Note: *This article was provided by MSU Extension. For more information, visit* www.msue.msu.edu.

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