



Taxation and YOUR Farm Transition Plans

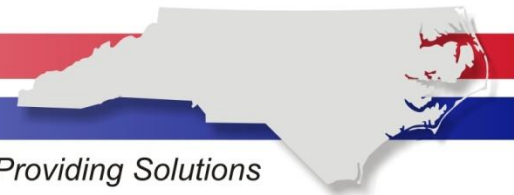
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**COOPERATIVE
EXTENSION**

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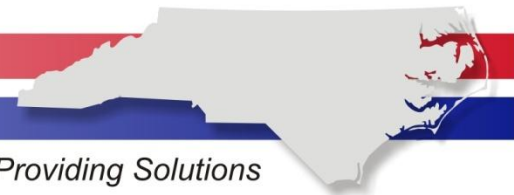
Federal Income Tax Changes Affecting Agriculture

- Individual Income Tax Rates (2014)
 - 10%, 15%, 25%, 28%, 33%, 35% **AND**
 - **39.6%** for
 - \$406,750 Single;
 - \$457,600 MFJ, (\$228,800 MFSep);
 - \$432,200 for HoH;
 - \$457,600 Qual. Widow/er w/ dep. child;
 - Estates & trusts \$12,150
 - Indexed for inflation



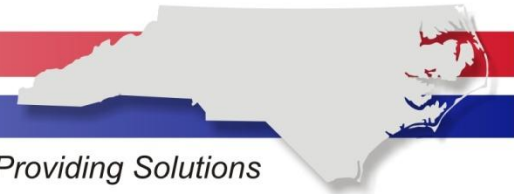
Federal Income Tax Changes Affecting Agriculture

- Capital Gain Income Tax rates 2014
 - 0% for taxpayers in the 10 and 15% income tax brackets
 - 15% for taxpayers in the 25, 28, 33, and 35% income tax brackets
 - 20% for taxpayers in the 39.6% income tax bracket



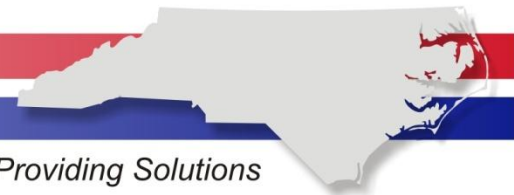
Depreciation Changes 2014

- Section 179 is \$25,000 for 2014
 - NC allows \$25,000 in 2013 and forward
 - Extender bill may increase this election amount to a higher number (\$500,000), if so, NC does not conform and adjustments must be made.
 - Extender bill may reinstate Bonus depreciation
 - Extender bill most likely will be taken up after the election.



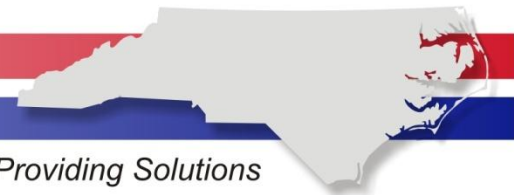
Depreciation Changes

- 2014 Mileage allowances
 - 56 cents per mile for up to 5 vehicles in a business.
 - Depreciation component is 23 cents per mile
 - 23.5 cents per mile for medical and job moves
 - 14 cents per mile for charitable driving



Federal Income Tax Changes Affecting Agriculture

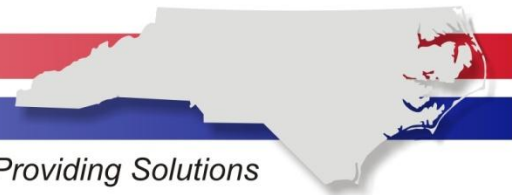
- Net Investment Income Tax (NIIT)
 - 3.8% tax applies to those with MAGI over for
 - \$125,000 MFS;
 - \$250,000 MFJ;
 - \$200,000 Single;
 - \$200,000 for HoH;
 - \$250,000 Qual. Widow/er w/ dependent child.
 - \$12,150 for Estates and Trusts



Income NOT subject to NIIT

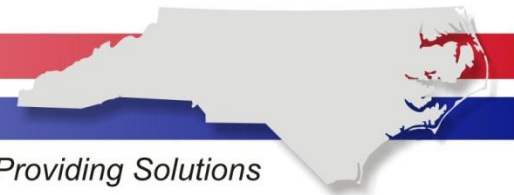
RETIREMENT income is not subject to NIIT

1. IRA, SEP, KEOGH plans
2. Pensions
3. Social Security



NIIT for 2014

- Interest, dividends and capital gains
- Annuities, royalties
- Rental income
 - This poses a potential trap for retiring farmers



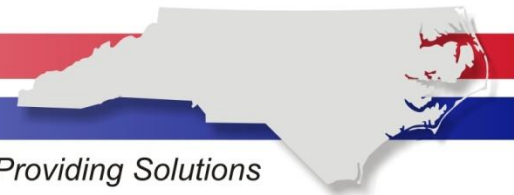
NIIT for 2014

- Rental Potential Trap
 - Rental income now is subject to the NIIT. The underlying asset, if sold, is now treated as an investment asset.
 - Therefore, if a farm is rented, and then sold, the capital gain on the farm is now subject to the 3.8% tax for amounts above the cap.
 - Any planning should take this tax into consideration if income is above threshold.



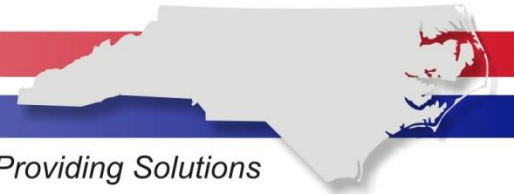
Federal Estate Tax

- The \$5 million estate and gift tax exclusion is made permanent.
- The exclusion is inflation indexed
 - 2011 \$5.00 million
 - 2012 \$5.12 million
 - 2013 \$5.25 million
 - 2014 \$5.34 million
 - The Tax Institute estimates that only 1% of estates will be taxable.



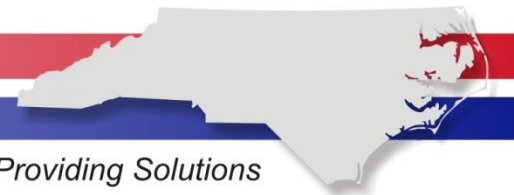
Federal Estate Tax

- The tax rate on taxable estates increased from 35% to 40%; which is effectively a flat tax.
- “Portability” election is permanent
 - Unused portion of deceased spouse can be used by surviving spouse (A total of \$10.68 million)
 - Election is made on a timely filed estate tax return (including extensions)



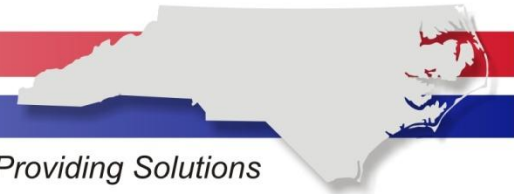
Federal Estate Tax

- Farms or business realty can receive a discounted estate tax evaluation up to \$1,090,000 [IRC §2032A] in 2014.
 - Must be held by qualified heirs for 10 years in continuing farm use.
- If more than 35% of an estate is a closely held business, then up to \$580,000 of estate tax can be deferred, paid in installments at 2% interest.



Gift tax issues

- Annual gift exclusion is \$14,000 for 2014
- Lifetime gifts now the same value as the estate tax exclusion, \$5.34 million for 2014
- A powerful tool for business succession

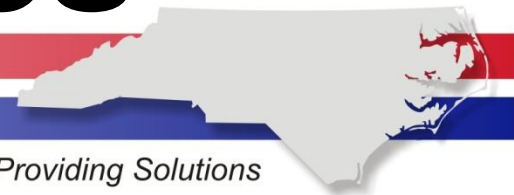


North Carolina



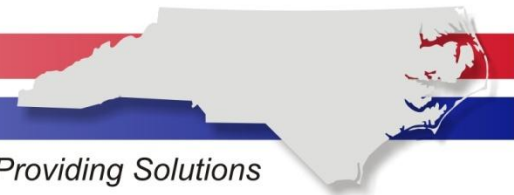
2013/14

Tax Law Changes



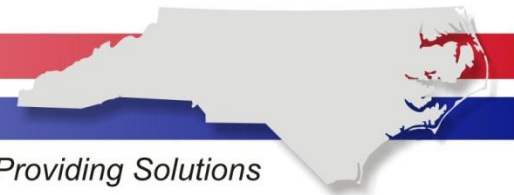
Repealed by HB 998 / S.L. 2013-316, effective 1/1/2014

- §§ 105-130.34 and 105-151.12. Credit for certain real property donations.
- §§ 105-130.36 and 105-151.13. Credit for conservation tillage equipment.
- §§ 105-130.37 and 105-151.14. Credit for gleaned crop.



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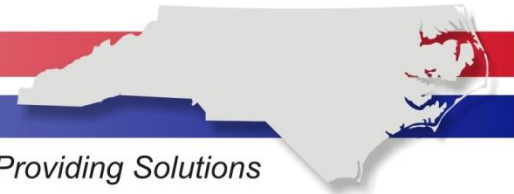
- §§ 105-130.44 and 105-151.25. Credit for construction of poultry composting facility.
- §105-151.21. Credit for property taxes on farm machinery. (Flow through from PTR and Sub-S corps)



Sales and Use Tax

2014

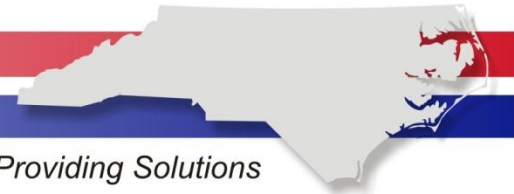
- Many of the farmer sales tax exemptions remain. However, must meet **income test of \$10,000 of gross farm income from preceding year, or average of preceding 3 years.**
- Fuel and Electricity (separate meters)
- Fertilizer, plastic mulch, seeds, lime, land plaster
- Farm machinery, repair parts and lubricants
- Containers
- Grain, feed, soybean storage facility and parts



Sales and Use Tax

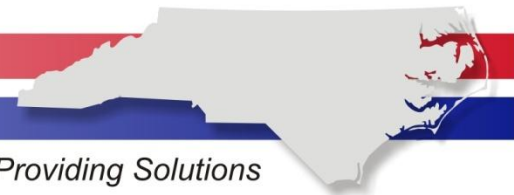
2014

- Conditional exemption for beginning farmers with less than \$10,000 of gross farm income, valid for 3 years.
- Pesticides
- Baby chicks and poults
- Commercially built facility and Building materials for raising or feeding of animals
- Bulk tobacco barns, racks or accessories to cure or dry tobacco



NC Estate and Gift Taxes

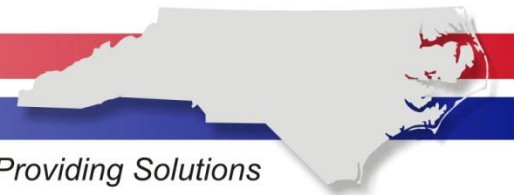
- NC repealed effective 1-1-2013 (HB998)
- NC has no gift tax (repealed as 1-1-2009)



Main NC Sources

Session Law 2013-316, H.B. 998

Session Law, 2014-3, H.B. 1050



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