



FARM INCOME TAX UPDATE

Risk & Profit – August 22 & 23, 2019

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2019 INFLATION ADJUSTED RATES, BRACKETS, & CREDITS

Tax Brackets

Ordinary Income

	Single		Married Filing Joint (MFJ)	
Tax Rate	2018	2019	2018	2019
10%	9,525	9,700	19,050	19,400
12%	38,700	39,475	77,400	78,950
22%	82,500	84,200	165,000	168,400
24%	157,500	160,725	315,000	321,450
32%	200,000	204,100	400,000	408,200
35%	500,000	510,300	600,000	612,350
37%	+	+	+	+

Capital Gain Income

	Single		Married Filing Joint (MFJ)	
Tax Rate	2018	2019	2018	2019
0%	38,600	39,750	77,200	78,750
15%	425,800	434,550	479,000	488,850
20%	+	+	+	+



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2019 Draft 1040

1040 Department of the Treasury - Internal Revenue Service (99) **2019** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only - Do not write or staple in this space.

Filing Status ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial Last name Your social security number
If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign Credit (see 501(c)(29) or your spouse if filing jointly, want to go to this fund. Checking a box below will not change your tax or refund. ☐ Yes ☐ No ☐ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name Foreign province/state/country Foreign postal code If more than four dependents, see instructions and ✓ here ▶ ☐

Standard Deduction ☐ Someone can claim: ☐ You as a dependent ☐ Your spouse as a dependent ☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: ☐ Were born before January 2, 1955 ☐ Are blind ☐ Spouse: ☐ Was born before January 2, 1955 ☐ Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions): Child tax credit Credit for other dependents

1 Wages, salaries, tips, etc. Attach Form(s) W-2 **1**
2a Tax-exempt interest **2a**
3a Qualified dividends **3a**
4a IRA distributions **4a**
5a Social security benefits **5a**
6 Capital gain or (loss). Attach Schedule D if required. If not required, check here **6**
7a Other income from Schedule 1, line 9 **7a**
b Add lines 1, 2b, 3b, 4b, 5b, 6, and 7a. This is your **total income** **7b**
8a Adjustments to income from Schedule 1, line 22 **8a**
b Subtract line 8a from line 7b. This is your **adjusted gross income** **8b**
9 Standard deduction or itemized deductions (from Schedule A) **9**
10 Qualified business income deduction. Attach Form 8995 or Form 8995-A **10**
11a Add lines 9 and 10 **11a**
b Taxable income. Subtract line 11a from line 8b **11b**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113208 Form **1040** (2018)



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2019 Draft 1040

Form 1040 (2019) Page 2

12a Tax (see inst.). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4872 3 ☐ **12a** **12b**

13a Add Schedule 2, line 3, and line 12a and enter the total **13a** **13b**

14 Add Schedule 3, line 7, and line 13a and enter the total **14** **15**

15 Subtract line 13b from line 12b. If zero or less, enter -0- **15** **16**

16 Other taxes, including self-employment tax, from Schedule 2, line 10 **16** **17**

17 Add lines 14 and 15. This is your total tax **17** **18**

18 Federal income tax withheld from Forms W-2 and 1099 **18** **19**

19 Other payments and refundable credits **19** **20**

20 Earned income credit (EIC) **20** **21a**

21a Additional child tax credit. Attach Schedule 8812 **21a** **21b**

21b American opportunity credit from Form 8863, line 8 **21b** **21c**

21c Schedule 3, line 14 **21c** **21d**

21d Add lines 18a through 18d. These are your total other payments and refundable credits **21d** **21e**

21e Add lines 17, 18b, 19, 20, 21a, 21b, 21c, and 21d. This is the amount you overpaid **21e** **21f**

21f If line 19 is more than line 18, subtract line 18 from line 19. This is the amount you overpaid **21f** **21g**

21g Amount of line 20 you want refunded to you, if Form 8888 is attached, check here **21g** **21h**

21h Direct deposit? See instructions. **21h** **21i**

21i Routing number **21i** **21j**

21j Account number **21j** **21k**

21k Type: ☐ Checking ☐ Savings **21k** **21l**

21l Amount of line 20 you want applied to your 2020 estimated tax **21l** **21m**

21m Amount you owe. Subtract line 21h from line 18. For details on how to pay, see instructions. **21m** **21n**

21n Estimated tax penalty (see instructions) **21n** **21o**

21o Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. **21o** **21p**

21p Yes ☐ Complete below. **21p** **21q**

21q No **21q** **21r**

21r Designee's name **21r** **21s**

21s Phone no. **21s** **21t**

21t Personal identification number (PIN) **21t** **21u**

21u Sign Here **21u** **21v**

21v Your signature **21v** **21w**

21w Date **21w** **21x**

21x Your occupation **21x** **21y**

21y Spouse's signature. If a joint return, both must sign. **21y** **21z**

21z Date **21z** **21aa**

21aa Spouse's occupation **21aa** **21ab**

21ab If the IRS sent you an Identity Protection PIN, enter it here (see inst.) **21ab** **21ac**

21ac If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) **21ac** **21ad**

21ad Preparer's name **21ad** **21ae**

21ae Preparer's signature **21ae** **21af**

21af Date **21af** **21ag**

21ag PTIN **21ag** **21ah**

21ah Check if: **21ah** **21ai**

21ai ☐ Self-employed **21ai** **21aj**

21aj ☐ Paid preparer **21aj** **21ak**

21ak Firm's name **21ak** **21al**

21al Firm's address **21al** **21am**

21am Firm's EIN **21am** **21an**

21an Go to www.irs.gov/Form1040 for instructions and the latest information. **21an** **21ao**

21ao Form 1040 (2019) **21ao**



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2019 Draft 1040

SCHEDULE 1 (Form 1040 or 1040-SR) Additional Income and Adjustments to Income

OMB No. 1545-0074

2019

Department of the Treasury Internal Revenue Service

► Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040 or 1040-SR Your social security number

Part I Additional Income

1 Taxable refunds, credits, or offsets of state and local income taxes **1** **2a**

2a Alimony received **2a** **2b**

2b Date of original divorce or separation agreement (see instructions) **2b** **3**

3 Business income or (loss). Attach Schedule C **3** **4**

4 Other gains or (losses). Attach Form 4797 **4** **5**

5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E **5** **6**

6 Farm income or (loss). Attach Schedule F **6** **7**

7 Unemployment compensation **7** **8**

8 Other income. List type and amount **8** **9**

9 Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a **9** **10**

Part II Adjustments to Income

10 Educator expenses **10** **11**

11 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 **11** **12**

12 Health savings account deduction. Attach Form 8889 **12** **13**

13 Moving expenses for members of the Armed Forces. Attach Form 3903 **13** **14**

14 Deductible part of self-employment tax. Attach Schedule SE **14** **15**

15 Self-employed SEP, SIMPLE, and qualified plans **15** **16**

16 Self-employed health insurance deduction **16** **17**

17 Penalty on early withdrawal of savings **17** **18a**

18a Alimony paid **18a** **18b**

18b Recipient's SSN **18b** **19**

19 IRA deduction **19** **20**

20 Student loan interest deduction **20** **21**

21 Reserved for future use **21** **22**

22 Add lines 10 through 21. These are your adjustments to income. Enter here and on Form 1040 or 1040-SR, line 8a **22**

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040 or 1040-SR)

SCHEDULE 2 (Form 1040 or 1040-SR) Additional Taxes

OMB No. 1545-0074

2019

Department of the Treasury Internal Revenue Service

► Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040 or 1040-SR Your social security number

Part I Tax

1 Alternative minimum tax. Attach Form 6251 **1** **2**

2 Excess advance premium tax credit repayment. Attach Form 8962 **2** **3**

3 Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b **3** **4**

Part II Other Taxes

4 Self-employment tax. Attach Schedule SE **4** **5**

5 Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919 **5** **6**

6 Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5320 if required **6** **7a**

7a Household employment taxes. Attach Schedule H **7a** **7b**

7b Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required **7b** **8**

8 Taxes from: a ☐ Form 8599 b ☐ Form 8960 **8** **9**

9 Section 965 net tax liability installment from Form 965-A **9** **10**

10 Add lines 4 through 9. These are your total other taxes. Enter here and on Form 1040 or 1040-SR, line 15 **10**

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479J Schedule 2 (Form 1040 or 1040-SR) 2019

SCHEDULE 3 (Form 1040 or 1040-SR) Additional Credits and Payments

OMB No. 1545-0074

2019

Department of the Treasury Internal Revenue Service

► Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040 or 1040-SR Your social security number

Part I Nonrefundable Credits

1 Foreign tax credit. Attach Form 1116 if required **1** **2**

2 Credit for child and dependent care expenses. Attach Form 2441 **2** **3**

3 Education credits from Form 8863, line 19 **3** **4**

4 Retirement savings contributions credit. Attach Form 8880 **4** **5**

5 Residential energy credit. Attach Form 5695 **5** **6**

6 Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐ **6** **7**

7 Add lines 1 through 6. Enter here and include on Form 1040 or 1040-SR, line 13b **7** **8**

Part II Other Payments and Refundable Credits

8 2019 estimated tax payments and amount applied from 2018 return **8** **9**

9 Net premium tax credit. Attach Form 8962 **9** **10**

10 Amount paid with request for extension to file (see instructions) **10** **11**

11 Excess social security and tier 1 RRTA tax withheld **11** **12**

12 Credit for federal tax on fuels. Attach Form 4136 **12** **13**

13 Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 6885 d ☐ **13** **14**

14 Add lines 8 through 13. Enter here and on Form 1040 or 1040-SR, line 15d **14**

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 714800 Schedule 3 (Form 1040 or 1040-SR) 2019



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2019 Draft 1040-SR

1040-SR U.S. Tax Return for Seniors 2019

Filing Status
☐ Single
☐ Head of household (HCH)
☐ Married filing jointly
☐ Qualifying widower (QW)
☐ Married filing separately (MFS)

Standard Deduction
☐ Someone can claim you as a dependent
☐ You as a dependent
☐ Your spouse as a dependent
☐ Spouse retired on a separate return or you were a dual-status alien

Dependents
 (a) First name (b) Last name (c) Social security number (d) Relationship to you (e) If a qualified filer, enter (f) Child's name (g) Child's address

1 Wages, salaries, tips, etc. Attach Form(s) W-2
2a Tax-exempt interest
2b Qualified dividends
3a IRA distributions
4a Pensions and annuities
5a Social security benefits
6 Capital gain or (loss). Attach Schedule D if required. If not required, check here
7a Other income from Schedule 1, line 9
8a Adjustments to income from Schedule 1, line 22
9 Subtract line 8a from line 7b. This is your **adjusted gross income**
10 Standard deduction or itemized deductions from Schedule A
11a Add lines 9 and 10
11b Taxable income. Subtract line 11a from line 8b

Standard Deduction Chart
 Add the number of boxes checked in the "Applicable" column of the chart below to the number of boxes checked in the "Standard Deduction" column of the chart below to determine your standard deduction.

Applicable	Standard Deduction
Single	0
Head of household	1
Married filing jointly	2
Qualifying widower	3
Married filing separately	4

For Deductions, Priority Mail, and Return Preparation Fee, see separate instructions. Form No. 1040-SR 2019



2019 Draft 1040-SR

12a Tax (see instructions). Check if any from:
☐ Form(s) 9814 ☐ Form 4972 ☐ **12a**
12b Add Schedule 2, line 3, and line 12a and enter the total
13a Child tax credit or credit for other dependents
13b Add Schedule 3, line 7, and line 13a and enter the total
14 Subtract line 13b from line 12b. If zero or less, enter -0-
15 Other taxes, including self-employment tax, from Schedule 2, line 10
16 Add lines 14 and 15. This is your **total tax**
17 Federal income tax withheld from Forms W-2 and 1099
18 Other payments (see instructions)
19 Add lines 17 and 18. These are your **total payments**
20 If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**
21a Amount of line 20 you want **refunded** to you. If Form 8878 is attached, check here
21b Refund number
22 Amount of line 20 you want applied to your 2020 estimated tax
23 Amount you owe. Subtract line 19 from line 16. For details on how to pay, see instructions
24 Estimated tax penalty (see instructions)

Third Party Designee
 Designee's name (Print) Designee's address (Print) Designee's phone (Print)
 Date Your occupation (Print)
 Date Spouse's occupation (Print)
 Date Preparer's name (Print) Preparer's address (Print) Preparer's phone (Print)
 Date Preparer's name (Print) Preparer's address (Print) Preparer's phone (Print)

Preparer Use Only
 Preparer's name (Print) Preparer's address (Print) Preparer's phone (Print)
 Date Preparer's name (Print) Preparer's address (Print) Preparer's phone (Print)

Go to www.irs.gov/form1040sr for instructions and the latest information. Form 1040-SR 2019



Personal Exemptions & Standard Deduction

- Personal exemptions *eliminated* (2018 to 2025)
- Standard deduction *increased* (2018 to 2025)
 - MFJ: \$24,400 (up \$400 from 2018)
 - Single: \$12,200 (up \$200 from 2018)



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Itemized Deductions

- Increased standard deduction makes itemizing more difficult
- State and Local Tax (SALT) deduction *limited* (2018 to 2025)
 - \$10,000 limit on the sum of:
 - Home real estate tax
 - Non-farm personal property tax (vehicles, boats, RVs)
 - State income tax or local sales tax deduction
 - **Does not** impact deduction of farm real estate or farm personal property tax!



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Itemized Deductions

- Mortgage interest deduction *limited* (2018 to 2025)
 - Acquisition debt before 1/1/18 if balance >\$1,000,000 (MFJ)
 - Acquisition debt after 12/31/17 if balance >\$750,000 (MFJ)
 - No interest deduction for home equity debt regardless of year of acquisition
- Charitable contributions
 - Cannot deduct contributions required in exchange for seating preference at college events (Ahearn Fund)
 - Limitation on cash contributions *increased* to 60% of AGI (from 50%)
 - *Qualified charitable distributions from an IRA and charitable gifts of commodity* are now a more attractive planning strategy



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Itemized Deductions

- 2% Miscellaneous itemized deductions *eliminated* (2018 to 2025)
 - Unreimbursed employee expenses
 - Tax prep, safety deposit box, legal or investment fees
 - Hobby loss expenses
- Medical expenses (2019 to 2025)
 - AGI floor *increased* to 10% from 7.5% making it more difficult to deduct medical expenses
- Casualty and theft losses *eliminated* (2018 to 2025) except Presidentially declared disasters



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“Above the Line” Deductions

- ⦿ Alimony *no longer* taxable/deductible for decrees signed after 2018 (permanent)
- ⦿ Deduction for moving expenses *eliminated* (2018 to 2025)
- ⦿ *No change* to \$250 Educator expense deduction
- ⦿ Retirement plan contribution limits*:
 - Traditional or Roth IRA = \$6,000 + \$1,000 catchup if > age 49
 - SEP = about 18.6% of Schedule F income or \$56,000
 - SIMPLE elective deferral = \$13,000 + \$3,000 catchup if > age 49
 - Solo 401(k) elective deferral = \$19,000 + \$6,000 if > age 49
- ⦿ HSA contribution limit = \$7,000 for a family + \$1,000 if > age 54

* *Must have self-employed income to make a contribution*



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Child Tax Credit

- ⦿ CTC *increased* to \$2,000/qualifying child (2018 to 2025)
 - Child, step-child, foster child, adopted child under 17 claimed as dependent
 - Must live with you for more than half of the year
 - Must have a SSN issued before due date of return
- ⦿ Dramatically *increased* AGI phase-out
 - From \$110,000 to \$400,000 (MFI)
 - From \$75,000 to \$200,000 (Single)
- ⦿ Refundable max = 15% of earned income > \$2,500 or \$1,400/child
- ⦿ *New* credit of \$500/non-qualifying dependent



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Education Credits

- American Opportunity credit *unchanged*
 - 100% of first \$2,000 plus 25% of next \$2,000 of qualified expenses
 - Qualified expenses includes tuition, books, required supplies
 - Available for first 4 years of college
- Lifetime Learning credit *unchanged*
 - 10% of first \$10,000 of tuition only
 - Available at any time



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Other Credits and Provisions

- No change to:
 - Credit for Elderly and Disabled
 - Earned Income Credit
 - Adoption Credit
- Shared Responsibility Payment *reduced* to 0%
 - Penalty for no health insurance



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Estate and Gift Tax

- Annual exclusion = \$15,000
- Lifetime exemption = \$11.4 million
 - Back to 2017 rules (adjusted for inflation) in 2026
- Unused exemption is portable to surviving spouse



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TCJA - BUSINESS PROVISIONS

Business Provisions

- Excess Business Losses (EBL) *not allowed*
 - EBL = combined gains/losses of all business income (Schedule F, C, E pg 2, 4797) in excess of 510,000 (255,000 single)
 - Excess carried forward as NOL
- Farm net operating loss (NOL) (2018 to 2025)
 - Automatically carried back 2 years with election to carry forward
 - NOLs after 2017 only allowed to offset 80% of taxable income
- Deduction for employer provided meals *reduced* (permanent)
 - 50% deduction 2018 to 2025
 - 0% deduction after 2025



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Depreciation

- Like-kind exchanges *not allowed* for non-real property (permanent)
 - Trade-in equipment taxed as if sold for trade allowance
 - Replacement equipment depreciated as if purchased at full price
 - Purchase price = trade allowance + boot paid
 - Result is an income shift from Schedule F to Form 4797
 - "Sale" of trade-in equipment results in a large positive gain on 4797
 - To offset, use §179 or bonus to reduce Schedule F, usually negative
 - In the short term, should not affect *income* tax, but bonus depreciation is reduced after 2024
 - Will likely have significant impact on *self employment* tax
 - No SE health insurance, SEP/SIMPLE/IRA contributions
 - Reduced likelihood of an NOL when equipment is traded



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Depreciation Impacts

Frank Farmer – Prior Law

Farm income (before depreciation)	\$250,000
Old tractor trade allowance	\$150,000
New tractor trade difference (boot)	\$250,000

Farm Income	250,000	4797 Gain	0
\$179 deduction	131,053	Schedule F	106,203
1 st year depreciation	12,744	½ SE Tax	7,503
Schedule F	106,203	AGI	98,700
New purchases	250,000	SD & Exemptions	21,300
Less \$179 deduction	-131,053	Taxable Income	77,400
Remaining cost	118,947	Income Tax (10% & 15%)	10,658
7-YR 150%DB	X 10.714%	SE Tax	15,006
1 st year depreciation	12,744	Total Liability	25,664



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Depreciation Impacts

Frank Farmer – TCJA

Farm income (before depreciation)	\$250,000
Old tractor trade allowance	\$150,000
New tractor trade difference (boot)	\$250,000

Farm Income	250,000	4797 Gain	150,000
\$179 deduction	249,063	Schedule F	(29,250)
1 st year depreciation	30,187	½ SE Tax	0
Schedule F	(29,250)	AGI	120,750
New purchases	400,000	Standard Deduction	24,000
Less \$179 deduction	-249,063	\$199A deduction	19,350
Remaining cost	150,937	Taxable Income	77,400
5-YR 200%DB	X 20.000%	Income Tax (10% & 12%)	8,907
1 st year depreciation	30,187	SE Tax	0
		Total Liability	8,907



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Depreciation

- §179 Deduction *increased* to \$1.02 million (permanent)
 - Deduction is reduced when purchases exceed \$2.55 million
 - Available for assets with a life of 15 years or less that are not land improvements
 - Machinery & equipment, breeding stock, fences, grain bins, pivots
 - Allows flexibility
- Additional first year/bonus depreciation
 - 2018 to 2022 – 100%
 - Available for new or used assets with life less than 20 years
 - §179 assets plus farm buildings
 - All or none deduction



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Depreciation

- 200DB method is now default farm depreciation method (permanent)
 - Applies to 3, 5, 7, or 10 year property
 - More depreciation taken in the first year
 - 200DB = 14.29%
 - 150DB = 10.71%
 - Election available for 150DB, SL, or ADS
- 5-year depreciable life for new farm equipment
 - Applies to assets that would normally be 7-year except fences, grain bins, or land improvements



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Qualified Business Income Deduction – §199A

- In 2018 to 2025, business owners are eligible for a deduction of 20% of “Qualified Business Income” (QBI)
- QBI includes:
 - Schedule F income
 - Ordinary gain from 4797 sales (depreciation recapture)
 - Certain pass-through income from a partnership or S-corp
 - Cash rent that:
 - Is received from a partnership or S-corp with >50% common control
 - Meets the safe harbor (250 hours of participation)
 - Most share rental arrangements
 - Reduced by deductions for SE health insurance, ½ SE tax, SEP/SIMPLE contributions



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Qualified Business Income Deduction – §199A

- QBI **does not** include:
 - Capital gain
 - Investment income (dividends or interest)
 - W2 wages to a >2% S-corp shareholder
 - Guaranteed payments to a partner in a partnership
 - Cash rental income that:
 - Does not meet safe harbor
 - From an entity with <50% common control
 - From a C-corp regardless of common control
- Coops may also pass-through a §199 deduction to patrons
 - Added on after all other calculations
 - Limited only by taxable income



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Qualified Business Income Deduction – §199A

QBID = $(20\% \times \text{QBI})$ – smaller of $\begin{cases} 9\% \text{ net income attributable to coop income*} \\ 50\% \text{ W2 wages attributable to coop income*} \end{cases}$

If taxable > 321,400 then QBID limited to larger of $\begin{cases} 50\% \text{ W2 wages} \\ 25\% \text{ W2 wages} + 2.5\% \text{ UBIA**} \end{cases}$

QBID is limited to $20\% \times (\text{taxable income} - \text{capital gain})$

* IRS has issued proposed regulations that allow a “reasonable method” to determine net income and W2 wages attributable to coop income but more guidance is needed

** UBIA = Unadjusted basis immediately after acquisition (essentially purchase price of depreciable farm assets that fall within a certain date range)



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Corporate Tax Rates

- ◉ Eliminates graduated tax rates in favor of a flat 21% rate income
- ◉ Taxable income above ≈\$90,400 is breakeven for flat tax rate
 - \$50,000 taxable income = about \$2,000 tax increase
- ◉ No Qualified Business Income Deduction for C-corps
- ◉ No passthrough §199 deduction to patrons that are C-corps



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PAYROLL WITHHOLDING UPDATE

Payroll Withholding

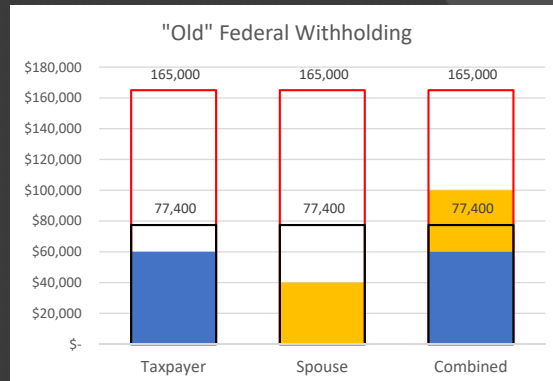
- TCJA eliminated personal exemptions
- Prior withholding tables used allowances to determine withholding amount
 - Allowances were correlated to personal exemptions
 - More kids meant more exemptions and lower tax liability
 - More allowances meant less withholding from paychecks
- Draft 2019 W-4 released June 2018
 - Attempt at more accurate withholding for multi-job households
 - Accounted for tax credits, itemized deductions, and other income not subject to withholding (interest, dividends, etc)
 - Asked for spouse's income resulting in significant backlash, so IRS dropped the "new" form



Payroll Withholding Update

- Did the old system work?

- TP = 60,000 married, 3 allowances
- SP = 40,000 married, 3 allowances
- Withholding for both at 12%
- Tax return = 100k taxable
 - 22,600 in the 24% bracket
 - Unexpected liability
- Fix was to adjust withholding
 - Claim fewer allowances
 - Withhold at single rates
 - Additional withholding



- Old W-4 often resulted in under-withholding

- IRS push for people to do "Payroll Checkups"



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Draft Form W-4

- Draft 2020 W-4 released May 2019
- Again attempts to more accurately reflect total federal tax liability
- Similar approach to 2019 draft (but asks different questions)
- Estimates annual tax liability based on current paycheck and adjusts for:
 - Child Tax Credit
 - Additional income not subject to W/H (interest, dividends, etc)
 - Deductions above standard deduction
 - Other "above the line" deductions (student loan interest, IRA, etc)
 - Multiple jobs within the household



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Draft Form W-4

The good news: only complete steps 3 and 4 for one job in the household



Form W-4 Employee's Withholding Allowance Certificate OMB No. 1545-0047 2020

Department of the Treasury Internal Revenue Service

► Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
► Give Form W-4 to your employer.
► Your withholding is subject to review by the IRS.

Step 1: Enter Personal Information

1a First name and middle initial Last name
1b Social security number
Home address (number and street)
City or town, state, and ZIP code
1c ☐ Single or Married (filing separately) ☐ Married (filing jointly)
☐ Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2 through 4 if they apply to you; otherwise, skip to Step 5. See instructions on page 2.

Step 2: Account for Multiple Jobs

Caution: The correct amount of withholding depends on income earned from all jobs in the household. If you:
• Hold more than one job at a time, or
• Are married filing jointly and both you and your spouse work, account for this below or you may owe additional tax when filing your tax return. (If you and/or your spouse have income from self-employment, see page 2.)

2 Multiple jobs. Do only one of the following:
• Use the calculator at www.irs.gov/w4app for most accurate withholding; or
• Use Worksheet 1 on page 3 and enter the result on line 4c below for roughly accurate withholding; or
• If there are only two jobs in your household, you may check here. Do the same on Form W-4 for the other job. With this option, more tax than necessary may be withheld from your wages, but you generally won't have too little tax withheld.

Complete lines 3 through 4b on Form W-4 for only one job in the household. (Your withholding will be most accurate if you do this on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

3 Dependents. If your income will be \$200,000 or less (\$400,000 or less if married filing jointly) (see instructions):
• Multiply the number of qualifying children under age 17 by \$2,000
• Multiply the number of other dependents by \$500
Add the amounts above and enter the total here

Step 4: Other Adjustments (optional)

4a Other income. If you want tax withheld for other income you expect this year that will not have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any job.

4b Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use Worksheet 2 on page 3 and enter the result here.

4c Enter any additional amount you want withheld each pay period.

4d Exemption. You can claim exemption from withholding for 2020 if:
• For 2019, you had no federal income tax liability; and
• For 2020, you expect to have no federal income tax liability.
If you meet both of these conditions, certify by writing "Exempt" here.

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) Date

Employers Only 5 Employer's name and address 6 First date of employment 7 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10229C Form W-4 (2020)

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Draft Form W-4

The bad news: employees needs to estimate anticipated Child Tax Credits

And estimate other income not subject to withholding

And estimate itemized deductions in excess of standard deduction and "above the line" deductions (IRAs, SE HI, etc)



Form W-4 Employee's Withholding Allowance Certificate OMB No. 1545-0047 2020

Department of the Treasury Internal Revenue Service

► Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
► Give Form W-4 to your employer.
► Your withholding is subject to review by the IRS.

Step 1: Enter Personal Information

1a First name and middle initial Last name
1b Social security number
Home address (number and street)
City or town, state, and ZIP code
1c ☐ Single or Married (filing separately) ☐ Married (filing jointly)
☐ Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2 through 4 if they apply to you; otherwise, skip to Step 5. See instructions on page 2.

Step 2: Account for Multiple Jobs

Caution: The correct amount of withholding depends on income earned from all jobs in the household. If you:
• Hold more than one job at a time, or
• Are married filing jointly and both you and your spouse work, account for this below or you may owe additional tax when filing your tax return. (If you and/or your spouse have income from self-employment, see page 2.)

2 Multiple jobs. Do only one of the following:
• Use the calculator at www.irs.gov/w4app for most accurate withholding; or
• Use Worksheet 1 on page 3 and enter the result on line 4c below for roughly accurate withholding; or
• If there are only two jobs in your household, you may check here. Do the same on Form W-4 for the other job. With this option, more tax than necessary may be withheld from your wages, but you generally won't have too little tax withheld.

Complete lines 3 through 4b on Form W-4 for only one job in the household. (Your withholding will be most accurate if you do this on the Form W-4 for the highest paying job.)

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4c Enter any additional amount you want withheld each pay period.

4d Exemption. You can claim exemption from withholding for 2020 if:
• For 2019, you had no federal income tax liability; and
• For 2020, you expect to have no federal income tax liability.
If you meet both of these conditions, certify by writing "Exempt" here.

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) Date

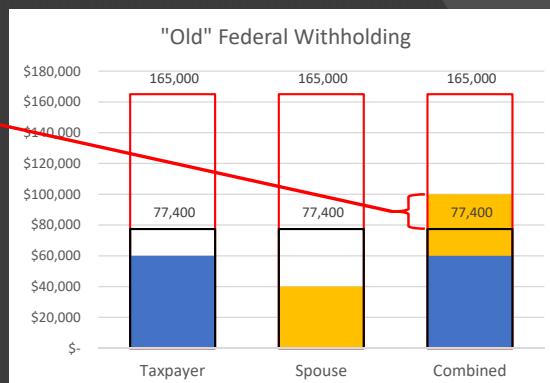
Employers Only 5 Employer's name and address 6 First date of employment 7 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10229C Form W-4 (2020)

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Draft Form W-4

I think the table gives the tax due on the amount that spills over to the 24% bracket in the previous example



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Draft Form W-4

Worksheet 2 accounts for itemized deductions that exceed standard deduction (standard deduction is built into withholding tables)

Worksheet 2 (Keep for your records.)

- 1 Enter an estimate of your 2020 itemized deductions. Such deductions may include qualifying home mortgage interest, charitable contributions, state and local taxes (up to \$10,000), and medical expenses in excess of 10% of your income 1 \$
- 2 Enter:
 - \$0.00 if you're married filing jointly or qualifying widow(er)
 - \$0.00 if you're head of household
 - \$0.00 if you're single or married filing separately
 2 \$
- 3 If line 1 is greater than line 2, subtract line 2 from line 1. If line 2 is greater than line 1, enter -0- 3 \$
- 4 Enter an estimate of your student loan interest, IRA contributions, and certain other adjustments. See Pub. 505 for more information 4 \$
- 5 Add lines 3 and 4. Enter the result here and on line 4b of Form W-4 5 \$

Also accounts for "above the line" deductions



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Calculating Withholding

- Employees are not required to fill out a 2020 W-4
- For employees that have not completed a 2020 W-4, continue to use number of allowances claimed
- For employees that have completed a 2020 W-4:
 - If Box 2 was not checked, assume 3 allowances for MFJ (2 allowances for single)
 - If Box 2 was checked, no adjustment for allowances
- There will be several versions of payroll tables used to manually calculate withholding depending on several factors
- Prepare for confusion from employees
- Ask employees to update W-4 annually



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QUESTIONS?

Kansas Farm Management Association

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