

# FARM AND RANCH ESTATE AND INCOME TAX PLANNING WEBINAR

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# Present Status of Income Tax/Estate and Gift Tax Legislation

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- H.R. 5376 passed the U.S. House on Nov. 19
  - Presently before Senate
  - Not nearly as bad as it could have been
    - Struck provisions are not likely to be added back by the Senate

## Most Significant Tax-Related Provisions *Not* Included in H.R. 5376

- Increase in corporate tax rate to 26.5%
- Modifications to the “stepped-up” basis rule at death
- Increase in top individual marginal rate to 39.6 percent
- Increase in top capital gain rate to 25%
- Reduction in the federal estate/gift tax unified credit exemption equivalent
- Change in the grantor trust rules
- Change in the present interest annual exclusion rule
- Increase in the top federal estate/gift tax marginal rate
- Valuation discounting rules
- Increase in value reduction for land in decedent’s estate under Sec. 2032A

## What's Included in H.R. 5376?

- Individual provisions of relevance:
  - Paid leave excluded from gross income
  - SALT deduction increased to \$80,000 (MFJ) or \$40,000 (MFS and estate/trust)
    - 2021-2030
    - Then \$10,000 cap for 2031
    - No cap for 2032 and later years

## What's Included in H.R. 5376?

- Modification to child tax credit
  - IRS recapture provision
  - Extended through 2022
    - Full refundability
    - Increase in age limit
    - Increase in amount of credit
    - Phaseout range

## What's Included in H.R. 5376?

- Child tax credit
  - Refundable for tax years beginning after 2022
  - No provision for advance payments after 2022

## What's Included in H.R. 5376?

- Earned income tax credit
  - Extends through 2022 the reduction in the age to claim the EITC from 25 to 19 (except for certain full-time students)
- Pell Grants
  - Not taxable even if not used for qualified tuition and related expenses
- Surcharge on high income earners
- Extended expansion of eligibility for PATC and exclusion of certain dependent income from household income
- Exclusion from MAGI of lump-sum payment of SS benefits received during the tax year from a prior year

## What's Included in H.R. 5376?

- Business provisions
  - Business interest deduction limitation computed at partner/shareholder level
  - Expansion on NIIT to trade or business income for taxpayers with taxable income exceeding \$400,000 (single); \$500,000 (MFJ)
    - Applies the NIIT to trade or business income of estates/trusts
  - Disallowance of excess business losses for noncorporate taxpayers
  - Reinstatement of corporate AMT
  - Debt on direct farm loans to “socially disadvantaged” and “economically distressed” is not income
  - Change in tax rule involving divisive reorganizations

## What's Included in H.R. 5376?

- Business provisions
  - Change in the small business stock tax rules
  - Increase in employer-provided childcare credit
- Energy provisions
  - Extended through 2026 is the credit for electricity produced from certain renewable sources and applies it to electricity produced from solar energy
  - Extends biodiesel and renewable diesel tax incentives and alternative fuel credit and alternative fuel mixture credit
  - Extends residential energy efficient property credit through 2033 and modifies phaseout rules

## What's Included in H.R. 5376?

- Energy provisions
  - Extends through 2031 the credit for new energy efficient homes and changes existing credit

## What's Included in H.R. 5376?

- IRA provisions
  - Limit on contributions to traditional or Roth IRAs for persons with combined IRA and defined contribution account balances exceeding \$10 million and ATI exceeds the \$400,000/\$500,000 thresholds
  - Required distributions for accounts where owner has combined values exceeding \$10 million
  - No “backdoor” Roths

## What's Included in H.R. 5376?

- Other provisions
  - Up to six semesters of free community college
  - Free childcare for children under age 6
  - Free universal pre-school services
  - Free health benefits for persons in states not expanding Medicaid
  - Expansion of Medicare to cover dental, hearing and vision care
  - Up to 12-weeks of paid family and medical leave
  - No oil and gas drilling on non-wilderness portion or ANWR
  - Moratorium on offshore oil and gas leasing in Eastern Gulf of Mexico, Atlantic and Pacific federal waters
  - Payroll tax credit on up to \$12,500 of wages paid to “local news journalists” by local newspapers or broadcast stations through 2025

## What Will the Senate Do?

- CBO cost estimate
  - Net increase in on-budget deficit totaling \$389.2 billion over next decade
- What will Sen. Manchin and Sen. Sinema do?

## Will Manchin and Sinema Consider the Current Economic Problems?

- Consumer optimism plunged to new low since January of 2021
- Third quarter '21 new home sales collapsed
  - Annualized quarterly drop of 12.6 percent
  - Third quarter '21 had worst-ever 12-month quarterly and monthly real merchandise trade deficit
  - Payrolls are short of economic recovery levels
  - October '21 consumer inflation jumped to four-decade high
    - Year-to-year consumer price inflation at 31-year high of 6.2 percent
  - Astronomical money supply growth

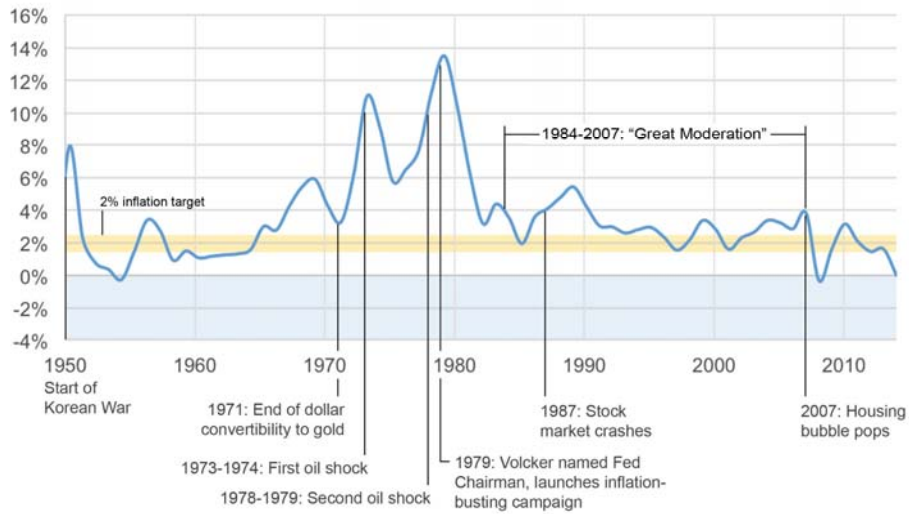
## Economic Problems are the Result of Bad Political Choices

- Policies that have increased the price of fossil fuels
  - Causes price inflation
- Policies that the created wage inflation
- Policies that have created massive deficit spending
  - Creates excess demand that adds to inflation
- Poor policy choices by the Federal Reserve
  - Near-zero percent interest rates increase demand and further fuel inflation

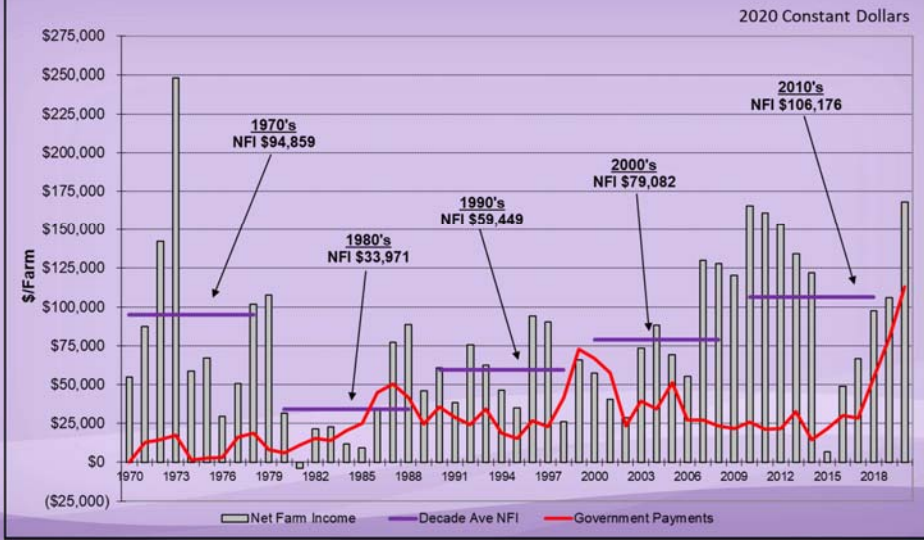




### Historical Annual U.S. Inflation



### Kansas Farm Management Association Inflation Adjusted Net Farm Income, 1970-2020



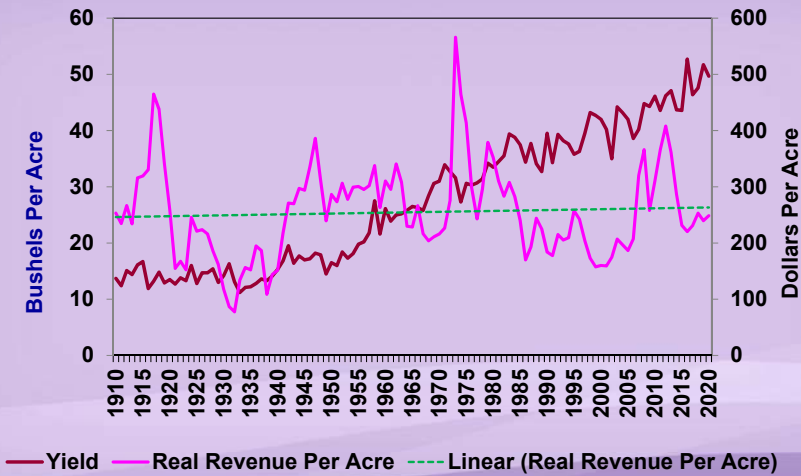
### Kansas Farm Management Association Inflation Adjusted Solvency Trends, 1973-2020



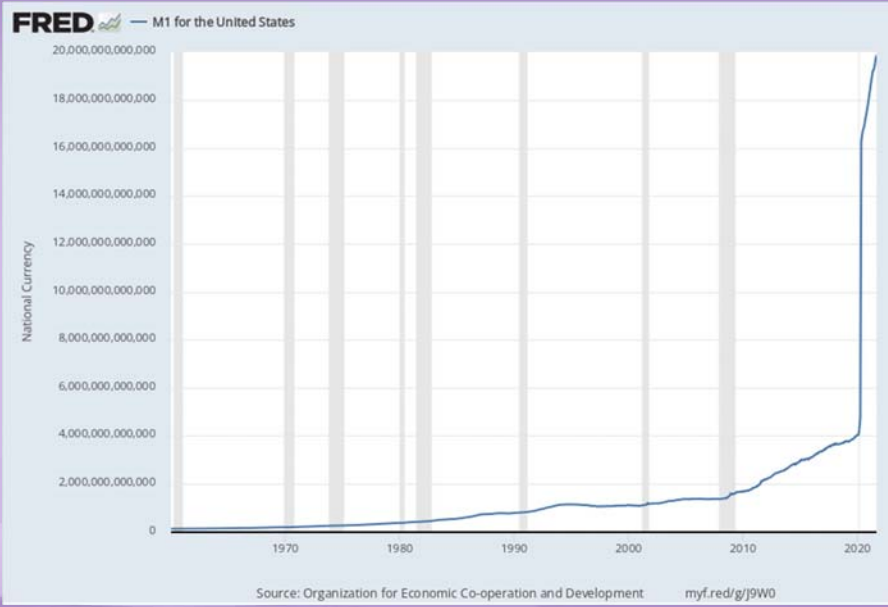
### Kansas Farm Management Association Inflation Adjusted Liquidity Trends, 1973-2020

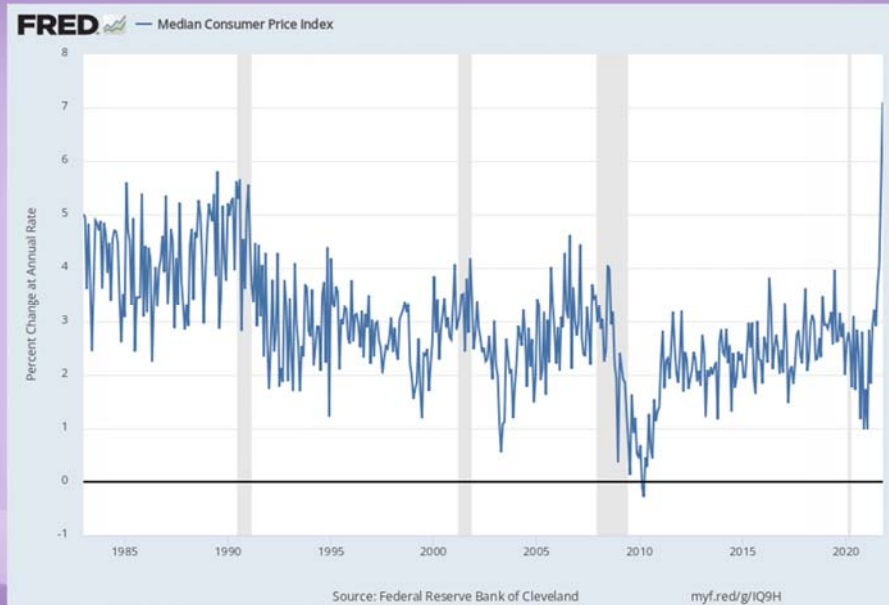


## Wheat Yield And Real Revenue



Source: USDA ERS (2020=100)





## Questions (and Answers)

- Which is better and safer to avoid a family feud after one's death – a will, an estate or a trust?

## Questions (and Answers)

- What are the tax consequences of placing the names of the children on deeds to the farmland while the parent is alive compared to simply letting them inherit the land upon death of the parents?

## Questions (and Answers)

- What are the issues associated with owning land that is rented on shares?

## Questions (and Answers)

- What do you think is the long term outlook for retaining the stepped-up basis for transfer of ownership for family farmers and ranchers? If you anticipate that being removed, are there any steps we can take as property owners to lessen the impact?

## Questions (and Answers)

- Can I start a Corporation or LLC to put some of my income in one of those to get a lower tax bracket?

## Questions (and Answers)

- Do I need to worry about increased taxes on 4013C and other investments ?

## Questions (and Answers)

- Is now the time to convert from a Type C corporation structure to an S Corp for our family farm? What are the key decision points to consider when making this decision?



## Questions (and Answers)

- There is no one with appreciation of KS agriculture land to pass all of it along to at my death. Rather than allow the land to be sold I want to donate the land...perhaps to local county community foundation.  
I will appreciate your advice.

## Questions (and Answers)

- What to do when you have no farming children and you would like to see the farm and ranch that the parents have worked to improve continue?
- Is a trust, a must for passing inheritance to adult children?

## Questions (and Answers)

- Work and planning on this year's taxes. Expenses allowed , deductions, and depreciation.

## Questions (and Answers)

- Our family has a trust (as surviving spouse-I am the trustee) with each of our children receiving a portion of the farm plus a portion shared by all of them. With one of them farming, what would happen if I changed the trust?

# Thank You!

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