

# Navigating New Depreciation Rules to Avoid Surprises for Farm Taxpayers



College of Agricultural,  
Consumer &  
Environmental Sciences

UNIVERSITY OF ILLINOIS URBANA-CHAMPAIGN



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**Bob Rhea**

CEO Illinois Farm Business Farm Management



# What Should My Adjusted Gross Income (AGI) Be?

## Amounts needed for:

\$ 80,000 Family living

\$ 20,000 Income tax liability

\$ 30,000 Principal payments above Depreciation

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**\$ 130,000 Adjusted Gross Income**

To the extent actual AGI is less than \$130,000,  
tax deferral is generated

# Tax Brackets 2023

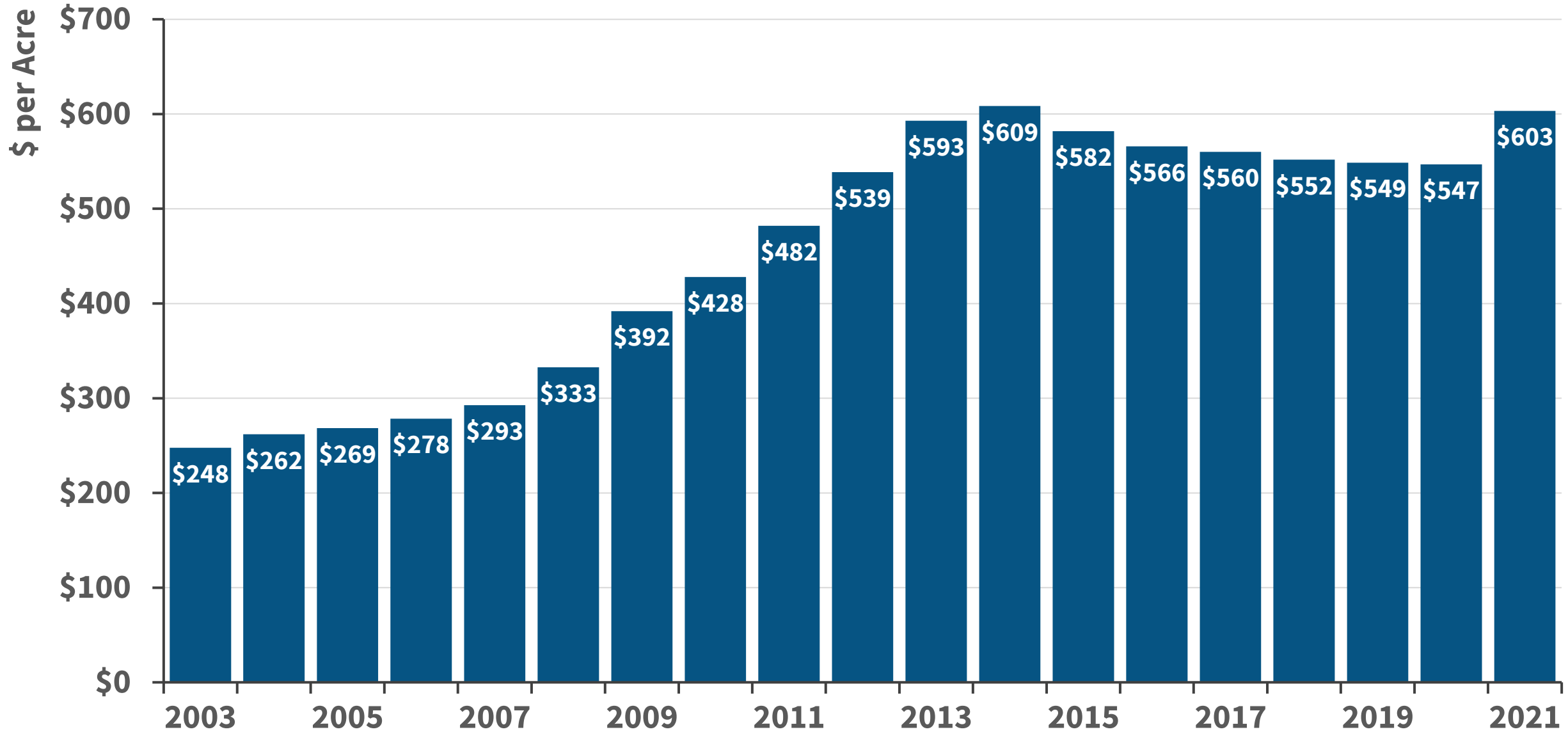
## Married Filing Jointly

37%	for income over	\$693,750	29.6%
35%	for income over	\$462,500	28.0%
32%	for income over	\$364,200	25.6%
24%	for income over	\$190,750	19.2%
22%	for income over	\$ 89,450	17.6%
12%	for income over	\$ 22,000	9.6%
10%	for income up to	\$ 22,000	8.0%

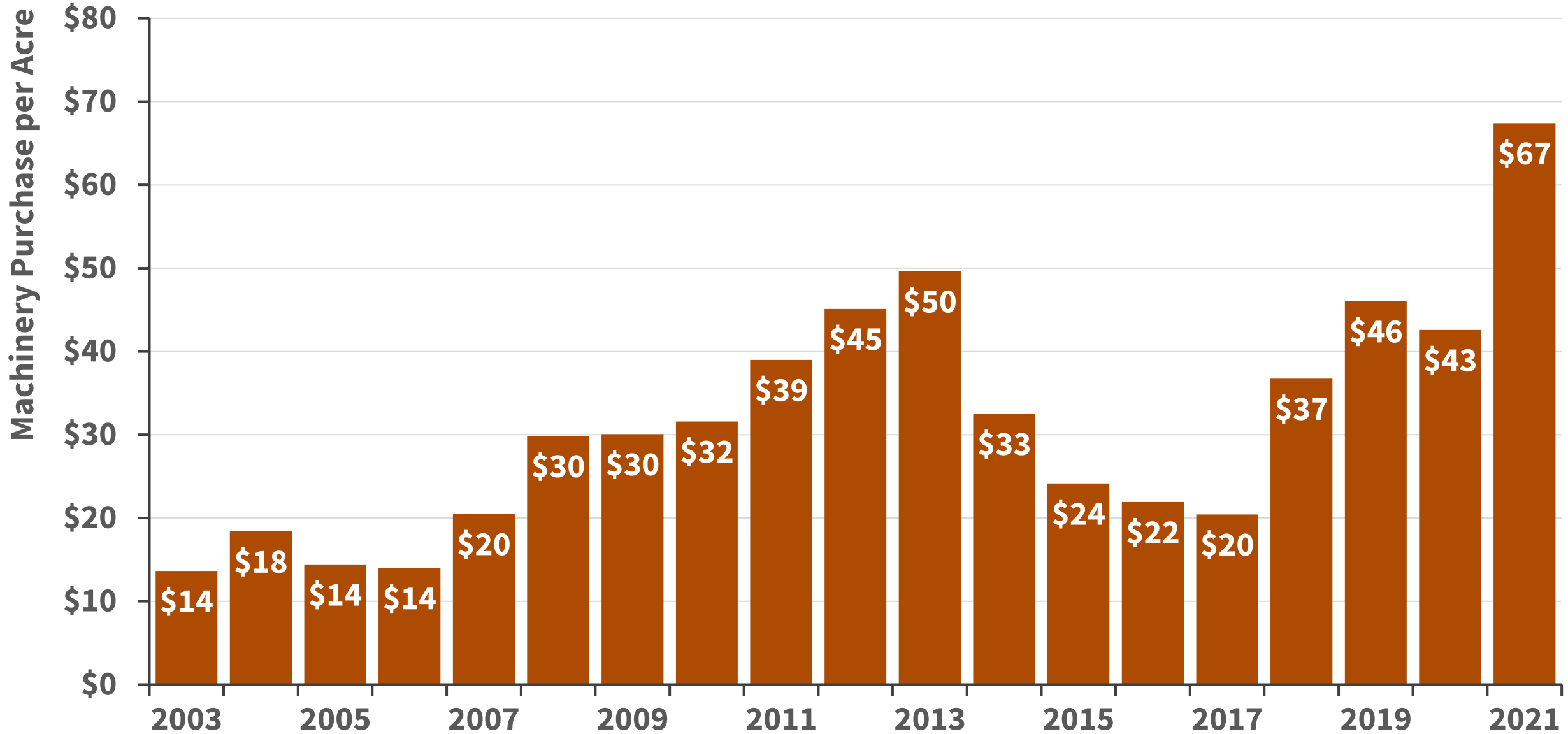
**\*\* Reduce by 20% if QBID applies**



# Average Machinery Values per Acre Doubled in 7 Years



# Machinery Purchases Increase Almost 400%



# Tax Effects on Purchases

- Expense Election or 179 Election
- Bonus Depreciation (None, 30%, 50% or 100%)
- Purchases used as cash expense
- Machinery Like-Kind Exchange  
no longer after 12/31/2017  
Tax Cut and Jobs Act (Sec. 1031 change)

# Tax Planning 2023

## Depreciation Provisions

**100% bonus depreciation through 2022**

**80% bonus depreciation for 2023, less after 2023**

*All farm assets including machine sheds (new & used)*

**\$1,160,000 Maximum Sec 179 deduction**

**\$2,890,000 Maximum Sec 179 purchase limit**

*Most farm assets (new & used)*

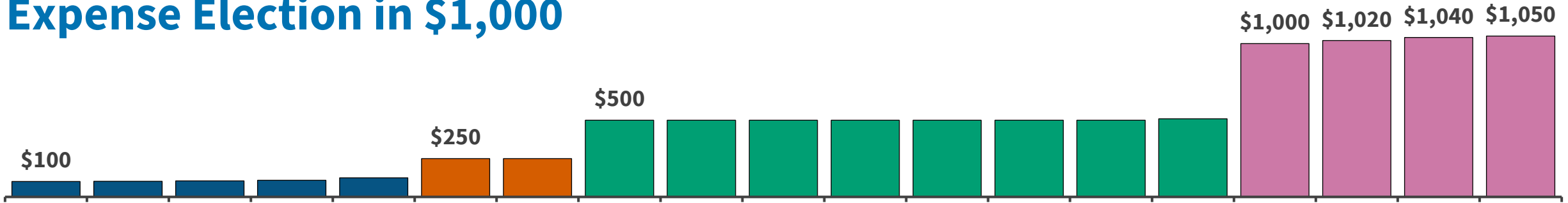
**Related party acquisitions do not qualify**

**Must be placed in service**

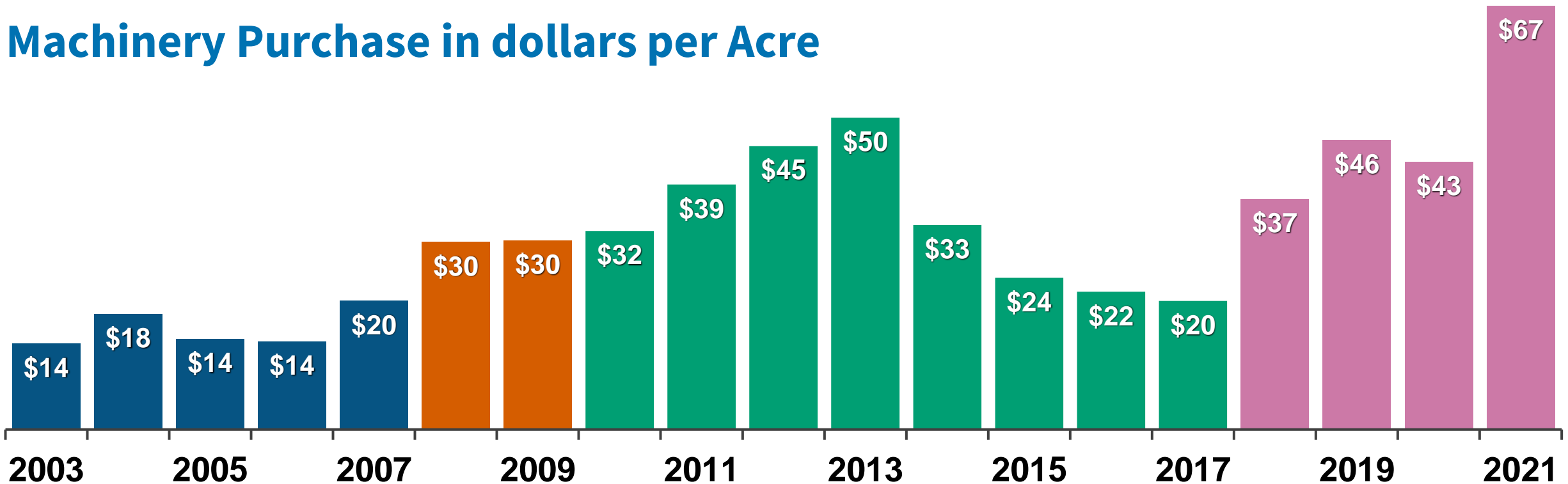
**“in a state of readiness for its intended use”**

# Machinery Purchase Changes with IRS Sec. 179?

## Expense Election in \$1,000

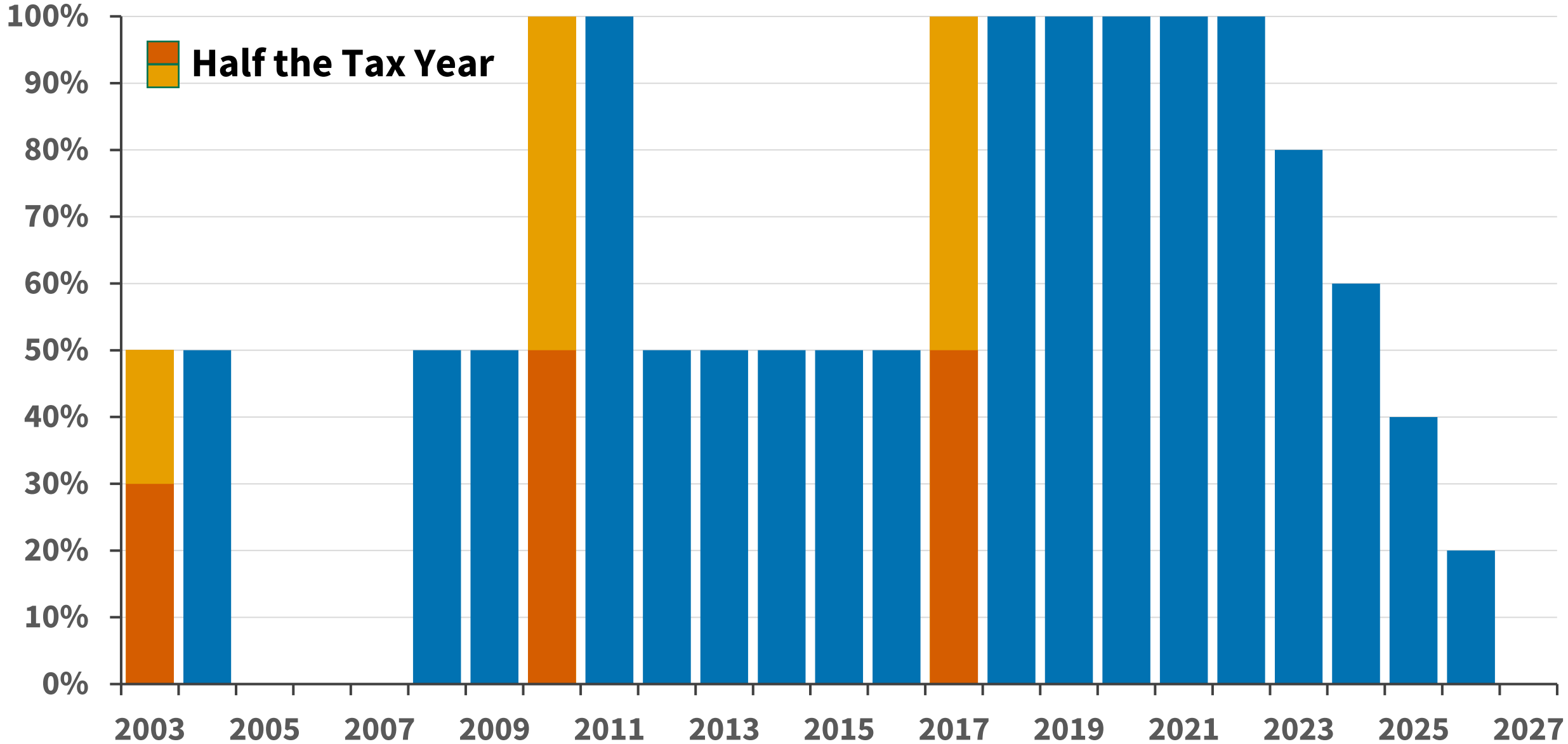


## Machinery Purchase in dollars per Acre



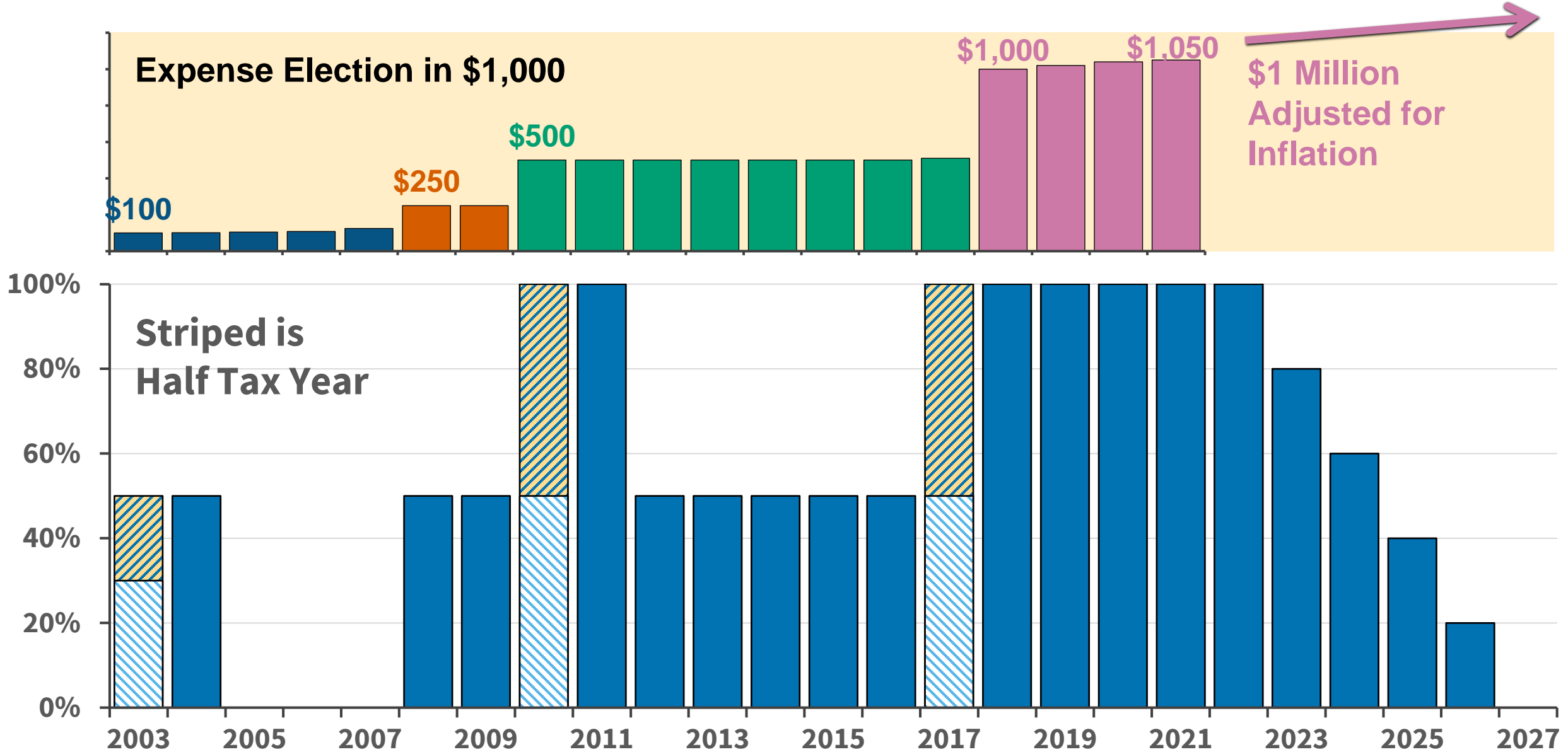


# Bonus Depreciation Set to Phase Out by 2027



Half the Tax Year

# Bonus Depreciation Set to Phase Out by 2027



\$1 Million Adjusted for Inflation

# Machinery Depreciation Example

\$85,000 Trade-in value of Tractor  
*Purchase cost was \$90,000, fully depreciated*

\$185,000 Purchase price of replacement Tractor

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\$100,000 Net Trade-in (irrelevant for tax)

Must report a gain of \$85,000 on Form 4797

Full purchase price eligible for depreciation on Sch F

# Change to IRS Pub 225 “Farmers Tax Guide”

- Prior to 2023, sales of machinery were not “gross income from farming”
- This caused gains from trade-ins reported on Form 4797 to perhaps “disqualify” a taxpayer as farmer
- No longer eligible to make only 1 estimated tax payment on January 15 of following year
- 2023 Pub 225: sales of machinery are “gross income from farming”

# Reducing Self Employment Tax (15.3%)

- Gifts of grain
- Payment-in-kind (PIK) wages
- Trade machinery
  - Fair Market Value (FMV) of trade is reported as a sale of equipment (no SE)
  - Full value of purchase is depreciated on Schedule F (yes SE)
- Schedule F income over \$ 160,200  
2022 = \$147,000
- Convert to crop share or cash rent landlord

# Stepped Up Basis – This is a **BIG** thing

Grain Inventory \$350,000	Sold by successor tax free
Prepaid expenses \$100,000	Successor deducts again
Machinery value \$600,000	Depreciated by successor
Farm value \$1,200,000	New basis to successor
Land \$1,000,000	New basis reduces gain if sold
Machine Shed \$50,000	Depreciated again over 20 yrs
Grain Bins, Tile, Fertility \$150,000	Depreciated again: 7/15/4 yrs



# Favorable 2023 Tax Rates with Capital Gains

**Land sale price /acre**      **\$18,000**

- **Less cost basis /acre**      **\$4,000**
- **Capital gain /acre**      **\$14,000**

**Machinery sale price**      **\$150,000**

- **Less cost basis**      **\$130,000**      **and fully depreciated**
- **Capital gain**      **\$20,000**
- **Ordinary gain**      **\$ 130,000**

# Sale of Machinery Tax Trap

**If done via installment sale**

**full contract price is taxable in year of sale  
even if not fully paid for in that year**

**IRS requires depreciation claimed in prior years  
to be “recaptured” in year of sale  
not year of payment**



# Sale of Machinery Tax Trap

**Related party buyer**

**no 179 expense or bonus depreciation**

- Seller: large income in year of sale
- Related party buyer: deductions over time

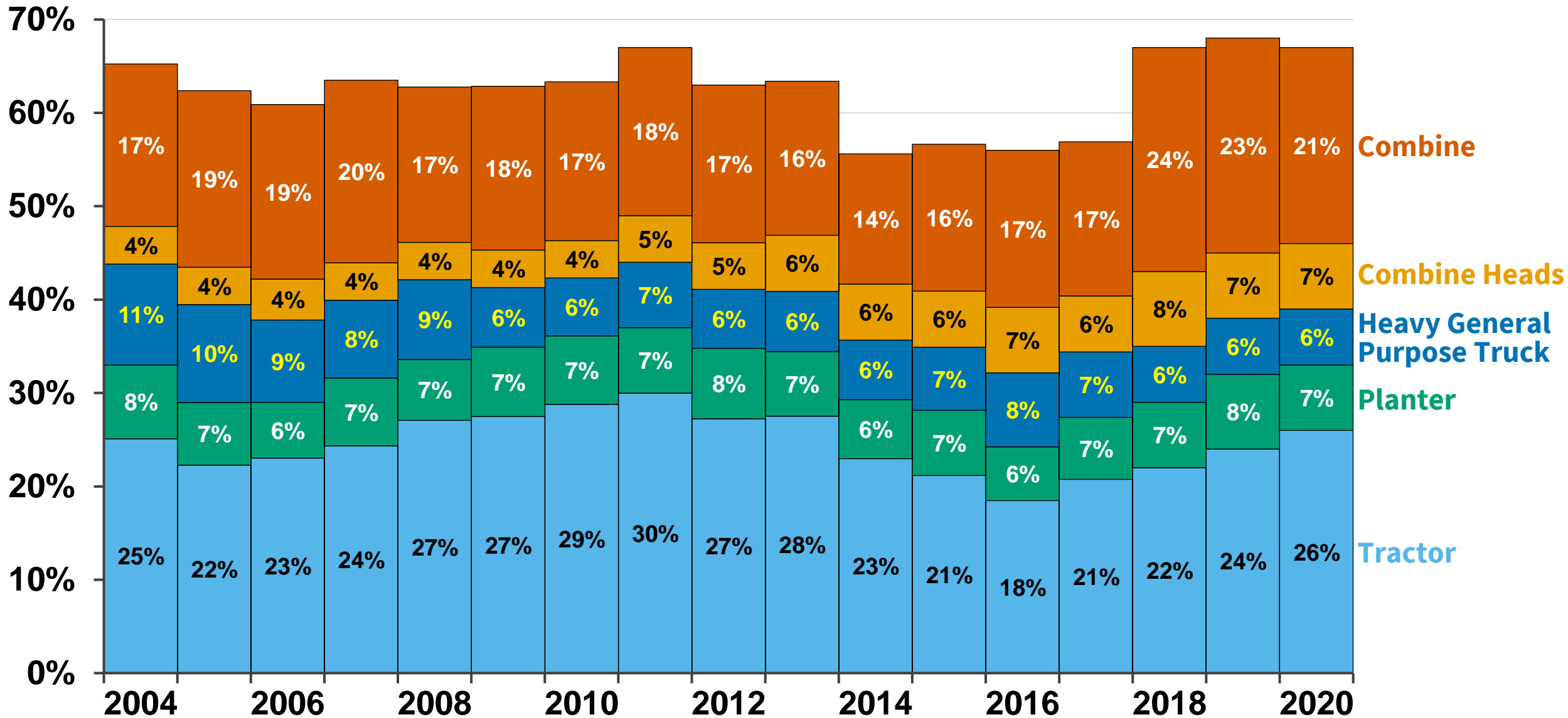
**Better idea**

**Long term lease**

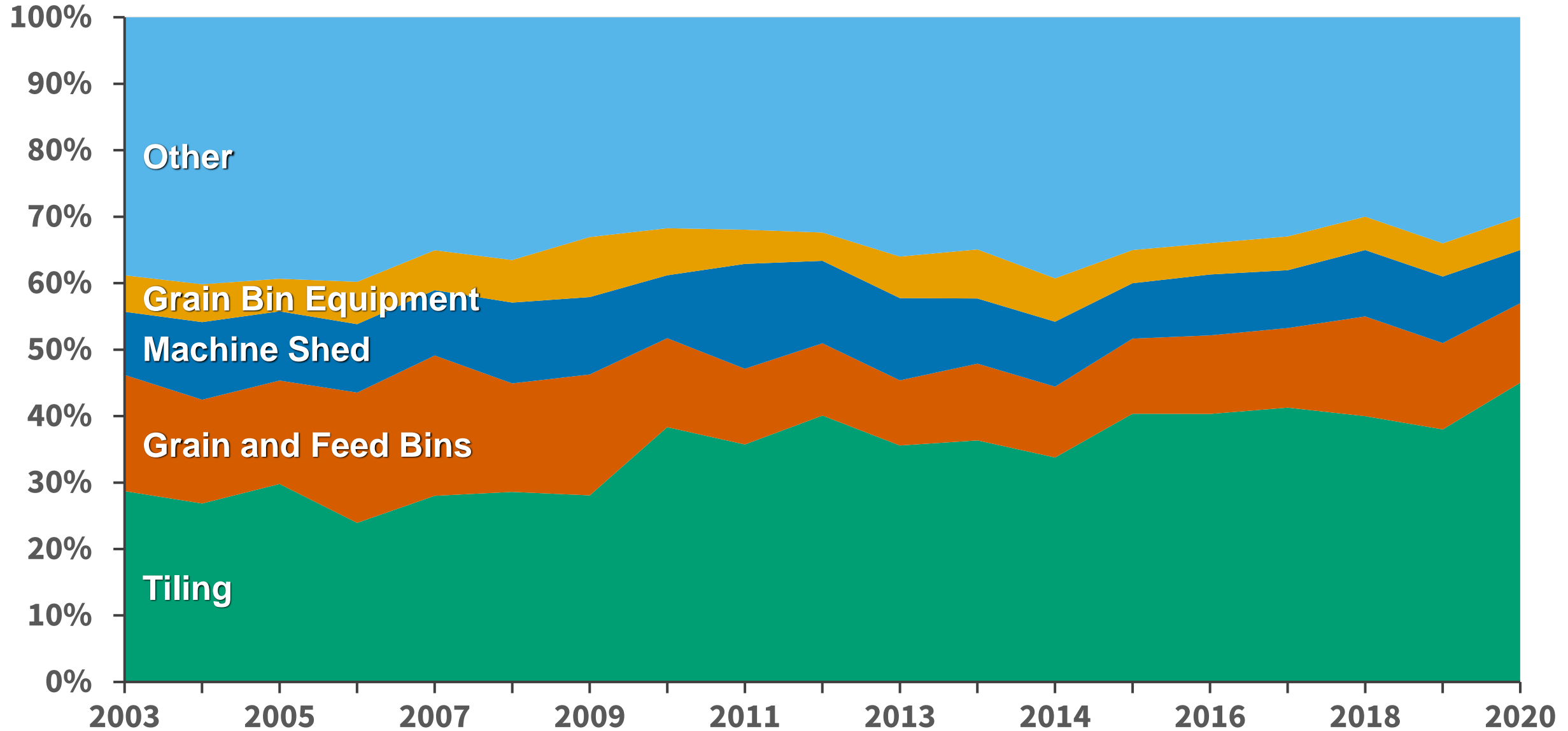
**with periodic purchase option**



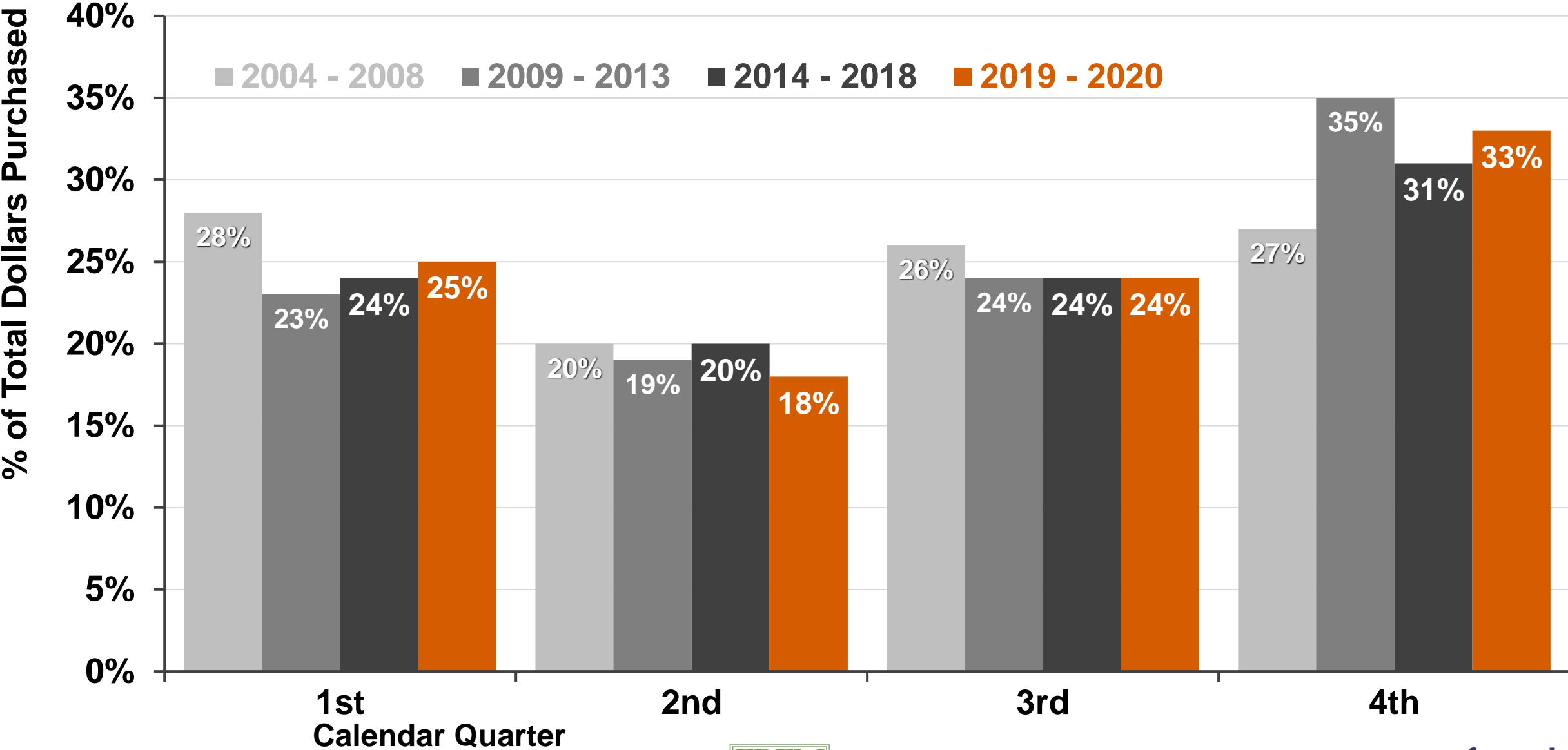
# Most Dollars Spent by Type of Machinery



# Most Purchased Farm Buildings



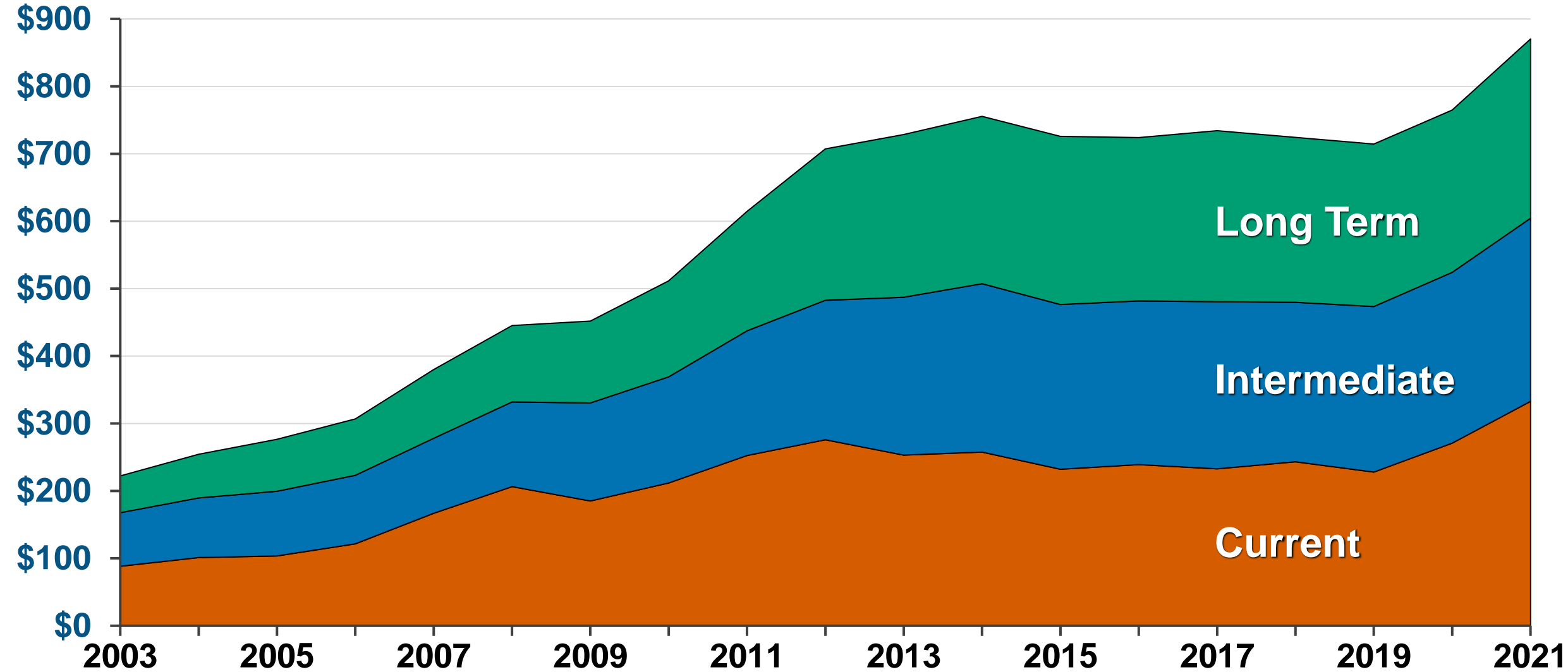
# When Are Most Capital Purchases Made?





# Estimated Deferred Tax by Asset Type

in Thousand Dollars



# Machinery Depreciation Example

\$100,000 Purchase price of used tractor in 2023

New farm equipment has a 5-year recovery period

Used farm equipment has a 7-year recovery period

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IRC 179 expense up to \$100,000

Bonus depreciation of \$80,000 (2023) + \$2,857 regular

*Bonus will only be \$60,000 if purchased in 2024*

Regular depreciation of \$14,286

# Machine Shed Depreciation Example

\$300,000 Cost of shed placed in service in 2023

Farm buildings have a 20-year recovery period

IRC 179 expense – not available

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Bonus depreciation of \$240,000 (2023) +\$2,250 regular

*Bonus will only be \$180,000 if purchased in 2024*

Regular depreciation of \$11,250

Illinois depreciation will be \$11,250

# Machinery Depreciation Example 2023

**\$3,100,000** Cost of machinery placed in service

**\$1,800,000** Value of machinery traded in

**\$1,000,000** Cost of grain system constructed

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**\$2,300,000** Anticipated deductions

**IRC 179 expense – N/A – total purchases > \$4.05 million**

**Bonus depreciation of \$3.28 million + \$152,571 regular**

**Total deductions \$3,432,571**

# Machinery Depreciation Example 2023

**\$3,432,571** Total deductions

**\$1,800,000** Gain reported from trade in

**\$1,632,571** Net decrease to federal taxable income

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**\$2,300,000** Anticipated net decrease to taxable income

**\$ 667,429** Reduced deductions available in 2023

***\$ 1,334,858*** *Reduced deductions available if done in 2024*

***\$ 1,037,143*** *Net increase to 2023 Illinois taxable income*

# Illinois Farm Business Farm Management

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A cooperative educational-service program to assist farmers with management decision-making

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### Publications & Tools

- [Illinois Average Farm Price Received Database Tool](#)
- [Index Numbers for Illinois Farms](#)
- [2017 Annual Summary of Illinois Farm Business Results](#)
- [2018 Farm Income & Production Costs: Advance Report](#)

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Email: [info@fbfm.org](mailto:info@fbfm.org)

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