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Expiring Tax Provisions

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Starting with tomorrow's date (11/28/2012), you have 34 days to put your 2012 tax planning strategies in place. In those same 34 days, it is possible that Congress could enact and the President could sign new legislation that might make you reconsider the tax plans you've put in place using the current tax provisions. This year more than ever be very aware of the changes that could take place prior to the end of the year that might make you re-think your tax plan. If we are fortunate, any legislated changes will occur prior to 1/1/2013 and not after.

And don't forget – while tax planning may be done one year at a time, prudent tax planning should always extend that tax plan our for two, three, or even four years to avoid any surprises in the future. That may seem like a futile exercise if new legislation is passed that will make for changes to your tax plans…but be aware and responsive to those changes. Treat the tax management aspect of your business just like you would any other part; be aware of the changes and respond to them accordingly

Today's post is a quick review of some of the federal tax provisions expiring that are pertinent to those involved in production agriculture. This list is not a complete list of expiring tax provisions.

For a more complete list of expiring tax provisions for 2012, click here.

For more on expiring tax provisions for the period 2010-2020, click here.

Expired December 2011

Lets' begin with some tax provisions that have already expired.

- The IRS Code Section 179 Expense Election of $500,000 for property purchased and placed in service (with a $2,000,000 purchase limit) expired on 12/31/2011. (This decreases to $139,000 with a $560,000 purchase limit for 2012.)
- The Special Depreciation Allowance (Bonus Depreciation) equal to 100% for property purchased and placed in service expired on 12/31/2011. (This decreases to 50% for 2012.)
- The AMT Exemption for those Married Filing Joint (single) of $74,450 ($48,450) are scheduled to

decrease to MFJ $45,000 and single $33,750.

If you have been depending on the first two of these to lessen your tax liability, then your 2012 tax plan will be a bit more difficult since it will be more difficult to place more of your depreciation in the year you purchase those assets and lessen your tax liability. Both of these changes will impact the ability to lessen taxable income. Depreciation is merely a way to recover or expense the cost of capital asset purchases. Remember, general farm machinery falls into a 7-year life on your depreciation schedule.

Expiring December 2012

- The Bush era tax cuts included an expanded 15% tax bracket for married filers to avoid the ‘marriage penalty’. That expansion of the 15% tax bracket expires on 12/31/2012.
- Again, the Bush era tax cuts increased the IRS allowed standard deduction for married couples. This expanded standard deduction expires on 12/31/2012. This decreased deduction will bring back another part of the ‘marriage penalty’ for those who are married filing jointly.
- The advantage of paying a reduced tax rate on long-term capital gains (0% and 15%) expires on 12/31/2012. Generally, the 0% rate will be eliminated (for those in the 10% and 15% tax brackets) and 15% rate (for those in the 25% and higher tax brackets) will increase to 20% for all non-corporate taxpayers. Capital gains include items like raised breeding stock and the gain on the sale of real estate. If either of these is a part of your operation, you can expect to generally see an increased tax rate on these items. If you have the option and if it fits your tax plan, consider advancing the sale of assets with a capital gain into 2012.
- The bottom tax bracket (10%) is eliminated. If one has an adjusted gross income that exceeds the top of the expiring 10% tax bracket ($17,400 for 2012), an additional $870 of tax liability is generated. ($17,400 x 5%).
- The tax brackets over $70,700 which are taxed at the rates of 25%, 28%, 33% and 35% are increased to the rates of 28%, 31%, 36% and 39.6% respectively.
- The IRS Code Section 179 Expense Election of $139,000 with a $560,000 purchase limit expires on 12/31/2012. (This decreases to $25,000 with a $200,000 purchase limit for 2013.)
- The Special Depreciation Allowance (Bonus Depreciation) equal to 50% of the depreciable basis expires on 12/31/2012. (There are no provisions for Bonus Depreciation in 2013.)
- The temporary payroll tax cut that was extended for the 2012 tax year will also end on December 31, 2012. This cut reduced the amount of the self-employment tax as well as the employee portion of the payroll tax by 2 percent for 2012.

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