

Farm Profitability and Risk Going Into 2022

# Income, Taxes, and Management

**I**  
**ILLINOIS**  
Agricultural &  
Consumer Economics  
COLLEGE OF AGRICULTURAL, CONSUMER  
& ENVIRONMENTAL SCIENCES



**Bob Rhea**

**farmdocDAILY**



**Gary Schnitkey**

# Topics

1. Current Financial Position

2. Income Taxes

3. Agribusiness Management Programs





# What do you expect incomes to be in 2021 relative to 2020?

- ☐ Much higher
- ☐ Slightly higher
- ☐ The same
- ☐ Lower
- ☐ Much lower



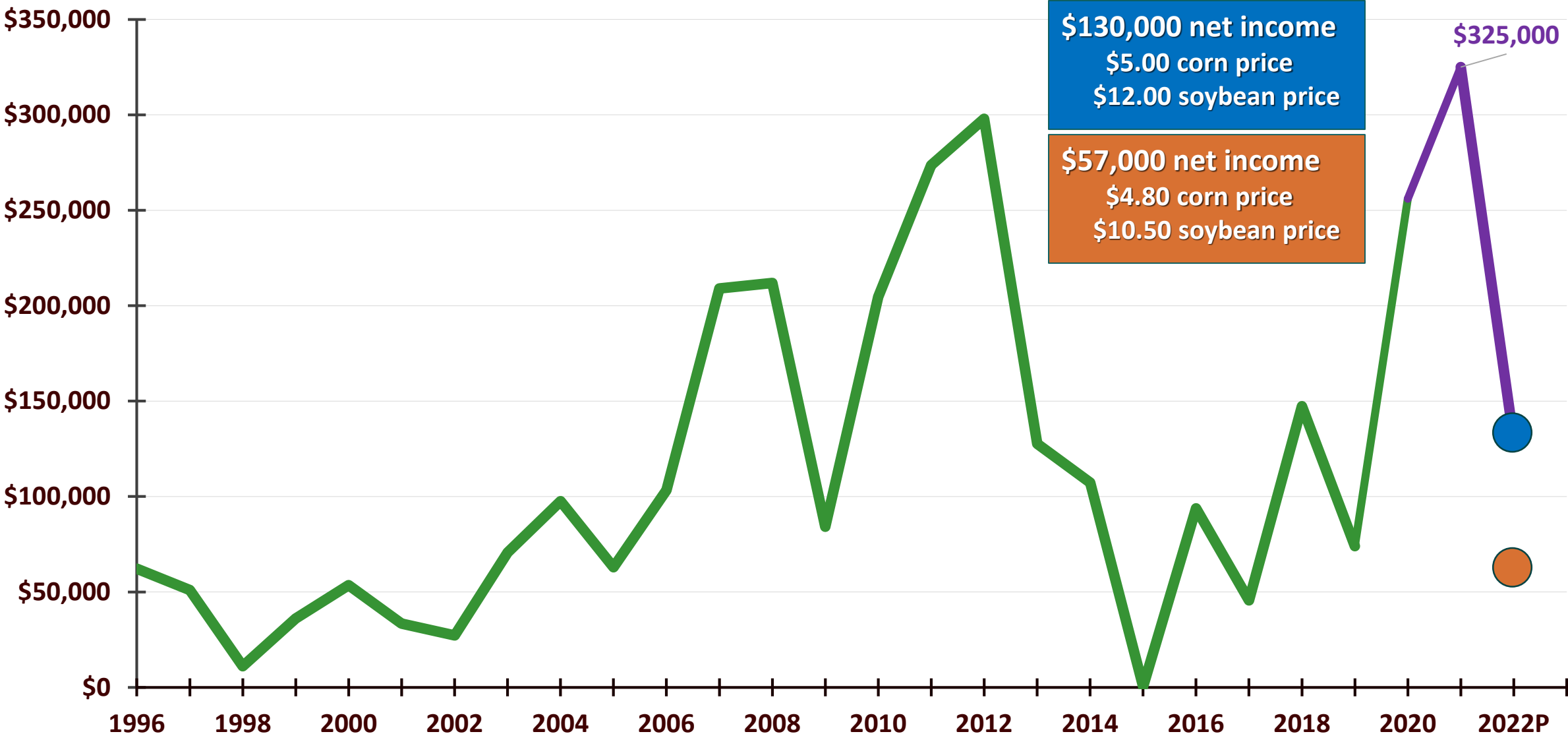


# Current Financial Position

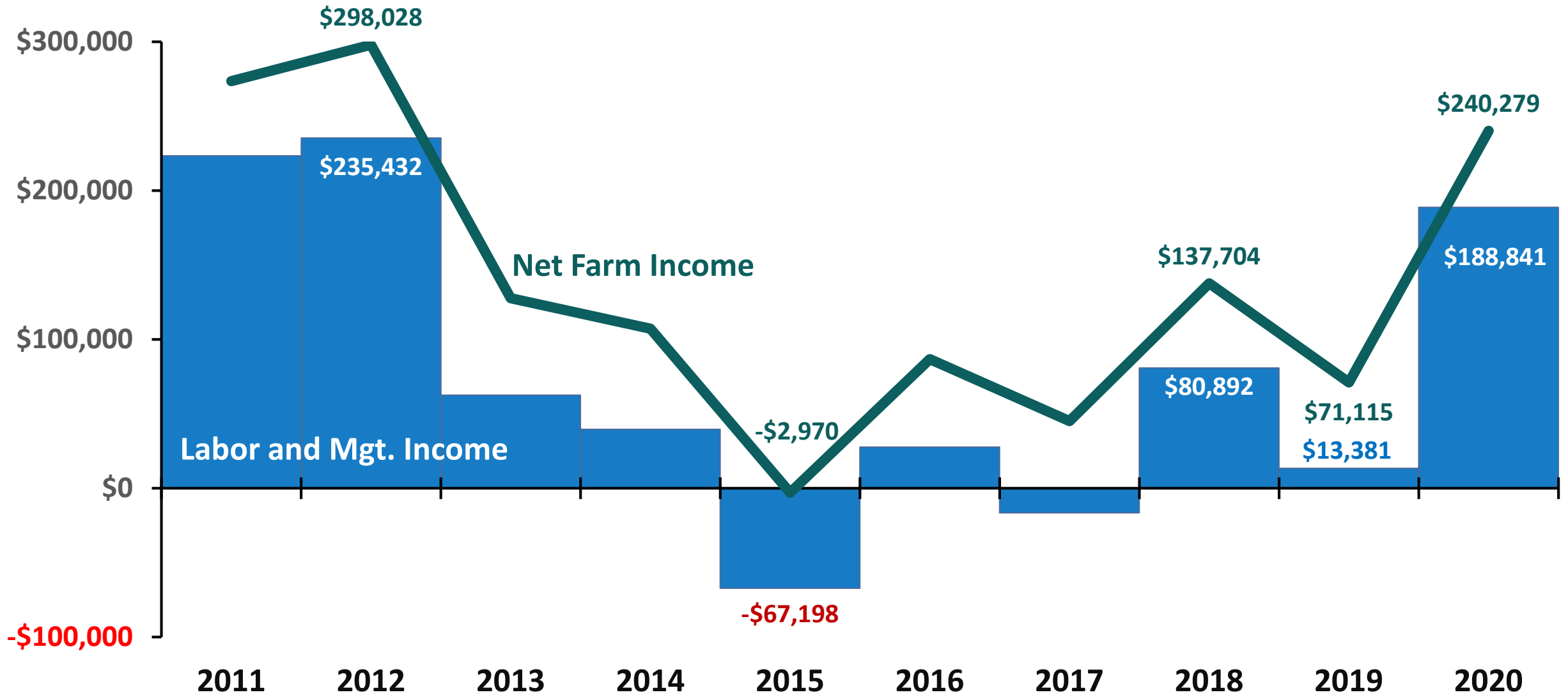




# Average Net Incomes of Grain Farms Enrolled in Illinois Farm Business Farm Management (FBFM), 1996 to 2022P



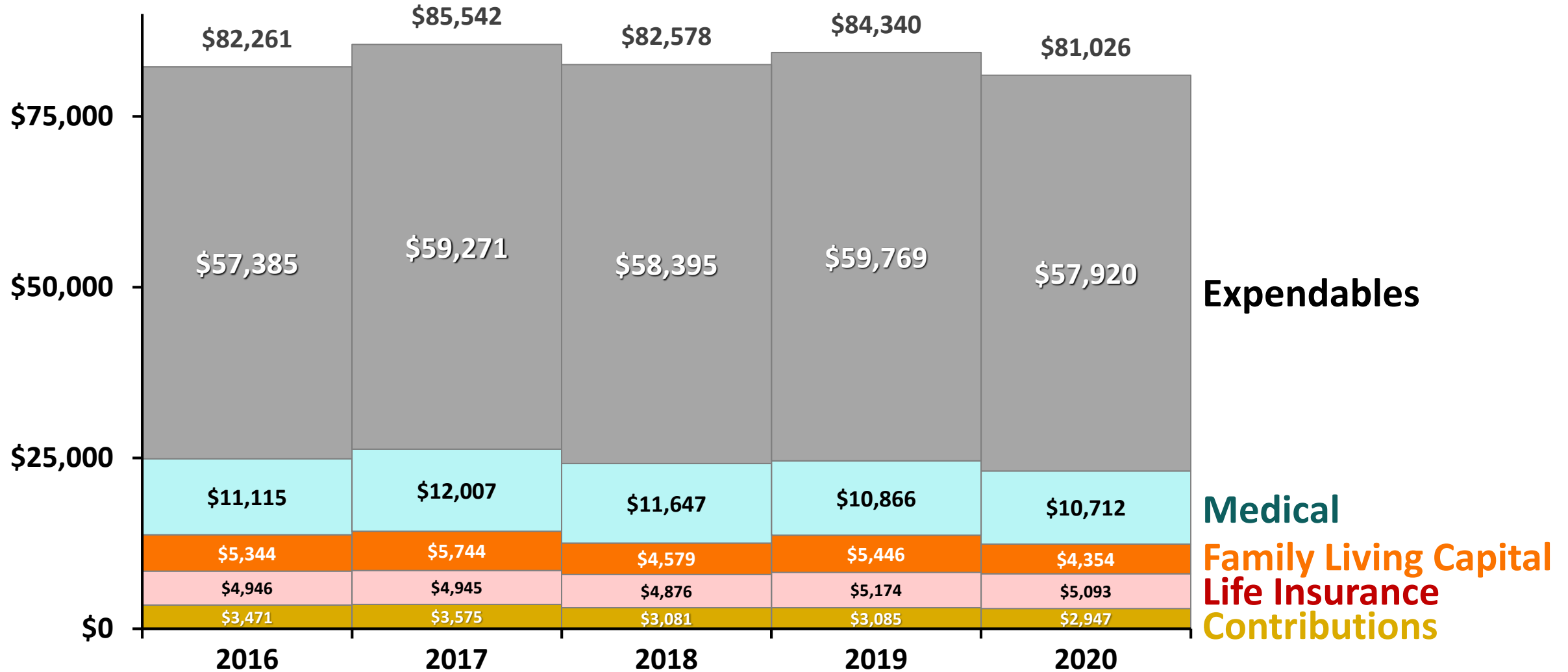
# 2020 FBFM Records Summary



Average NFI = \$138,460

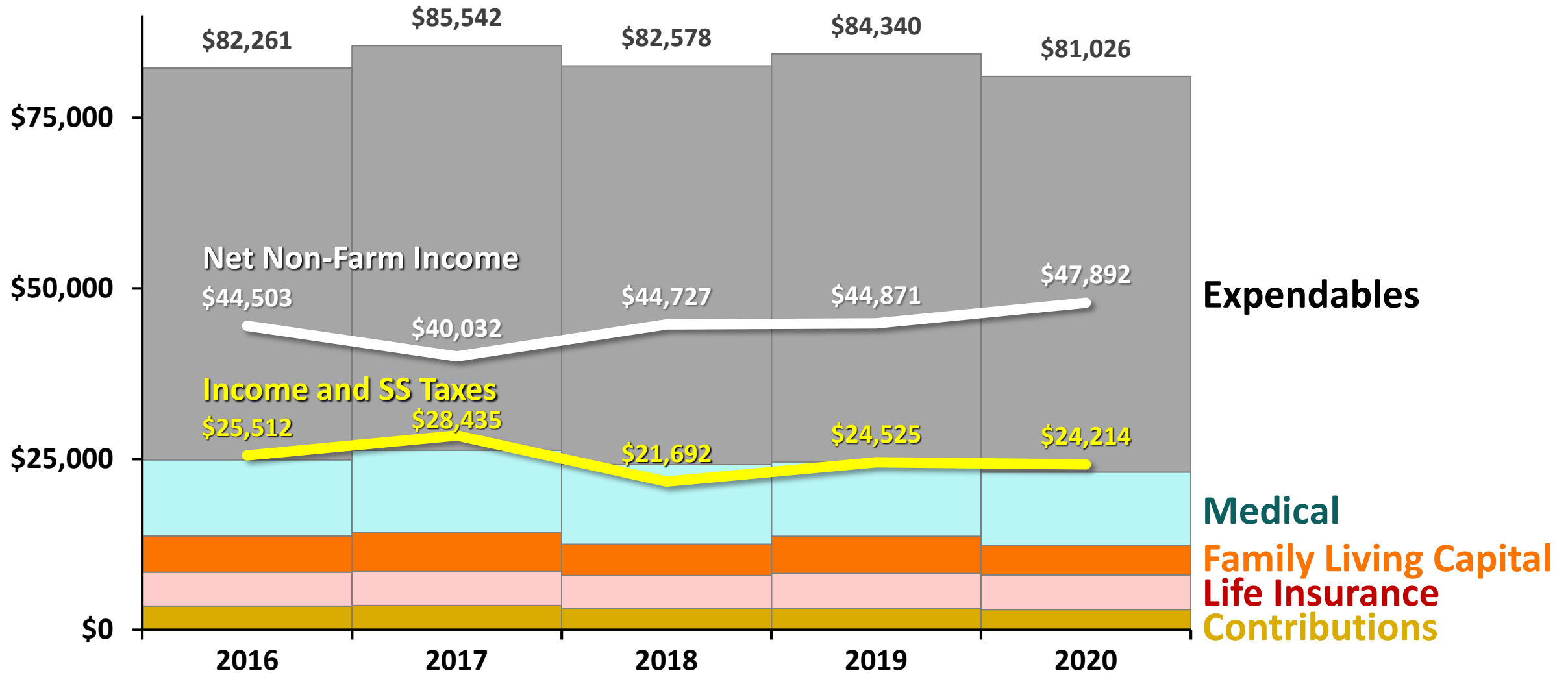
# 2020 FBFM Records Summary

## Family Living Costs



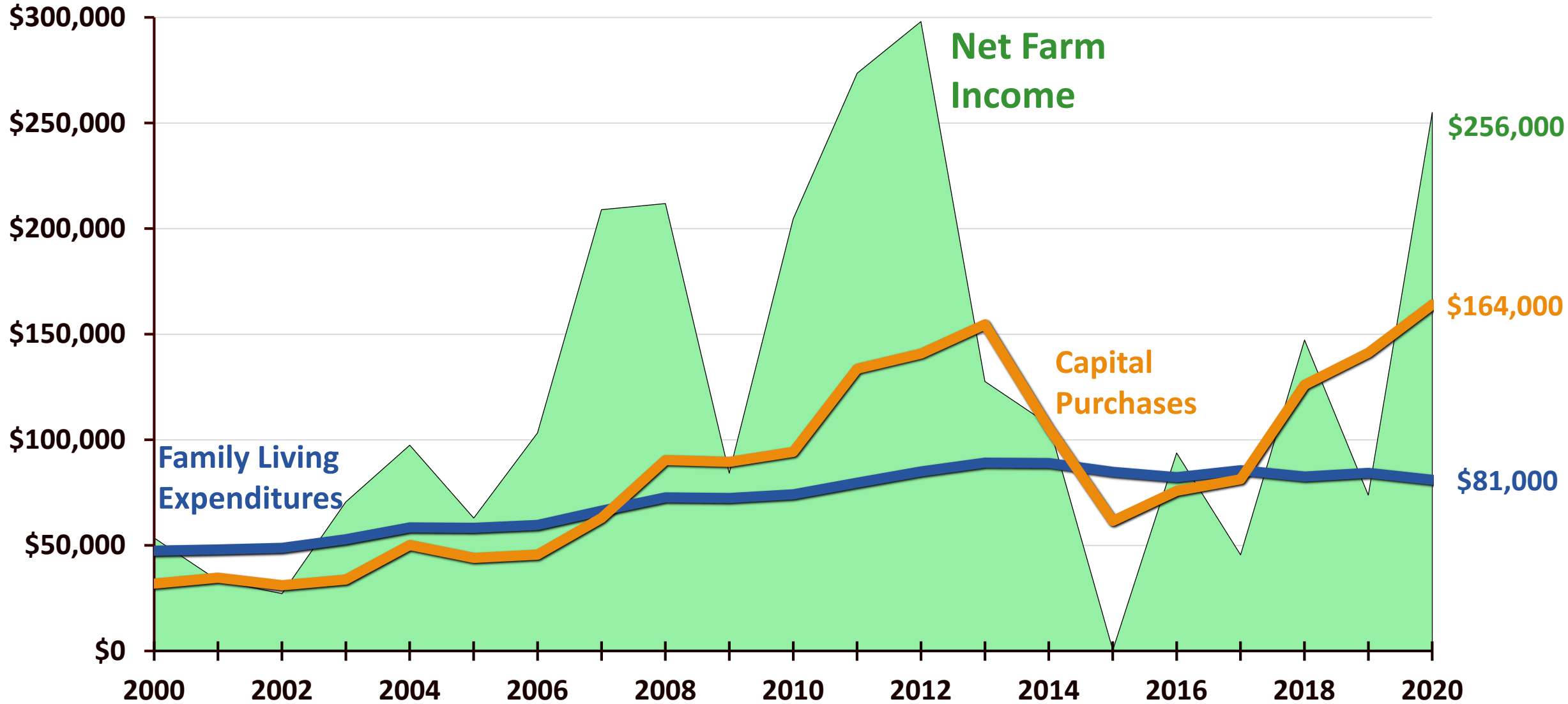
# 2020 FBFM Records Summary

## Family Living Costs



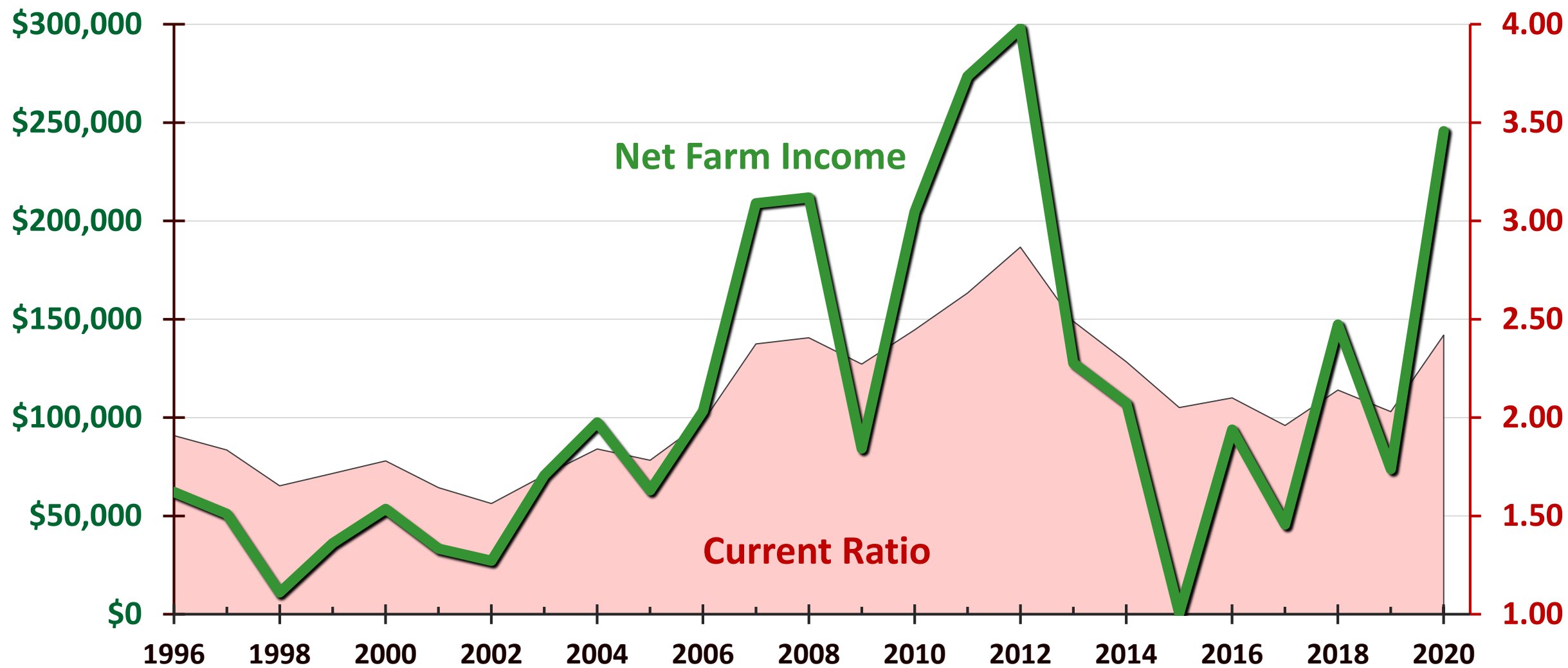


# Grain Farms Enrolled in Illinois FBFM



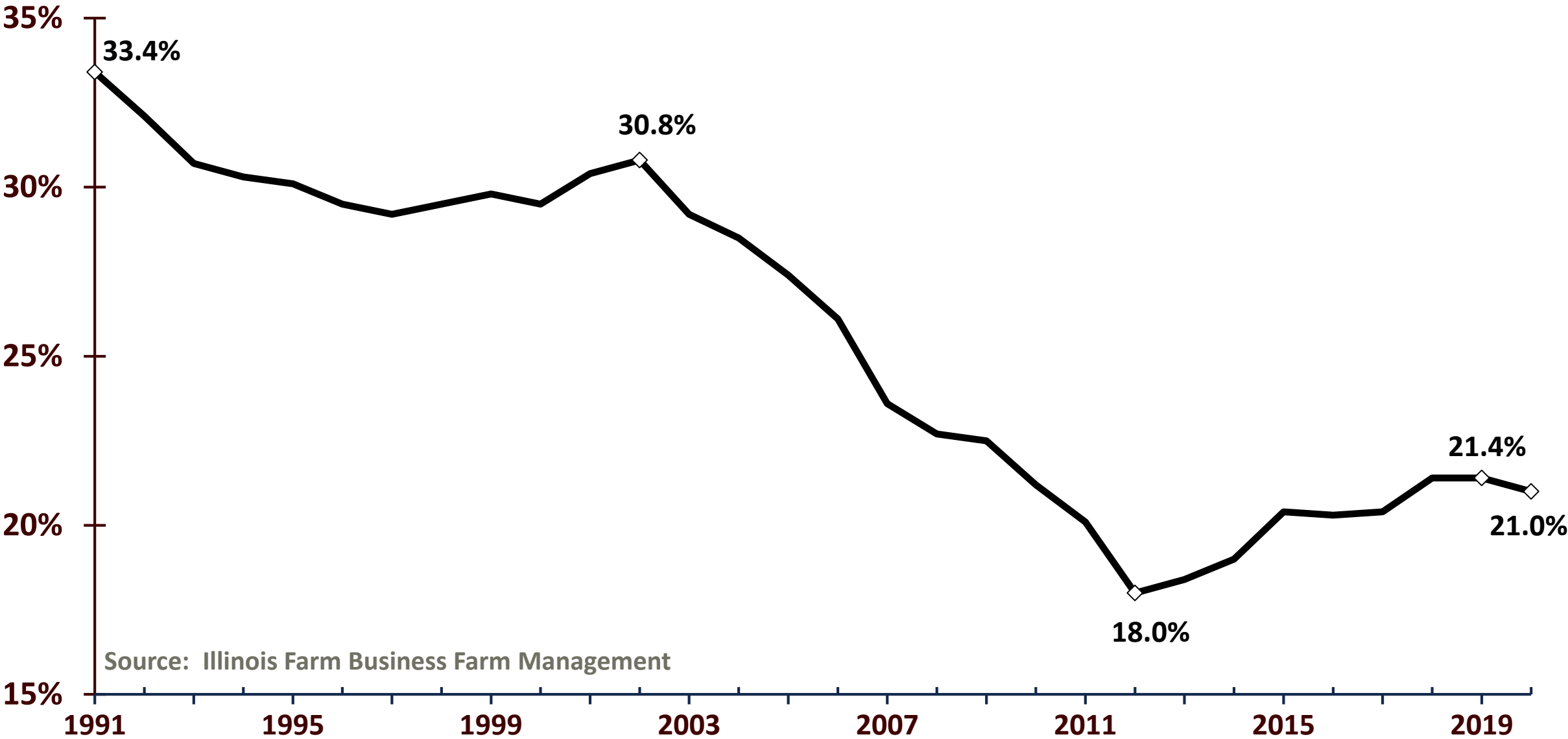
# Current Ratio and Net Farm Income

## on Grain Farms Enrolled in Illinois FBFM



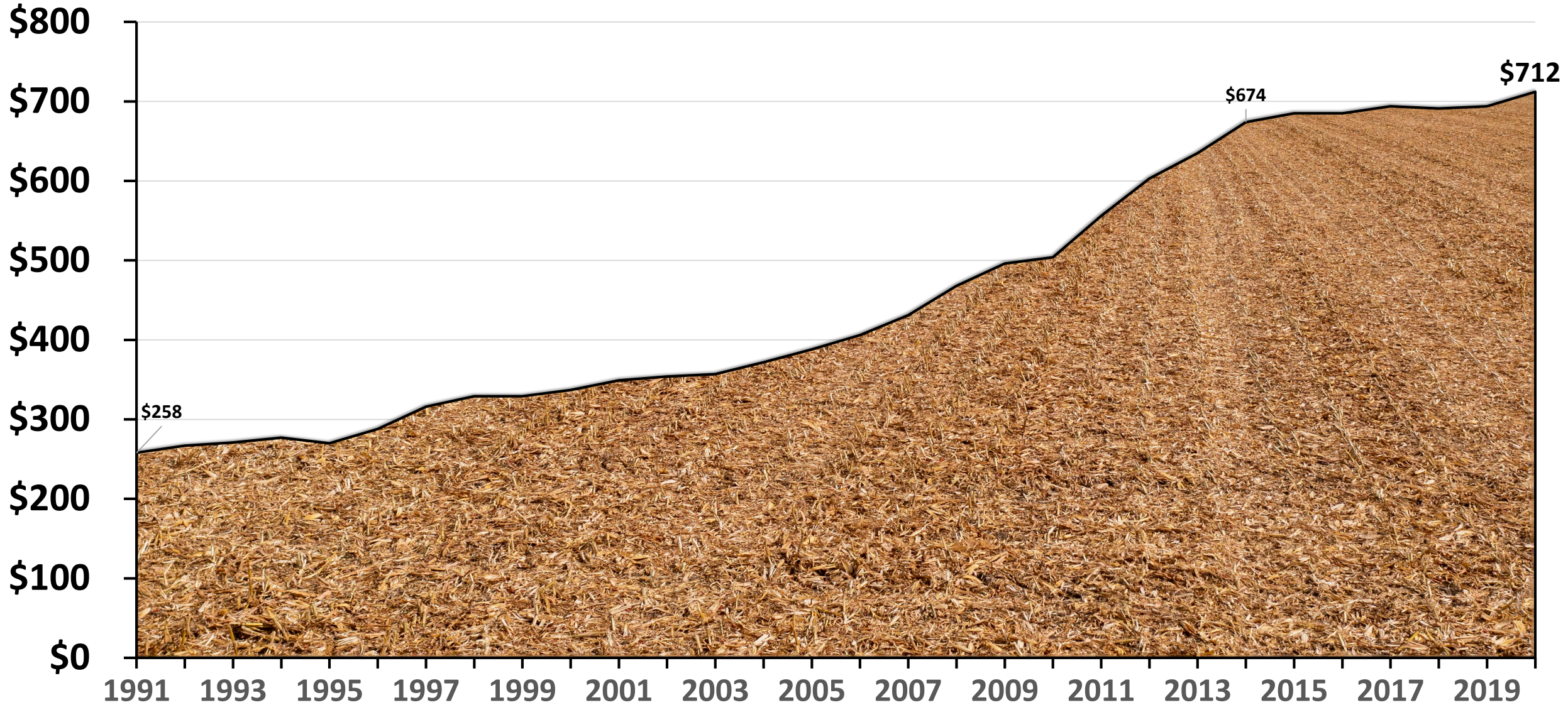


# Debt-to-Asset Ratio (Illinois Grain Farms)



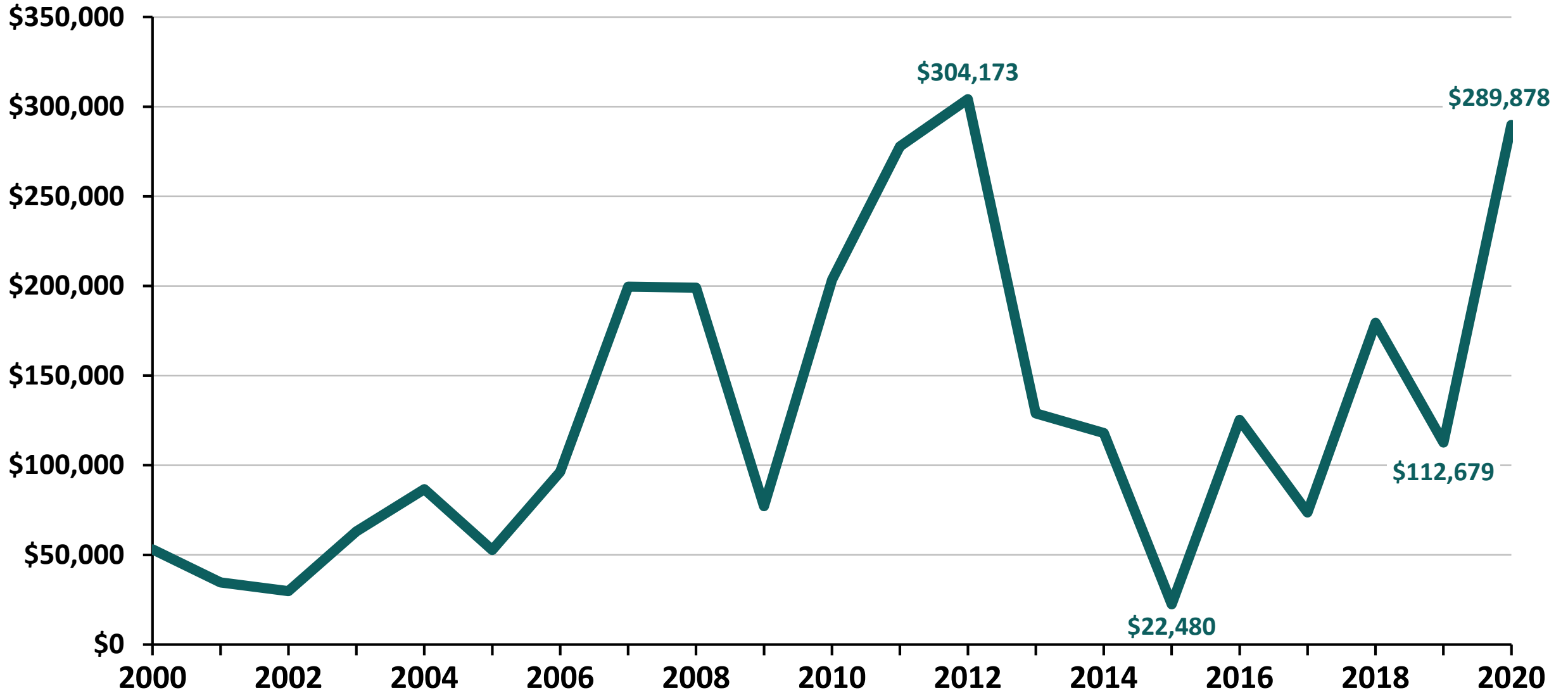
Source: Illinois Farm Business Farm Management

# Debt per Acre, Illinois Grain Farms





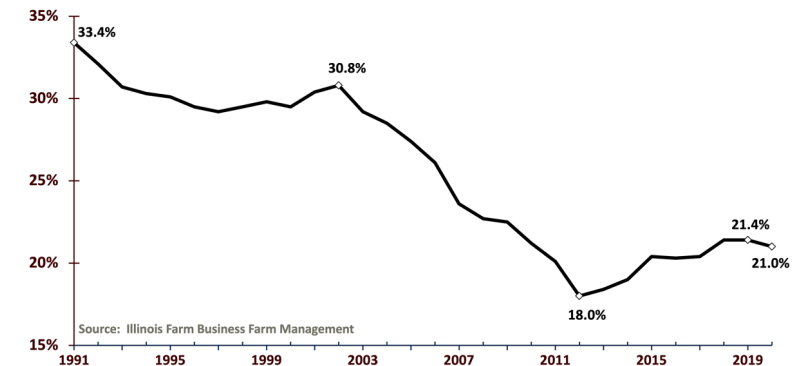
# Capital Debt Repayment Capacity



# Farm Debt Key Points

- Since 1990, farm debt has increased 4% per year
- Debt level in 2020 is highest ever in real terms
- Debt-to-Asset ratio improved from 33% in 1991 to 21% in 2020
- Debt per tillable acre: **\$712** (\$258 in 1991)
- Interest expense per tillable acre: **\$24** (\$20.72 in 1991)

Debt-to-Asset Ratio (Illinois Grain Farms)

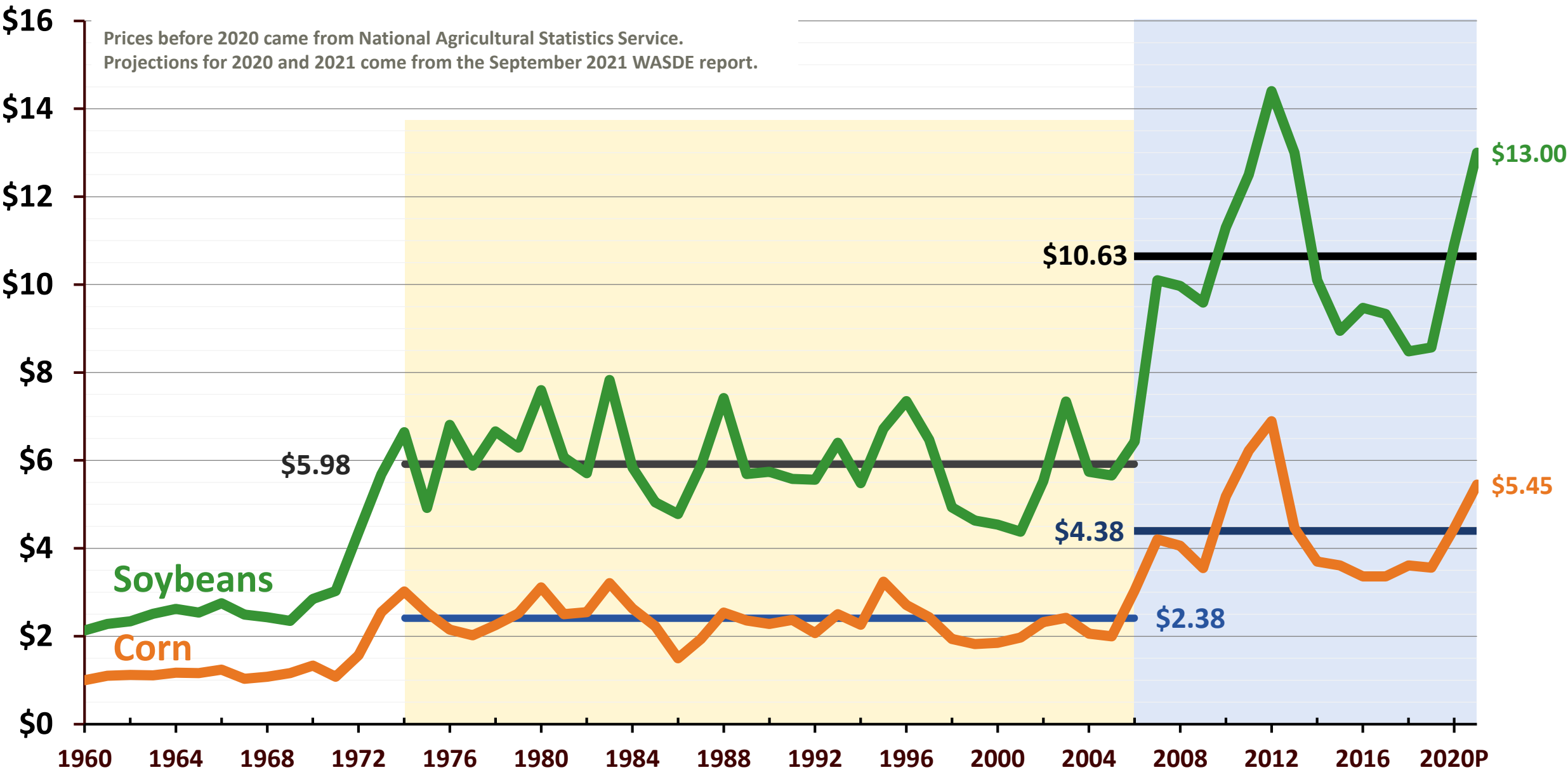


Debt per Acre, Illinois Grain Farms

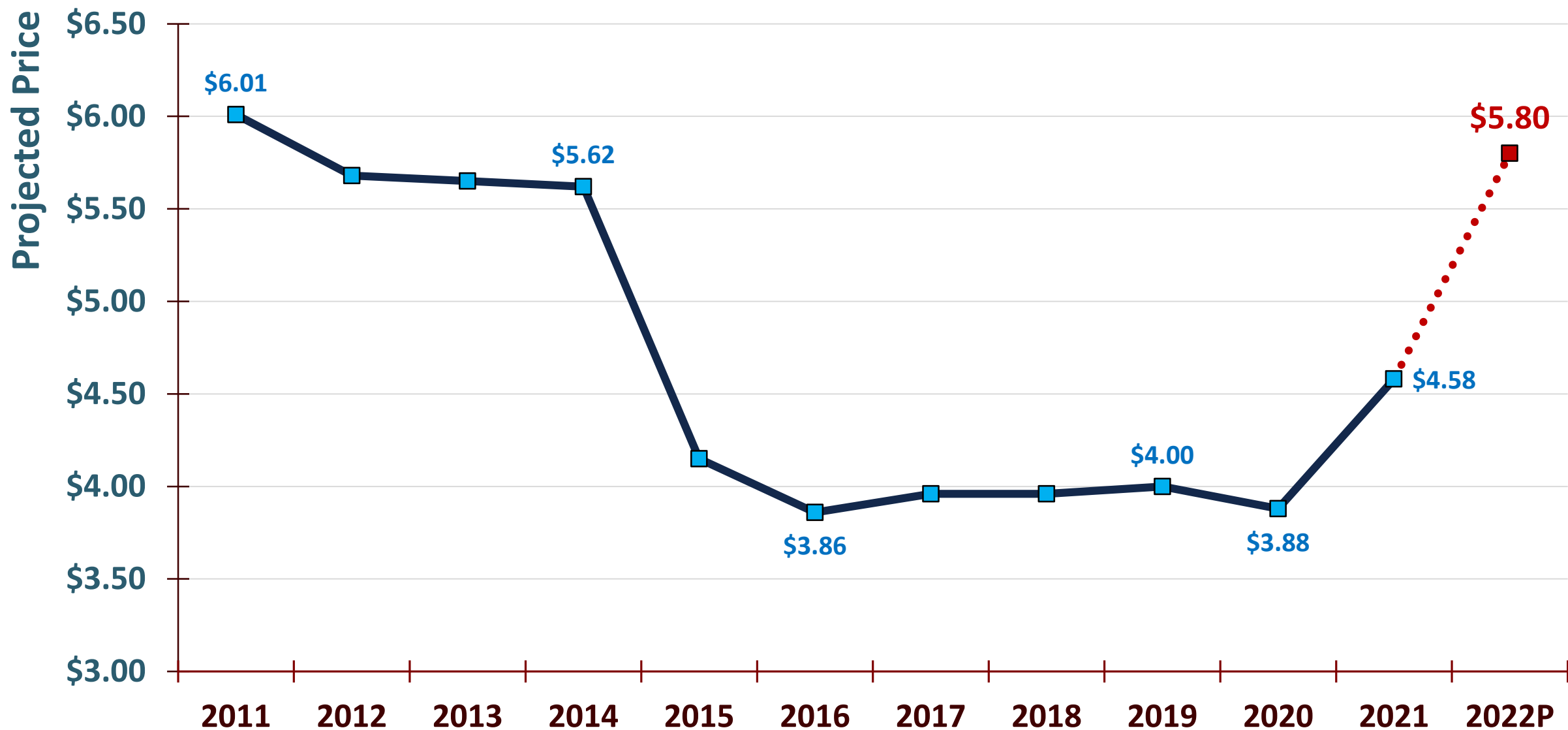




# U.S. Market Year Average Prices for Corn and Soybeans 1960 to 2021P



# Projected Prices, Corn



# Do you expect legislated Federal Tax Changes to:

- Increase tax liabilities
- Have them remain the same
- Decrease tax liabilities



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# Income Taxes



# Tax Planning 2022: **Federal Income Tax Rates**

## **Highest Marginal Tax Rate**

**70% in 1978**

**37% in 2022**

- **Reduced to 29.6%  
if business income via QBID  
(Qualified Business Income Deduction)**
- **19.2% highest rate up to about  
\$350,000 income**

## **Tax Paid by Average FBFM farm**

**\$ 3,800 in 1984**

**\$24,000 in 2020**

# What Should My Adjusted Gross Income Be?

## Amounts needed for:

- \$ 80,000      Family living
  - \$ 20,000      Income tax liability
  - \$ 30,000      Principal payments above Depreciation
- 
- \$130,000      Adjusted Gross Income

**To the extent actual Adjusted Gross Income (AGI)  
is less than \$130,000, tax deferral is generated**



# Tax Reporting 2021

## Treatment of Selected Stimulus Funds

### Not Taxable

- Economic Income Payments {Letter 6475}
- Advance Child Tax Credit {Letter 6419}
- PPP forgiveness amount

### Taxable

- Employee Retention Credit
- Paid Sick and Family Leave (FFCRA)
- FSA Program Payments

# Tax Brackets 2022 – Married Filing Jointly

Tax Bracket	Income over	QBID**
10%		8.0%
12%	\$20,550	9.6%
22%	\$83,550	17.6%
24%	\$178,150	19.2%
32%	\$340,100	25.6%
35%	\$431,900	28.0%
37%	\$647,850	29.6%

*\*\* Reduce by 20% if  
Qualified Business Income  
Deduction (QBID) applies*

# Standard Deduction 2022

**\$25,900** Married Individuals Filing Joint

**\$19,400** Heads of Households

**\$12,950** Unmarried Individuals

**\$12,950** Married Individuals Filing Separate



# Tax Rates Connected to Asset Groups

## Inventory

Ordinary tax + Self Employment (15.3%)

## Equipment and Buildings

Ordinary tax (0% to 37%)

## Land

Capital gain tax (0% or 15% or 20%)

***Illinois assesses state income tax to individuals of 4.95%***

# Reducing Self Employment Tax (15.3%)

- Gifts of grain
- Payment-in-kind (**PIK**) wages
- Trade machinery
  - 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 \$ 147,000
- Convert to crop share or cash rent landlord

**FMV = Fair Market Value**  
**SE = Self-Employment**

# Income Averaging

- 3 year look back  
(for 2021 >> look to 2020, 2019, 2018)
- Mathematically moves higher 2021 income to fill up unused lower brackets in 3 prior years
- Effectively can allow 37% tax rate on 2021 income to be taxed at 12% or 22% if buckets available in 2020/2019/2018
- If \$100,000 available @ 22%, saves 15% = \$15,000



# Using Retirement Plans to Defer Income

	<50 years old	50+ years old
Traditional IRA	\$6,000	\$7,000
Simple IRA	\$14,000	\$17,000
401k	\$20,500	\$27,000

- SEP & other defined contribution plans: **\$61,000**  
25% of compensation if less
- Defined benefit plans **\$245,000**  
Also known as cash balance plans

# 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
- Related party buyer:  
No 179 expense or bonus depreciation
  - Seller: large income in year of sale
  - Related party buyer: deductions over time

Section 179 allows taxpayers to deduct the cost of certain property as an expense when the property is placed in service.





# Sale of Machinery Tax Trap

Better idea:

Long term lease with periodic purchase option





# Tax Planning 2022: Depreciation Provisions

- **100%** bonus depreciation through 2022  
*All farm assets including machine sheds (new & used)*
- **\$1,050,000** Maximum Sec 179 deduction
- **\$2,620,000** 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”**



# Tax Planning 2021 & 2022

## Illinois Depreciation Changes

For tax years ending on or after 12/31/2021

**NO BONUS ALLOWED** for Illinois tax

Bonus depreciation lowers federal tax, **not** Illinois tax

In later years, gains on sales or trades will result in **different taxable amounts for federal and Illinois**



# Federal Estate Tax Key Numbers

- **2022 Current exemption level**  
\$12.06 million per person  
\$24.12 million per couple
- 2032A reduction allowed = **\$1,230,000**
- Annual gift exclusion = **\$16,000**
- U.S. farm operator estates that owed federal estate taxes  
**0.16% in 2020**

Section 2032A was implemented to allow agricultural landowners to determine the value of their property based on the use value rather than the potential development value.

***Note: Illinois has state level estate tax with \$4M exemption***

# Illinois estate tax computations after gifts


Taxable Estate	Taxable Estate + Taxable Gifts	Illinois Estate Tax
\$8 million	\$8 million	\$ 680,634
\$5 million	\$8 million	\$ 352,158
\$2 million	\$8 million	\$ 92,910

Source: Illinois Attorney General Estate Tax Calculator

# Stepped Up Basis – This is a BIG thing

Tax basis of decedent's property is “reset” to FMV

Increases

- 
- Land basis from **\$200 (1945)** to **\$19,000 (2021)**
  - Depreciable property basis: **Claim depreciation again**
  - Crop inventory basis for sale at no gain by survivor
  - Stock basis for sale at no gain



# Strategy for 2022

1. Utilize low tax rates to
2. Pay down growing debt during
3. Periods of uncertain economic results





# Management of Agribusiness will

- Become more important
- The same
- Less important

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# Agribusiness Management Program

[www.ilsoyadvisor.com/amp-agribusiness-management-program](http://www.ilsoyadvisor.com/amp-agribusiness-management-program)



ABOUT SOYBEANS ILSOYADVISOR

Funded by the Illinois Soybean Association checkoff program.

## AMP - AGRIBUSINESS MANAGEMENT PROGRAM

Let's talk about AMP - the Agribusiness Management Program, an exciting new offering by the Illinois Soybean Association (ISA) checkoff program.

AMP is a resource for busy farm families and agribusiness professionals. It's designed to provide farmers with go to advice and guidance on many agribusiness management topics from succession planning to marketing. Through AMP, we hope farmers find peace of mind in their decision making, endurance in running their operations, excellence in the caliber of available resources and most importantly legacy, and the ability to see their farming operations through to the next generation.

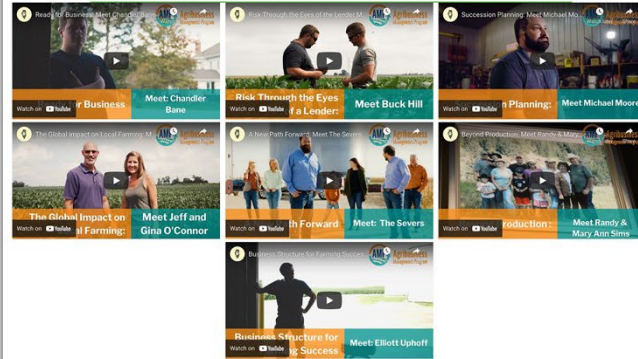
Browse our online resources and stay tuned for announcements on webinars and events you won't want to miss.

Whether it's programming, information or support - let us know how AMP can support your efforts to build strong farming operations that are here to stay for generations to come. We want to hear from you - drop us a line at [ilsoy@ilsoy.org](mailto:ilsoy@ilsoy.org).



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### Recent posts about AMP - Agribusiness Management



**WEBINAR: Deferred Taxes: Your Balance Sheet May Not Be What You Think**

August 19, 2021

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**WEBINAR: The Urgency of Estate Planning Today: How to Capture Available Benefits Before They're Gone**

June 16, 2021

If it's been a while since you've looked at your estate plan, or if you need to establish one, there's no better—or more pressing—time than now. This webinar will provide insights on the importance of estate and tax strategy right now, highlights surrounding the latest predictions and expectations, as well as...

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April 27, 2021

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**Retirement Plans for Farm Operators**

March 08, 2021

While 2020 was a challenging year in many ways,



**What You Need to Know About Hiring Workers: Tax Deposits and Reporting**

February 22, 2021

February 08, 2021



**What You Need to Know About Hiring Workers: Calculating Withholdings**

February 08, 2021

February 08, 2021



## AMP - AGRIBUSINESS MANAGEMENT PROGRAM

### A program of Illinois Soybean Association

- Illinois Farm Business Farm Management
- farmdoc



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# Existing Resources



Ready for Business: Meet Chandler Bane

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Meet: Chandler Bane




Risk Through the Eyes of the Lender

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Succession Planning: Meet Michael Moore

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Meet Michael Moore



The Global Impact on Local Farming: Meet Jeff and Gina O'Connor

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Meet Jeff and Gina O'Connor



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Meet: The Severs



Beyond Production: Meet Randy & Mary Ann Sims

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Meet Randy & Mary Ann Sims

# Coming Soon

- **Online Modules**

- **Farm Financial Records: Pathway to Success**
- **Benchmarking and Financial Ratio**
- **Estate and Transition Planning**

- **Podcast**

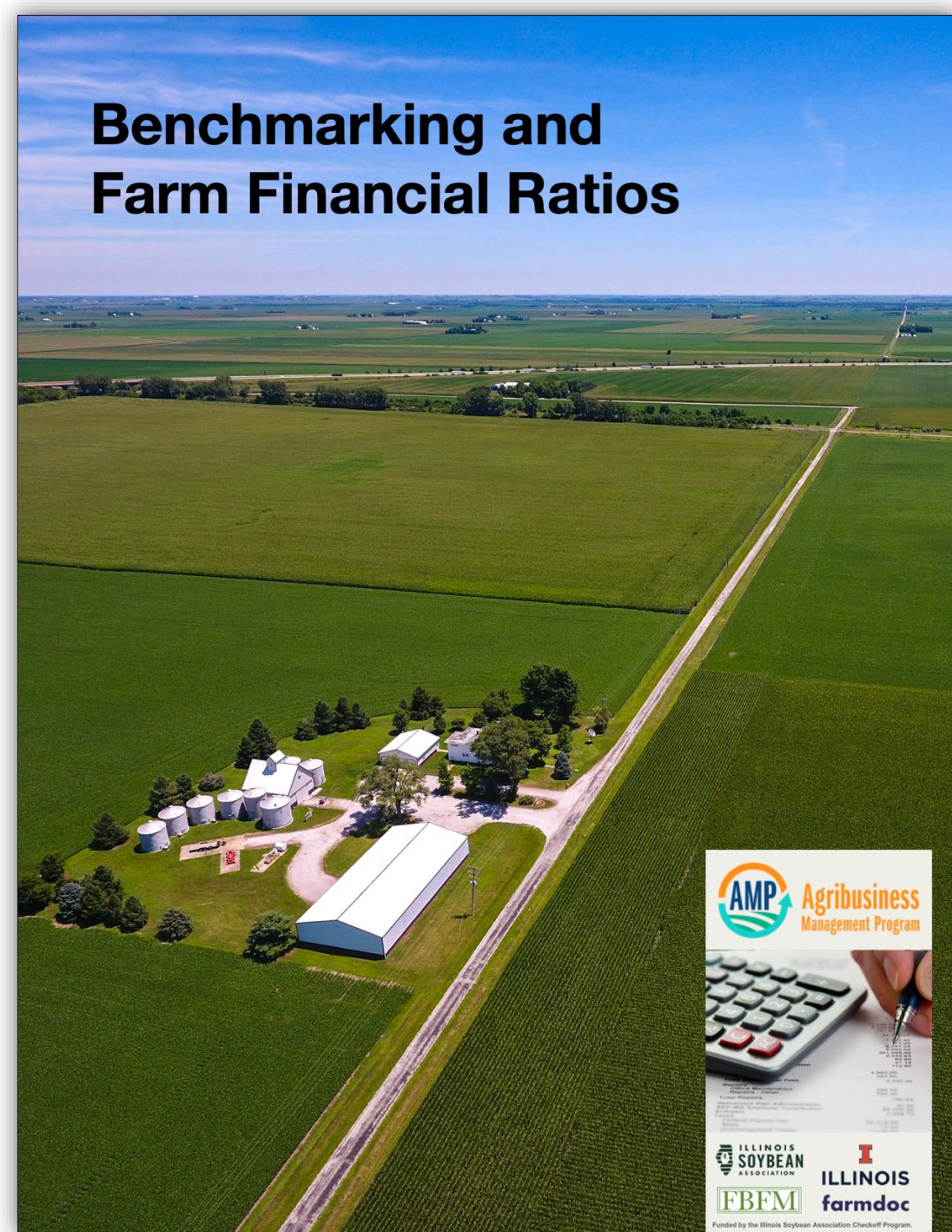
- **AMP Management Conferences**  
**August 2, 2022 at the iHotel**





# Benchmarking and Financial Ratios

1. Debt-to-asset ratio
2. Working capital
3. Debt Replacement





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February 18, 2022

Bradley Zwilling

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Scott Irwin

Despite the effects of the COVID pandemic and associated severe economic contraction, biodiesel plants

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