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Is Tax Planning Needed for 2026?

Bradley Zwilling

Illinois FBFM Association and Department of Agricultural and Consumer Economics
University of Illinois

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As the end of the calendar year draws near and harvest has mostly wrapped up, it is a good time to review your records and either start or update income tax plans. Yield forecasts for Illinois are lower, with variability from north to south, and costs are higher (see *farmdoc daily* articles from September 1, 2026 and November 17, 2026). Incomes across the state will therefore vary because of these factors, as well as the timing of expense purchases, prices, and the type of farm (e.g., grain vs. livestock). Since 2023, net farm incomes have been lower, and they are projected to remain lower for 2026. Many think tax planning is needed only when incomes are high; however, strategic tax planning might be more valuable when incomes are lower.

Items to Consider

Before tax planning, evaluate or establish your short- and long-term goals for the operation. These goals are the foundation of a strategic tax plan. Examples include debt reduction, retirement, expansion, or maximizing after-tax dollars.

In addition, know the tax law changes that might have an impact. For instance, 100% bonus depreciation and a $2.5 million expense election at the federal level were enacted with the Working Families Tax Cut Act of 2025 (or One Big Beautiful Bill Act, OBBBA). Many tax brackets, deductions (such as the Qualified Business Income Deduction, QBID), and credits from the 2017 Tax Cuts and Jobs Act were also made permanent by OBBBA.

To Increase Taxable Income

With the lower incomes projected in parts of the state, carefully evaluate the impact that lower income will have on your goals. If your records reveal this year's income is lower than usual and you expect next year's to be higher, or if you need it to be higher to meet your goals, you may find it wise to increase this year's income by considering the following:

1. Sell grain and livestock in 2026 rather than holding them over to next year.

2. Elect out of the installment method for any deferred payment contracts for grain or livestock, so they are reported as 2026 income even though the proceeds will not be collected until 2027.

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3. Consider initiating a Commodity Credit Corporation (CCC) loan before the end of the year and then electing to report the CCC loan as income.

4. Consider delaying the payment of expenses you might typically pay in the fall – seed, fertilizer, lime, and fuel. The first choice should be to delay payment of expenses with no cash discount or minimal finance charges.

5. Consider depreciating limestone and heavy applications of fertilizer instead of deducting them in the current year.

6. Be sure to collect all custom work fees, rents, and other amounts due to you prior to the end of the year.

7. Consider selling off-farm investments that have a gain.

To Decrease Taxable Income

With lower average incomes, some farms will have higher incomes due to higher yields, higher prices, lower input costs, or even deferred crop insurance proceeds from 2025. If you feel this year's income will be greater than next year's, or if you need it to be lower to meet your goals, the following are some ideas that will lower this year's taxes:

1. Sign a deferred payment contract for grain and livestock that must be marketed this year to lock in the terms of the sale, but defer receipt of the proceeds to next year.

2. Elect to defer reporting of crop insurance proceeds if you have incurred a crop insurance loss due to yield loss, your normal practice is to sell in the following year, and you meet all of the qualifications.

3. Make purchases of operating inputs (feed, seed, fuel, fertilizer, chemicals, supplies) that are to be used next year. See IRS Publication 225 – The Farmers Tax Guide for more information on deducting prepaid expenses.

4. Purchase equipment and make large dollar repairs this year rather than next. If you plan to take advantage of the IRS Code Section 179 Expense Election or bonus depreciation, keep in mind that the purchase must be available for service before the year end.

5. Pay any interest that has accrued through the end of the year, even though it may not be due until next year. You may **NOT** deduct prepaid interest, insurance, or cash rent.

6. Consider establishing a retirement plan this year if you have not already done so. There are numerous options available to you. The type of plan you choose will determine the maximum contribution. If you have employees, some plans require you to make a contribution for them as well. Some available plans include the traditional IRA, Roth IRA, SEP IRA, and SIMPLE IRA. The traditional IRA, Roth IRA, and SEP IRA can be set up as late as the due date of the tax return. If you are considering establishing a retirement plan, you should consult with your financial advisor to ensure you meet all of the requirements for the plan.

Steps To Take

Deciding which ideas from the two lists above fit your operation starts with knowing where your income stands this year and what you expect it to be next year. Before beginning income tax planning, make sure to have complete and accurate records. Create a list of potential income and expense items that can still be done. Take an inventory of grain and livestock, noting items that are priced and setting a value on the unpriced items. This will allow you to estimate what next year’s income tax liability might be. Review last year’s tax return and evaluate your goals. Now you are looking at three tax years (prior, current, and next year).

In addition to your inventory, potential items to do, and accounting records, keep in mind several items that were different in 2026. Various government payments must be included in 2026 taxable income, such as the Farmer's Bridge Assistance Program and the 2025 Agricultural Risk Coverage (ARC)/Price Loss Coverage (PLC) payments. With lower yields and increased use of Enhanced Coverage Options (ECO), there may be payments attributable to the 2026 crop that will not be known or received until spring or early summer of 2027. In many cases, machinery purchases were lower in 2026 than in past years (see *farmdoc daily* article August 28, 2026), so there will be less depreciation, mainly in the form of expense election or bonus depreciation.

With lower incomes, strategic tax planning might be more valuable than when incomes are higher. Items to consider are:

- Income to cover the standard deduction as that is essentially a $0 federal income tax bracket.
- Negative self-employment income
    - Does not carry forward to offset positive self-employment income in future years.
    - Potential loss of various deductions, such as self-employed health insurance and contributions to a retirement plan.
    - Generates a Qualified Business Income Deduction (QBID) loss.

Make sure to understand or ask what happens to various deductions and credits as income rises or lowers to set goals for tax planning. Also, consult your tax preparer on various tax law changes that will impact you. Finally, evaluate how changes in the operation can impact your taxable income. Items such as adding acres, accelerating debt repayment and retirement are a few changes that can impact your tax planning strategy. With this information, your operation can generate a strategic tax plan for this year and years to come. Your tax preparer can help you put that plan into action before the year ends.

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