

Transferring the Farm to the Next Generation



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TRANSFERRING THE FARM: A CASE STUDY



Key Players



Mom & Dad

- Both age 70 and in good health. Beginning to slow down a bit, turning over their duties to the son on the farm. Want the ability to “get away” from time to time and not be so tied down. Good yields and higher prices have had them paying more taxes than they are comfortable with.
- They have concerns regarding the best method to pass the farm to the next generation. They came in to discuss the best method to structure the farm for the future.

Son #1

- He is age 48 and lives on the farm. He came home to the farm upon graduation from WSU at age 22. He is married with 3 children: 1 in college and 2 in high school. He basically runs the day-to-day operations on the farm and has assumed the duties as Dad has slowed down. His son, the oldest child, is now at WSU and loves the farm. He plans to return to take over the operation at some point down the road.
- Although Son #1 is not an owner and is simply paid as a hired man, he helped “build” the farm. When he came back at age 22, the farm was less than half its present size and encumbered with a mortgage. He has existed on a minimum wage to assist in retiring the land debt.

Daughter

- She is 46 years old, married with 2 children and lives in Seattle. She has a great job, a great retirement, has a nice house, and is living the good life. She likes to come back to the farm a couple times a year and enjoy the slow pace and open country.

Son #2

- Son #2 is age 44, married, and lives in California. He does not have much interest in the farm. He has trouble managing his finances, has a good job and a high income but not much to show for it. His wife is high maintenance and very controlling. This son is beginning to ask questions about what is going to happen with the farm.

Balance Sheet

Cash / IRA / Savings	\$ 1,000,000
Crops on Hand / Seeded summer fallow	500,000
Equipment	750,000
Farm Lands	<u>4,000,000</u>
Total Assets	<u>6,250,000</u>
Debt	0
Equity	<u>\$ 6,250,000</u>

For the year Jan 1 - Dec 31, 2014, or other tax year beginning 2014, ending 2014, See separate instructions.

Your first name and initial: **JOE FARMER** Last name: Your social security number: **123-45-6789**

If a joint return, spouse's first name and initial: **MARY FARMER** Last name: Spouse's social security number: **987-65-4321**

Home address (number and street). If you have a P.O. box, see instructions. Apartment no.: **6546 SUNSET RIDGE RD** Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). **ANYTOWN, WA 12345**

Foreign country name: Foreign province/state/country: Foreign postal code: Presidential Election Campaign. Check here if you, or your spouse if filing jointly, want \$3 to go to the fund. Checking a box below will not change your tax or refund. You Spouse

Filing Status
 1 Single
 2 Married filing jointly (even if only one had income)
 3 Married filing separately. Enter spouse's SSN above & full name here.
 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.
 5 Qualifying widow(er) with dependent child

Exemptions
 6a Yourself. If someone can claim you as a dependent, do not check box 6a.
 b Spouse.
 c Dependents:
 (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) If child under age 17 qualifying for child tax or (see matrix)
 d Total number of exemptions claimed: **2**

Income
 7 Wages, salaries, tips, etc. Attach Form(s) W-2. **7**
 8a Taxable interest. Attach Schedule B if required. **8a 3,345.**
 b Tax-exempt interest. Do not include on line 8a. **8b**
 9a Ordinary dividends. Attach Schedule B if required. **9a**
 b Qualified dividends. **9b**
 10 Taxable refunds, credits, or offsets of state and local income taxes. **10**
 11 Alimony received. **11**
 12 Business income or (loss). Attach Schedule C or C-EZ. **12**
 13 Capital gain or (loss). Att Sch D if reqd. If not reqd, ck here. **13 12,750.**
 14 Other gains or (losses). Attach Form 4797. **14**
 15a IRA distributions. **15a** b Taxable amount **15b**
 16a Pensions and annuities. **16a** b Taxable amount **16b**
 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. **17**
 18 Farm income or (loss). Attach Schedule F. **18 100,000.**
 19 Unemployment compensation. **19**
 WKS 20a Social security benefits. **20a 10,200.** b Taxable amount **20b 8,670.**
 21 Other income. **21**
 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income. **22 124,765.**

Adjusted Gross Income
 23 Educator expenses. **23**
 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ. **24**
 25 Health savings account deduction. Attach Form 8889. **25**
 26 Moving expenses. Attach Form 3903. **26**
 27 Deductible part of self-employment tax. Attach Schedule SE. **27 7,065.**
 28 Self-employed SEP, SIMPLE, and qualified plans. **28**
 29 Self-employed health insurance deduction. **29**
 30 Penalty on early withdrawal of savings. **30**
 31a Alimony paid b Recipient's SSN. **31a**
 32 IRA deduction. **32**
 33 Student loan interest deduction. **33**
 34 Tuition and fees. Attach Form 8917. **34**
 35 Domestic production activities deduction. Attach Form 8801. **35**
 36 Add lines 23 through 35. **36 7,065.**
 37 Subtract line 36 from line 22. This is your adjusted gross income. **37 117,700.**

38 Amount from line 37 (adjusted gross income) 38 117,700.

Tax and Credits
 39a Check You were born before January 2, 1950, Blind. Total boxes checked 39a
 if: Spouse was born before January 2, 1950, Blind. 39b

b If your spouse itemizes on a separate return or you were a dual-status alien, check here 39b

40 Itemized deductions (from Schedule A) or your standard deduction (see left margin) 40 14,800.

41 Subtract line 40 from line 38 41 102,900.

42 Exemptions. If line 38 is \$12,505 or less, multiply \$3,950 by the number on line 42. Otherwise, see instrs. 42 7,900.

43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- 43 95,000.

44 Tax (see instrs). Check if any from: a Form(s) 8814 c
 b Form 4972 44 14,194.

45 Alternative minimum tax (see instructions). Attach Form 6251 45 0.

46 Excess advance premium tax credit repayment. Attach Form 8962 46

47 Add lines 44, 45 and 46 47 14,194.

48 Foreign tax credit. Attach Form 1116 if required 48

49 Credit for child and dependent care expenses. Attach Form 2441 49

50 Education credits from Form 8963, line 19 50

51 Retirement savings contributions credit. Attach Form 8880 51

52 Child tax credit. Attach Schedule 8812, if required 52

53 Residential energy credits. Attach Form 5695 53

54 Other crs from Form: a 3800 b 8801 c 54

55 Add lines 48 through 54. These are your total credits 55

56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- 56 14,194.

57 Self-employment tax. Attach Schedule SE 57 14,130.

58 Unreported social security and Medicare tax from Form: a 4137 b 8919 58

59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required 59

60a Household employment taxes from Schedule H 60a

b First-time homebuyer credit repayment. Attach Form 5405 if required 60b

61 Health care: individual responsibility (see instructions) Full-year coverage 61

62 Taxes from: a Form 8859 b Form 8960 c instrs; enter code(s) 62

63 Add lines 56-62. This is your total tax 63 28,324.

Payments 64 Federal income tax withheld from Forms W-2 and 1099 64

65 2014 estimated tax payments and amount applied from 2013 return 65

66a Earned income credit (EIC) NO 66a

b Nontaxable combat pay election 66b

67 Additional child tax credit. Attach Schedule 8812 67

68 American opportunity credit from Form 8863, line B 68

69 Net premium tax credit. Attach Form 8962 69

70 Amount paid with request for extension to file 70

71 Excess social security and tier 1 RRTA tax withheld 71

72 Credit for federal tax on fuels. Attach Form 4136 72

73 Credits from Form: a 2439 b Reserved c Reserved d 73

74 Add lns 64, 65, 66a, & 67-73. These are your total pmts 74 0.

Refund 75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid 75

76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here 76a

b Routing number c Type: Checking Savings

d Account number

77 Amount of line 75 you want applied to your 2015 estimated tax 77

78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions. 78 28,324.

79 Estimated tax penalty (see instructions) 79

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)? Yes. Complete below. No

Designee's name Phone no. (509) 725-3251 Personal identification number (PIN)

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature Date Your occupation Daytime phone number

Spouse's signature. If a joint return, both must sign. Date Spouse's occupation If the IRS sent you an identity Protection PIN, enter it here (see 4502)

Print/Type preparer's name Preparer's signature Date Check if self-employed PTIN

Paid Preparer Use Only Firm's name LEFFEL OTIS & WARWICK, PS

Firm's address PO BOX 129 Firm's EIN 91-1138438

City/State/Zip DAVENPORT, WA 99122-0129 Phone no. (509) 725-3251

Form 1040 (2014)

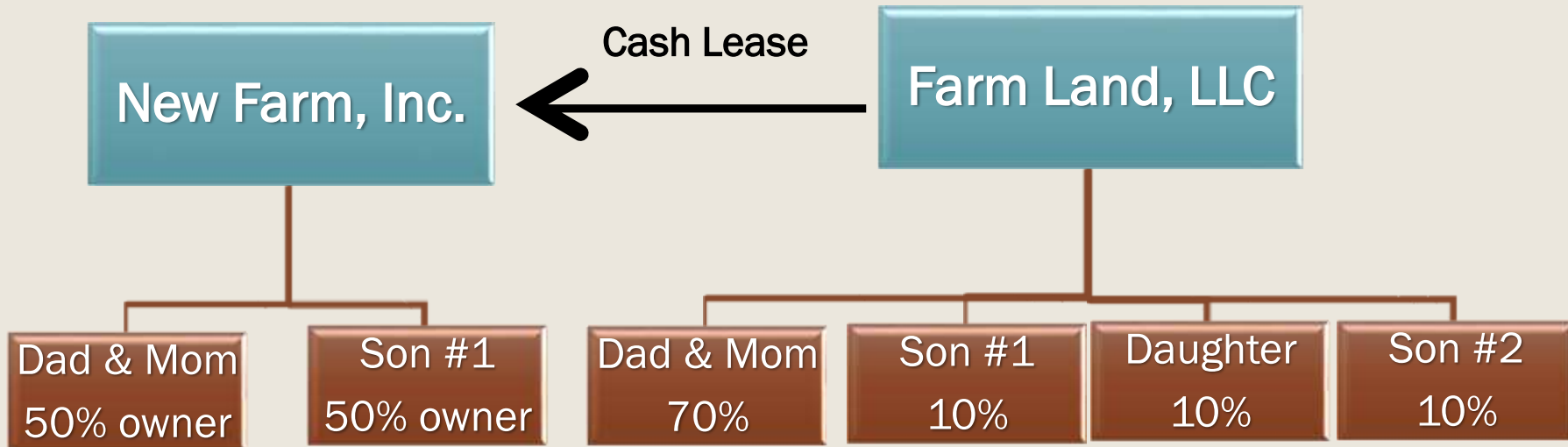
Goals Identified

1. They would like to see the tax bill to Uncle Sam decreased.
2. Estate/transition goals:
 - a) They would like the farm to stay in the family as a working farm!
 - b) They love all their children and want to be fair to them all.
 - c) They do not want to pay estate tax.
 - d) They want to reduce exposure to the possible impact of divorce, long term care or bankruptcy on the part of one of the owners.
 - e) They would like to reduce any threat to “off farm siblings.”

Proposed Re-Organization

- Transfer equipment, summer fallow, and crops on hand to newly organized C-corporation
- Transfer farm land to new LLC

Proposed Re-Organization



What Have We Accomplished?

■ Income Taxes:

– Assumed expenses:

1. Medical insurance, out of pocket medical, dental & optical for Dad, Mom & Son #1's family totals \$22,400 per year.
2. Groceries for both families above total \$15,000.
3. Utilities for both homes total \$7,500 per year.
4. Insurance on homes, repairs to homes, purchases of appliances and furniture for both homes totals \$8,000 per year.

What Have We Accomplished?

- New Corporation's tax calculation:

Beginning Net Income	\$ 100,000
Less Medical	(22,400)
Less Groceries	(15,000)
Less Utilities	(7,500)
Less Insurance, repairs, etc.	<u>(8,000)</u>
Subtotal	47,100
Paid out of corporation to LLC as rent	<u>(47,100)</u>
Net Taxable Income	<u><u>\$ 0</u></u>

For the year Jan 1 - Dec 31, 2014, or other tax year beginning 2014, ending 2014

Your first name and initial: **JOE FARMER** Last name: **FARMER** Your social security number: **123-45-6789**

If a joint return, spouse's first name and initial: **MARY FARMER** Last name: **FARMER** Spouse's social security number: **987-65-4321**

Home address (number and street). If you have a P.O. box, see instructions: **6546 SUNSET RIDGE RD** Apartment no. _____

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions): **ANYTOWN, WA 12345**

Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to the fund. Checking a box below will not change your tax or refund. You Spouse

Filing Status

1 Single
 2 Married filing jointly (even if only one had income)
 3 Married filing separately. Enter spouse's SSN above & full name here. _____
 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. _____
 5 Qualifying widow(er) with dependent child

Check only one box.

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a
 b Spouse

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> Child under age 17 qualifying for child tax or (see instrs)	Boxes checked on 6a and 6b. No. of children on 6c who:
				<input type="checkbox"/>	<input type="checkbox"/> lived with you <input type="checkbox"/> did not live with you due to divorce or separation (see instrs)
If more than four dependents, see instructions and check here. <input type="checkbox"/>					Dependents on 6c not entered above. Add numbers on lines above.
d Total number of exemptions claimed					2

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2	7	
8a Taxable interest. Attach Schedule B if required	8a	3,345.
b Tax-exempt interest. Do not include on line 8a	8b	
9a Ordinary dividends. Attach Schedule B if required	9a	
b Qualified dividends	9b	
10 Taxable refunds, credits, or offsets of state and local income taxes	10	
11 Alimony received	11	
12 Business income or (loss). Attach Schedule C or C-EZ	12	
13 Capital gain or (loss). Att Sch D if reqd. If not reqd, ck here	13	12,750.
14 Other gains or (losses). Attach Form 4797	14	
15a IRA distributions	15a	
b Taxable amount	15b	
16a Pensions and annuities	16a	
b Taxable amount	16b	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	32,970.
18 Farm income or (loss). Attach Schedule F	18	
19 Unemployment compensation	19	
WKS 20a Social security benefits	20a	10,200.
b Taxable amount	20b	6,670.
21 Other income	21	
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	57,735.

Adjusted Gross Income

23 Educator expenses	23	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25 Health savings account deduction. Attach Form 8889	25	
26 Moving expenses. Attach Form 3903	26	
27 Deductible part of self-employment tax. Attach Schedule SE	27	
28 Self-employed SEP, SIMPLE, and qualified plans	28	
29 Self-employed health insurance deduction	29	
30 Penalty on early withdrawal of savings	30	
31a Alimony paid b Recipient's SSN	31a	
32 IRA deduction	32	
33 Student loan interest deduction	33	
34 Tuition and fees. Attach Form 8917	34	
35 Domestic production activities deduction. Attach Form 8801	35	
36 Add lines 23 through 35	36	0.
37 Subtract line 36 from line 22. This is your adjusted gross income	37	57,735.

After re-org:
Self-employment farming income replaced by 70% share of land rent from LLC

Note: Three children will each be taxed on his/her 10% share of land rent from LLC

38 Amount from line 37 (adjusted gross income)		38	57,735.
Tax and Credits			
39a Check <input checked="" type="checkbox"/> You were born before January 2, 1950. <input type="checkbox"/> Blind. Total boxes checked 39a <input type="checkbox"/> 2			
if: <input checked="" type="checkbox"/> Spouse was born before January 2, 1950. <input type="checkbox"/> Blind. 39b <input type="checkbox"/>			
b If your spouse itemizes on a separate return or you were a dual-status alien, check here 39b <input type="checkbox"/>			
40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)		40	14,800.
41 Subtract lines 40 from line 38		41	42,935.
42 Exemptions. If line 38 is \$12,025 or less, multiply \$3,500 by the number on line 5d. Otherwise, see instrs.		42	7,900.
43 Taxable income. Subtract line 42 from line 41.		43	35,035.
44 Tax (see instrs). Check if any from: a <input type="checkbox"/> Form(s) 8814 c <input type="checkbox"/>		44	2,434.
b <input type="checkbox"/> Form 4972		45	0.
45 Alternative minimum tax (see instructions). Attach Form 6251.		45	0.
46 Excess advance premium tax credit repayment. Attach Form 8962		46	
47 Add lines 44, 45 and 46		47	2,434.
48 Foreign tax credit. Attach Form 1116 if required.		48	
49 Credit for child and dependent care expenses. Attach Form 2441		49	
50 Education credits from Form 8863, line 19		50	
51 Retirement savings contributions credit. Attach Form 8880		51	
52 Child tax credit. Attach Schedule 8812, if required		52	
53 Residential energy credits. Attach Form 5695		53	
54 Other cts from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>		54	
55 Add lines 48 through 54. These are your total credits .		55	
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-		56	2,434.
Other Taxes			
57 Self-employment tax. Attach Schedule SE		57	
58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919		58	
59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required.		59	
60a Household employment taxes from Schedule H		60a	
b First-time homebuyer credit repayment. Attach Form 5405 if required.		60b	
61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>		61	
62 Taxes from: a <input type="checkbox"/> Form 8858 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instrs; enter code(s)		62	
63 Add lines 56-62. This is your total tax		63	2,434.
Payments			
64 Federal income tax withheld from Forms W-2 and 1099		64	
65 2014 estimated tax payments and amount applied from 2013 return		65	
66a Earned income credit (EIC) NO 66a		66a	
b Nonrefundable combat pay election 66b <input type="checkbox"/>		66b	
67 Additional child tax credit. Attach Schedule 8812		67	
68 American opportunity credit from Form 8863, line 8		68	
69 Net premium tax credit. Attach Form 8962		69	
70 Amount paid with request for extension to file		70	
71 Excess social security and tier 1 RRTA tax withheld		71	
72 Credit for federal tax on fuels. Attach Form 4136		72	
73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> Reserved d <input type="checkbox"/>		73	
74 Add lns 64, 65, 66a, & 67-73. These are your total pmts		74	0.
Refund			
75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid		75	
76a Amount of line 75 you want refunded to you . If Form 8888 is attached, check here 76a <input type="checkbox"/>		76a	
b Routing number <input type="checkbox"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
d Account number <input type="checkbox"/>			
77 Amount of line 75 you want applied to your 2015 estimated tax 77 <input type="checkbox"/>		77	
78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions.		78	2,434.
79 Estimated tax penalty (see instructions)		79	
Third Party Designee			
Do you want to allow another person to discuss this return with the IRS (see instructions)? <input checked="" type="checkbox"/> Yes . Complete below. <input type="checkbox"/> No			
Designee's name <input type="checkbox"/>		Phone no. <input type="checkbox"/> (509) 725-3251	Personal identification number (PIN) <input type="checkbox"/>
Sign Here			
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
Your signature <input type="checkbox"/>		Date <input type="checkbox"/>	Your occupation <input type="checkbox"/> FARMER
Spouse's signature, if a joint return, both must sign <input type="checkbox"/>		Date <input type="checkbox"/>	Spouse's occupation <input type="checkbox"/>
First/Type preparer's name <input type="checkbox"/>		Preparer's signature <input type="checkbox"/>	Date <input type="checkbox"/>
Firm's name <input type="checkbox"/> LEFFEL OTIS & WARWICK, PS		Check <input type="checkbox"/> if self-employed	PTIN <input type="checkbox"/>
Firm's address <input type="checkbox"/> PO BOX 129		Firm's EIN <input type="checkbox"/> 91-1138438	Phone no. <input type="checkbox"/> (509) 725-3251
		Firm's address <input type="checkbox"/> DAVENPORT, WA 99122-0129	

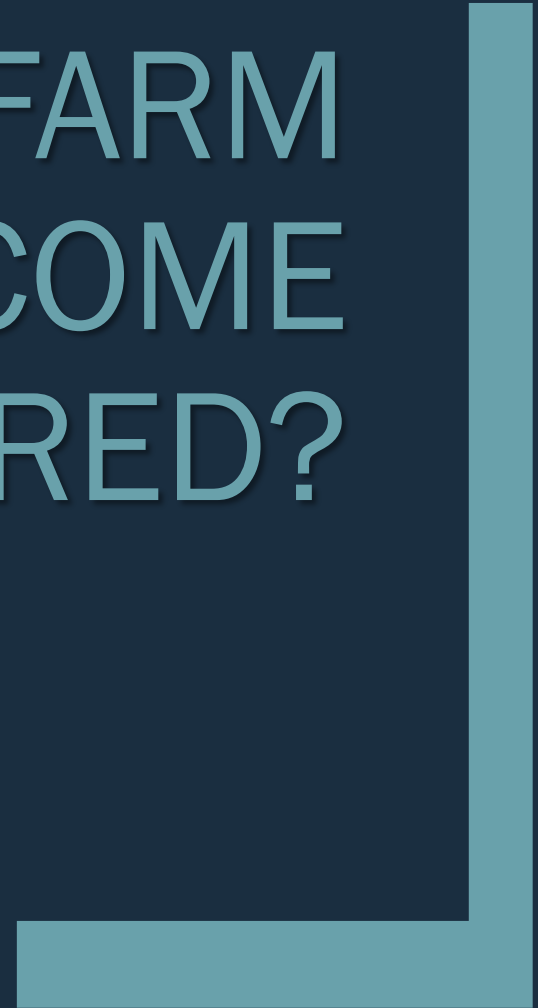
Self-employment tax is eliminated

Tax before re-org: \$28,324
 Tax after re-org: \$2,434
 Tax savings to Mom & Dad: \$25,890 !!

Other Benefits

- Operating farm is carved off separate for the son on the farm to run on his own, at some point.
- Land is in LLC, subject to various LLC agreements. The kids share in ownership but cannot “sell the ranch to the highest bidder.”
 - We can get cash as needed to Dad and Mom through cash lease and farm wages.
 - Farm will already be paying fringe benefits to them.
 - Dad and Mom will still control LLC and even the corporation, if they wish.

HOW DO FARM INTERESTS BECOME FRACTURED?

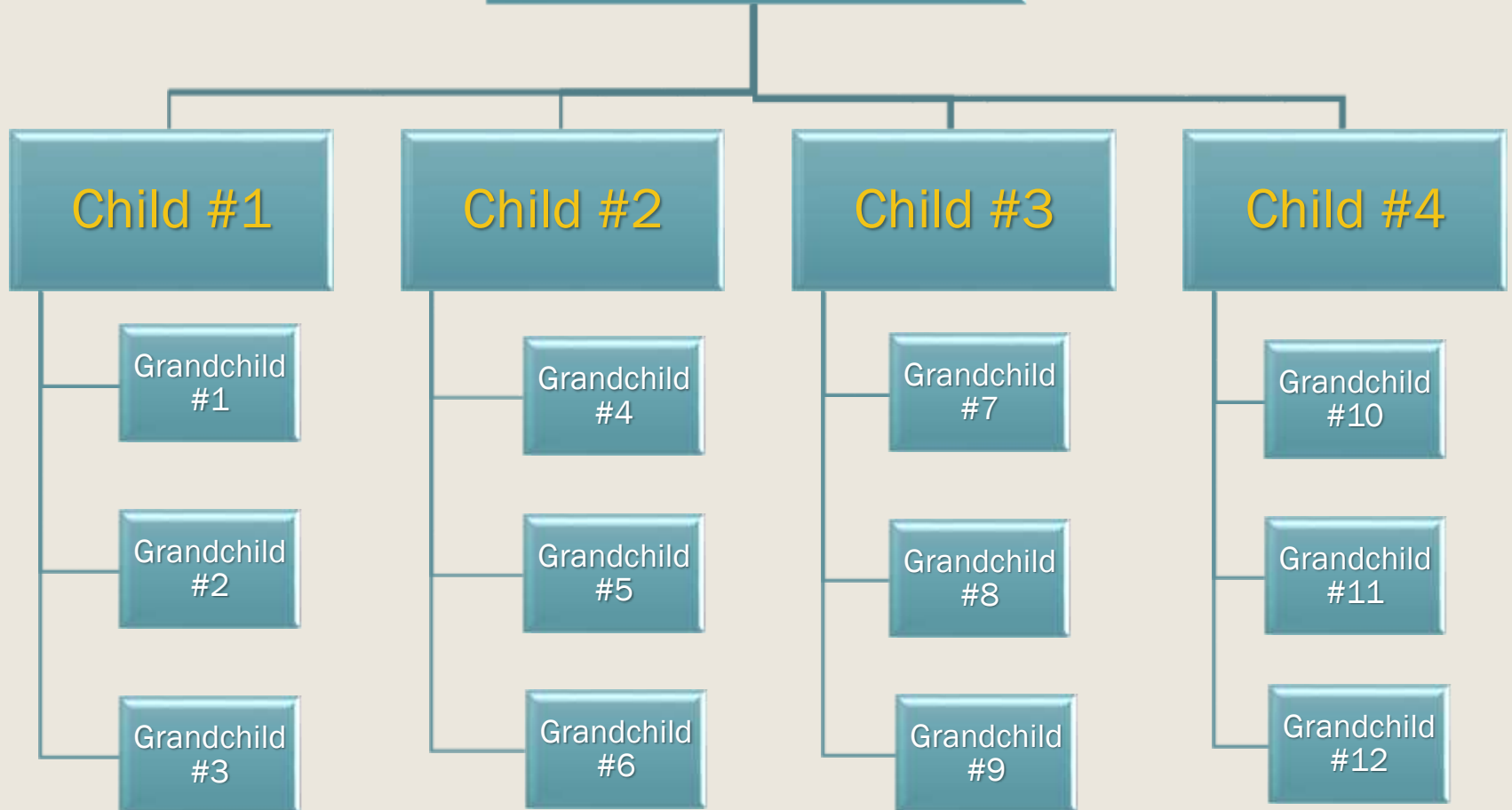


Basin Farms LLC

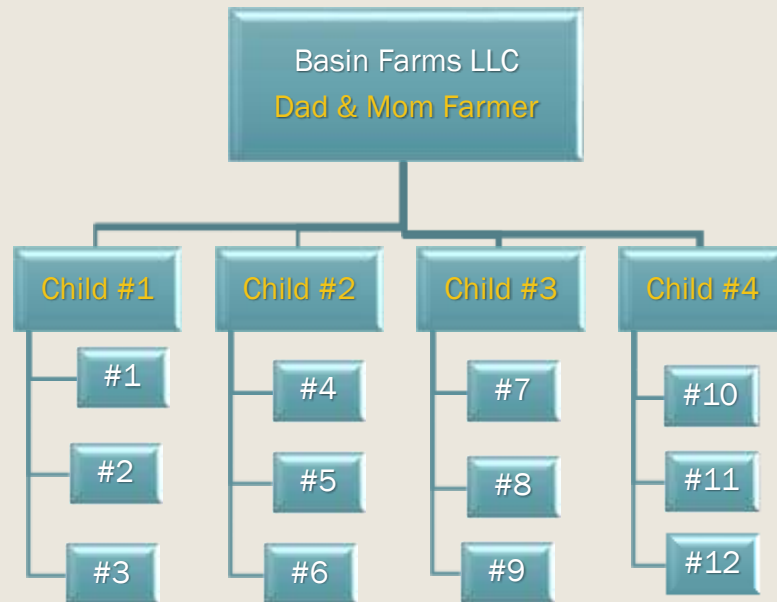
Landholding LLC

1,000 acres irrigated land

Dad & Mom Farmer



How Do Farms Become Fractured?



- 1) 1. Mom & Dad start the farm (2)
- 2) They have four children (4)
- 3) Each of them has 3 children (12 grandchildren)

Is This Good or Bad?



- This can present challenges when dividing up the estate
- One farmer and 11 landlords?
 - Fair is not always equal and equal is not always fair
- What options are available?
 - Leave farmland to farmer and other assets to non-farmer
 - Likely not enough assets to make an equitable split
 - Leave farm equally to children and let them figure it out
 - More likely to fight it out than figure it out
 - Build in a buy-out at an affordable price

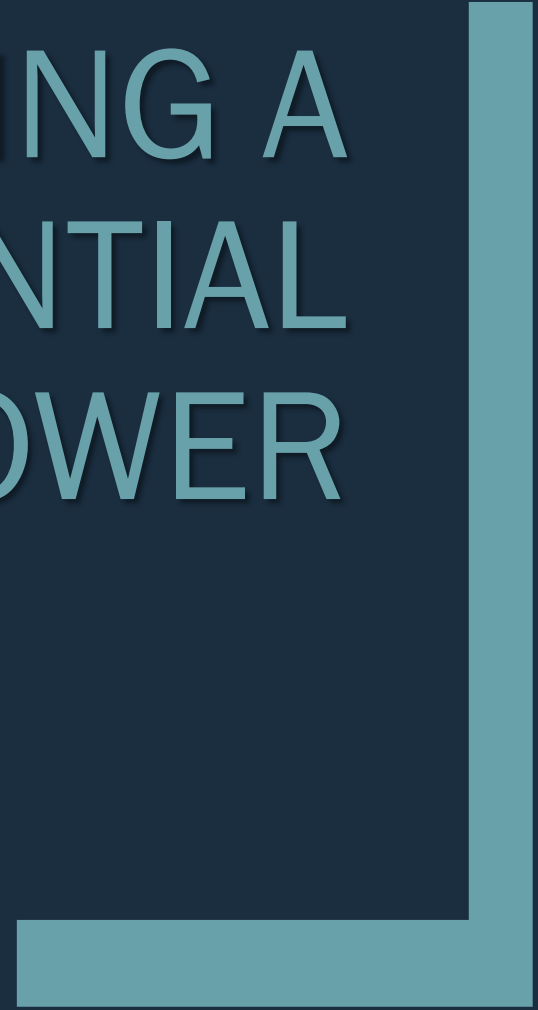
Example of an “Affordable Price”

	Per Acre
Safe “affordable” rental rate	\$400
Less: Property taxes	(30)
Less: Average cost for updates* *pumps, panels, mainline & pivots	(50)
Less: Insurance	<u>(5)</u>
Available for land payment	<u>\$315</u>

Other Considerations

- How much could I pay for land if:
 - I pay it off in 20 years
 - 5.75% interest
 - Payment of \$315 per acre?
 - *ANSWER: \$3,687.51*
- Most farmland would bring considerably more if sold outright
- How important is it for the land to stay in the family?
- Is it fair to encumber the land with a buy-sell agreement that restricts it to being sold to a family member at less than the Fair Market Value?

EVALUATING A POTENTIAL BORROWER



Primary Source Of Repayment: From Operating Profits

- Budgets are used to project repayment ability
- Also project peak borrowing needs
- Real benefit of the budget is the "forced thought process"
- Bankers like to see 10% margin on budgets

Secondary Source of Repayment: Collateral or Guarantees

- Look to net assets, equity, working capital, debt-assets ratio, etc.
- If the primary source of repayment fails, how will the bank get paid?
- Many farmers think, "I have a ton of equity, why do they not want to lend me money"?
 - Bankers no longer make "equity loans"
 - The 80's taught bankers that it was no fun forcing a farmer to sell his farm to repay a loan gone bad.

Other tools

- FSA guarantees
 - Reimburse lending institution for 90% of any loss sustained
 - Lenders may continue banking a marginal credit if they know the guarantee is in place
 - FSA guarantees may require additional fees and paperwork
 - May be worth it to reassure lender to "stick with you"
- Personal guarantee by family member
 - Family member be careful!

Other considerations

- History of the borrower
 - Why do they need the money?
 - Are they always “a day late and a dollar short”?
- Are they good managers?
 - Nothing wrong with financing growth or downturn in economy
 - No one wants to finance a mis-managed operation
- Confidence in the person
 - Are the borrowers “good people”?
 - Marginal ethics and a marginal loan do not often make for a good relationship

Other considerations (continued)

- Does the borrower have good records?
 - Do they know where they are and why they are there?
 - Do they have a realistic picture
 - Where they will be in the future
 - How they are going to get there?
- Communication with the banker
 - Good communication is reassuring to bankers
 - Surprises erode the confidence of bankers
 - Bankers are in essence partners in your operation
- Willingness to make difficult changes if necessary
 - Is borrower willing to “tighten their belt”?
 - Can they say no to large spending decisions?
 - Can they and their spouse limit personal spending?

NEW TAX BILL – CHANGES RELEVANT TO FARMERS



Section 179 Depreciation

- Section 179 permanently extended at \$500,000 level
 - Both new & used equipment
 - Phased out at \$2 million worth of purchases
 - Indexed for inflation

Bonus Depreciation

- Rates will change
 - Stays at 50% through 2017
 - Goes to 40% in 2018
 - Goes to 30% in 2019
 - Goes away in 2020
- Applies to new property only
- Applies to farm buildings

Other Issues

- Five year built-in gain period is made permanent
- Penalties
 - Penalty for failure to file informational return is now at the rate of \$500 per missed form
 - Penalty is increased to \$1,000 per form if it is intentional
- Small asset expensing increases from \$500 to \$2,500