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Cornhusker Economics

Agricultural Economics Department

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## Tax Planning Update for 2004

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# Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
University of Nebraska – Lincoln

## Tax Planning Update for 2004

Market Report	Yr Ago	4 Wks Ago	8/6/04
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$80.75	\$85.07	\$82.26
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	106.62	143.40	137.60
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	96.08	130.48	119.73
Choice Boxed Beef, 600-750 lb. Carcass	138.61	141.48	139.81
Western Corn Belt Base Hog Price Carcass, Negotiated	58.07	77.14	78.43
Feeder Pigs, National Direct 45 lbs, FOB	28.11	41.12	43.25
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	63.61	82.25	79.29
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	*	97.50	95.75
National Carcass Lamb Cutout, FOB	218.72	232.99	224.54
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Omaha, bu	3.56	3.64	3.35
Corn, No. 2, Yellow Omaha, bu	2.02	2.35	2.20
Soybeans, No. 1, Yellow Omaha, bu	5.24	9.35	5.70
Grain Sorghum, No. 2, Yellow Columbus, cwt	*	3.63	3.20
Oats, No. 2, Heavy Minneapolis, MN, bu	1.56	1.59	1.57
<b><u>Hay</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	112.50	115.00	115.00
Alfalfa, Large Rounds, Good Platte Valley, ton	70.00	62.50	62.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	71.25	57.50	57.50
* No market.			

Although there have not been many changes to the tax law this year, there are a few things to keep in mind with tax planning this fall. In the past couple of years we have seen major law changes with short-term lives. The major change affecting farmers this year is the end of the bonus depreciation allowances.

Many people have confused the two major changes to depreciation in the past few years. Initially, there was an allowance for a 30 percent Bonus Depreciation, where 30 percent of the cost of any new asset purchased was written off in the first year. There was no federal limit on how many dollars were written off in any one year.

In 2003, they expanded the 30 percent bonus to also include a 50 percent bonus. The 30 percent bonus was still available, but you could now write off 50 percent of the initial cost of a new asset.

Also with this law the existing Section 179 Expense Election was expanded. This law has been on the books since the 1980's and the only change it has seen in the past is an index for inflation. The 2003 law change jumped the limit from \$25,000 per year to \$100,000 per year. It also increased the total purchase limit from \$200,000 to \$400,000. This limit is the total amount of capital purchases made in one year, which reduces your 179 limit dollar for dollar, once it goes over the purchase limit.

These "extra" depreciation laws are completely separate, but many people don't understand the differences, and as they have been talked about by the media they get the two types Bonuses & 179 Election, confused.

The Bonus Elections, both the 30 percent and 50 percent, are set to expire December 31, 2004. This means that for taxpayers to take advantage of these bonuses they must have the asset purchased and available for use by the end of the calendar year. Fiscal year taxpayers can also take advantage of these, regardless of what tax year they are in, as long as the asset is placed in service by the end of the calendar year.

Another major difference between the Bonus Depreciation Elections and the Section 179 Election is that the bonuses are available for all taxpayers, where the 179 Election is only available for “businesses.” What does this mean for farmers? In a situation where a farm is organized as a corporation and the individual receives cash rent for the land he owns individually, the individual is not eligible for the 179 Expense Election. If the rental agreement calls for the individual to own the pivot then this may be a good year to purchase the pivot, if it can be “available for use” by December 31, 2004. If the rental agreement was set up as a crop share arrangement, the landlord would be eligible for the 179 Expense Election.

The increased Section 179 Expense Election is set to return to its “normal” level after December 31, 2005. The “normal” level is the original indexed level of \$25,000 per year. (The purchase limit will also go back to \$200,000 which has never been adjusted for inflation).

There has been legislation passed by the House of Representatives that will continue the expanded Section 179 limit for another two years. This has been confusing people who think they are extending the Bonus Depreciation Elections. I have not seen any intent to continue the Bonus Elections past the end of this year. The leaders of Congress have promised to focus on the tax legislation changes in September, which includes the extension of the 179 limit. The bill the House of Representatives passes is not very aggressive in tax law changes, and talk has been heard that if a final bill passes it will include much more than the extended 179 limit. Here are a few things we may see changed:

- ☛ The 2004 tax year is the last to see the relief of the “marriage tax penalty” until 2009. This penalty stems mostly from the standard deduction and income tax brackets being more than half for a single individual than that of a married couple.

- ☛ The expanded 10 percent tax bracket will also go back to its original level (\$2,000 drop for a married couple and \$1,000 for a single individual) after the 2004 tax year.

- ✓ *This amounts to \$100 in tax savings per married couple, \$50 for a single individual.*

- ☛ The Child Tax Credit will also be reduced from \$1,000 per child to \$700 per child. It is not set to return to \$1,000 until 2010.

- ✓ *This is a credit, so it would save a taxpayer \$300 per child in taxes.*

These accelerated depreciation amounts are fantastic planning tools, but there are a few considerations to keep in mind. 1) You have to make \$100,000 to expense \$100,000, but it may be a good way to liquidate some built up inventories, 2) You have to have the abilities, cash or financing to purchase these new assets, and 3) The State of Nebraska has limited both of the accelerated depreciation laws, and you won't see any benefit from State income tax.

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