

Tax Laws as they Relate to Breeding & Farm Operations

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- **Discussion items to include the following:**
- New Breeder Deduction
- IRS Audit Technique Guide
- Fuels Tax Credit
- Tax Deduction for Equipment
- Capital Gains versus Ordinary Income
- The Alternative Minimum Tax

New Horse Breeder Tax Deduction

- Congress recently passed the American Jobs Creation Act of 2004, which includes a deduction for income attributable to domestic production activities.
- You may be eligible for a deduction for a portion of your qualified production activities income attributable to domestic “manufacturing” activities.

New Horse Breeder Tax Deduction

- The deduction is equal to **three** percent of your income for tax years beginning in 2005 and 2006, **six** percent of your income for tax years beginning in 2007, 2008, and 2009 and for tax years beginning after 2009, the deduction is equal to **nine** percent.

New Horse Breeder Tax Deduction

- The deduction is limited to the lesser of (1) your qualified production activities income or (2) your taxable income for the tax year.
- You may also use the deduction for purposes of the alternative minimum tax (AMT).
- Other limitations may apply and not all states have adopted the deduction.

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Farm Use Fuel Tax Credit

- What is this?
- Dollar for Dollar reduction in your tax
- Who does it apply to?
- How do you calculate?

Farm Use Fuel Tax Credit

- A credit for the federal excise tax paid on gasoline, gasohol and aviation gasoline used on a farm for farming purposes may be claimed as a credit against tax liability on the tax return of a farm owner.
- The credit for Federal Tax Paid on Fuels for 2004 was 18.4 cents per gallon.

Farm Use Fuel Tax Credit

- This credit is a dollar for dollar reduction to your tax liability.
- For example, if you determine that your off-highway business use of gasoline OR use of gasoline on a farm for farming purposes is 5,000 gallons per year, your credit for federal tax paid on fuels would be **\$920**.

Tax deductions for Equipment

- New equipment purchases
- Accelerated depreciation write-off
- Watch the Alternative Minimum Tax

Tax Write-offs

- **Section 179 Tax Write-Off**
- For 2005, you may expense up to \$105,000 of capital expenditures. For 2004, it was \$102,000.
- A dollar for dollar limitation is placed on the 179 for amounts purchased above \$420,000 for 2005 and \$410,000 for 2004.

Tax Write-offs

- **Section 179 Tax Write-Off**
- What items qualify?
- Generally, Section 1245 property includes tangible personal property including livestock.

Cost Segregation Analysis

- Tax Savings for Barns, Stalls, new structures
- Faster tax write-off
- Larger tax deductions now – not later

Tax Write-offs

- **What is Cost segregation?**
- **Cost segregation** itemizes the hundreds or thousands of individual elements used in constructing a building and distinguish which elements may be considered to be section 1245 property and which elements are section 1250 property.

Tax Write-offs

- **What does Cost segregation accomplish?**
- By segregating “personal property” from “real property”, you take advantage of accelerated depreciation lives.
- For example, a seven-year asset distinguished from a 39-year building allows accelerated depreciation expense. And possible 179 benefit.

Capital Gains vs Ordinary Income

- Different tax rates
- How do I maximize the lower tax rates with my Horse operations?

Alternative Minimum Tax

- What is this “stealth tax”?
- Who does it apply to?
- How do you calculate?
- Why are so many taxpayers now paying this additional tax?

Other Tax Topics

- Retirement Plans
- Sales Taxes
- Buying Land
- Converting personal assets to business assets

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