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American Taxpayer Relief Act of 2012-Part 1

January 1st, 2013 brought a little snow to town, a lot of football games on TV and a significant change in tax law from Washington as a deal was finally reached to avoid the "Fiscal Cliff". There was so much talk about how the tax rates should look, many people didn't know how much else was involved in the bill. By the time we got through reading the bill, there were many surprises that weren't expected to be in the bill. We will work though the many provisions that apply most directly to agricultural producers' tax return.

Depreciation

For the past several years we've been dealing with two different types of accelerated depreciation methods.

Section 179

Section 179 allows for a first year write off of capital purchases up to an annual limit. Most assets purchased in farming business that have a life class of less than 20 years, whether they were new or used when you purchased it, will qualify for Section 179. You can choose any dollar amount, up to the annual purchase limit or the amount of earned income on your tax return. If your qualified purchases for the year, exceed the annual purchase limit, your annual expense limit is reduced $1 for $1 until it is used up. For example, if the annual expense limit is $500,000 and the annual purchase limit is $2,000,000 and you purchase $2,200,000 of qualifying assets, you annual expense limit is reduced to $300,000 ($500,000 - $200,000). If you exceed $2,500,000, your annual expense limit is reduced to zero.

Fall tax planning in 2012 was challenged by significantly lower planned limit of Section 179. The limit was going to be $139,000 with the amount dropping significantly again in 2013. This was a major change from the amount we had been used to spending in the previous years. The American Taxpayer Relief Act of 2012 replaced the 2012 and 2013 limits by extending the amounts from 2010 and 2011.

By making this law retroactive to include all 2012 tax returns, the tax planning we did prior to the law is now decidedly different for many producers who purchased a large amount of equipment in 2012. There are some options that can still be changed to take advantage of the larger Section 179 limit. Some producers may elect to just reduce their income further by taking the additional expense. Others may want to consider electing out of installment sale grain contracts to recognize additional income in 2012 to offset the extra expense. These contracts must be for grain delivered in 2012, but where a contract was made to defer the sale income until 2013. Be sure to check with your tax advisor to see if this option is available to you. The

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following chart shows the annual expense limit and purchase limit for Section 179 (as it now stands under the new law) for 2010 to 2014:

Year	Annual Expenses Limit	Annual Purchase Limit
2010	$500,000	$2,000,000
2011	$500,000	$2,000,000
2012	$500,000	$2,000,000
2013	$500,000	$2,000,000
2014	$33,000*	$200,000

*Annual Limit will be indexed for inflation.

Bonus depreciation

Bonus depreciation has been in and out of the tax law since 2001. It began at 30% and has sometimes been 50% or even 100%. Before the American Taxpayer Relief Act of 2012, there was 50% bonus depreciation available for 2012, but it was set to expire at the end of the year. The tax law has now extended it, at a 50% level for 2013.

Bonus depreciation is available for brand new assets only (you must have first use of the asset) with life classes of 20 years or less. This means most farm assets, that are brand new will qualify. This is a significant difference than the less than 20 years qualification for Section 179. Farm buildings have a 20 year life class. This means that while a machine shed or any multipurpose agricultural structure will qualify for bonus, it is not eligible for Section 179. Many producers who have considered putting up a building have taken advantage of this in the past several years, but the extension into 2013 gives those who haven't, one more opportunity to get it built before the end of the 2013.

One other significant difference between Section 179 and Bonus Depreciation is for fiscal year tax payers. Section 179 follows your fiscal year while Bonus Depreciation follows the calendar year. So if you have a fiscal year that starts April 1st, 2013 and end March 31st, 2014, you will have $500,000 of Section 179 to use for your 2013 tax return and you will have 50% bonus depreciation for only those assets that are purchased before December 31st, 2013.

If both Section 179 and Bonus are used on the same asset, Section 179 must be applied first and then the bonus percentage. Thus, a qualified asset with a $600,000 cost basis would only be allowed a total expense of $550,000 ($500,000 of Section 179 and 50% of the remaining $100,000 of bonus).