



Lesson 6.5: Special Tax Rules for Agriculture - Conservation



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Legal Disclaimer

This presentation is intended to provide general information on agricultural income tax issues and should not be construed as providing legal advice. It should not be cited or relied upon as legal authority. State laws vary and no attempt is made to discuss state specific laws. For advice about how these issues might apply to your individual situation, consult an attorney.



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Program Overview

1. Filing: Federal Income Tax Filing Requirements
2. Records: Recordkeeping Requirements
3. Taxes: Individual Federal Income Tax Return
4. Entities: Business Entities and Federal Tax
5. Agricultural Income: Special Rules
- 6. Special Tax Rules for Agriculture** <- We are here.



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Lesson 6 Overview - Special Tax Rules for Agriculture

- 6.1 USDA Payments
- 6.2 Debt Relief
- 6.3 Mixed Use Real Property
- 6.4 Value-Added Inventory
- 6.5 Conservation** <- We are here.
- 6.6 Catastrophe and Disasters
- 6.6.a Livestock Losses and Weather-Related Sales



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Annual Conservation Expenditures

- Conservation practices that are part of your normal annual farming practices are usually deducted as ordinary and necessary business expenses.
- Practices that are part of how you:
 - Increase annual soil fertility
 - Manage weeds and pests
 - Improve the quality of your product
 - Provide pasture or forage

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Conservation Expenditures for Assets

- Assets which are a key part of your normal farming operation and also a key part of a conservation strategy are treated like any other farm asset.
- Farm Example: You buy or build a hoop house and use it in your normal operations. Capitalize the cost (that means treat the hoop house as an asset) and take a depreciation deduction according to the usual rules for asset depreciation.
- Ranch Example: You cross-fence your property to improve pasture-management. Capitalize the cost (that means treat the fence as an asset) and take a depreciation deduction according to the usual rules for asset depreciation.

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Conservation Expenditures Not Directly Tied to Production

- A third type of conservation expenditures are those that are not directly related to producing crops or livestock. These include:
 - Soil or water conservation projects such as grading, terracing, planting trees as windbreaks, hedges, or grassed waterways, installing livestock ponds, or fencing off waterways.
 - Projects to create or enhance habitat, especially for rare, threatened or endangered species.

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Deducting Conservation Expenditures Not Directly Tied to Production

Taxpayers may elect to deduct as long as:

1. The land is used and was previously used in the business of farming or ranching.
2. Expenditures are to implement a plan approved by the USDA Natural Resources Conservation Service

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Deducting Conservation Expenditures Not Directly Tied to Production

- The deduction for each year is limited to 25% of gross income from farming and ranching for that year.
- Excess may be carried forward for future tax years until fully deducted.

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NRCS Payments to Cover Implementation Costs

See Lesson 6.1 for the tax treatment of the income from EQIP.

Expenditures to complete an EQIP-funded project are treated as discussed above:

1. As ordinary and necessary business expenses
2. As purchase costs for assets used in the ordinary course of business
3. As land improvements subject to deduction limitations (for conservation projects not directly tied to annual production practices).

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Other Conservation Payments

- USDA also makes other payments related to conservation practices. See Lesson 6.1 for a discussion of the tax treatment of those payments.

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Questions?
 Thank you!

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How do I learn more about federal income taxes and my farm or ranch?

- There are previous lessons in this series.
- For each lesson there is a short set of questions you can answer to help you decide if the training will be useful to you.
- You can access the questions and the trainings here:
- <https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php>
- Additional project resources are available here: <https://agftap.org>

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How do I learn more about federal income taxes and my farm or ranch?

IRS Publication 225, The Farmers Tax Guide
RuralTax.org
IRS website and publications

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