

6.5 Special Tax Rules for Agriculture - Conservation

	Slide Title		Discussion/Presenter's Script	Additional Discussion and Resources	Class Engagement and Additional Resources
1	Title Slide	Lesson 6.5: Special Tax Rules for Agriculture - Conservation	This training provides greater detail on the special tax treatment of conservation expenditures.		
2	LL.M. PROGRAM IN AGRICULTURAL AND FOOD LAW	<p>40+ years of leadership in agricultural and food law</p> <p>Nationally recognized faculty</p> <ul style="list-style-type: none"> • Specially designed courses • On-campus and distance options • For recent law graduates and experienced attorneys • Outreach and education for farms and food businesses through the Food and Ag Impact Project <p>Visit us at https://law.uark.edu/academics/llm-food-ag</p>			
3	Legal Disclaimer	This presentation is intended to provide general information on			

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		<p>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.</p>			
4	Funding	<p>This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA22CPT0012189.</p> <p>Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture.</p> <p>In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.</p>	<p>This project and materials created by Poppy Davis as part of the LL.M. Program in Agricultural and Food Law at the University of Arkansas School of Law is part of the Agricultural Financial, Tax and Asset Protection program.</p>		

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5	Program Overview	<ol style="list-style-type: none"> 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. 	<p>There were five lessons previously in this series.</p> <p>The sixth training covers special tax rules for agriculture.</p>		
6	Lesson 6 Overview – Special Tax Rules for Agriculture	<ol style="list-style-type: none"> 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 			
7	Annual Conservation Expenditures	<p>Conservation practices that are part of your normal annual farming practices are usually deducted as ordinary and necessary business expenses.</p> <p>Practices that are part of how you:</p> <p>Increase annual soil fertility</p> <p>Manage weeds and pests</p>	<p>For example, if you plant annual cover crops as part of your normal plan for soil fertility that may be considered a conservation practice, and those costs are part of your ordinary and necessary farming costs for the year.</p>		

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		<p>Improve the quality of your product</p> <p>Provide pasture or forage</p>			
8	Conservation Expenditures for Assets	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Assets which are integral to your ongoing farming or ranching operation and also part of a conservation strategy are treated like any other farm asset and depreciated according to the regular tax rules for depreciating assets.</p> <p>Using hoop houses and cross-fencing are both recognized by the USDA as conservation practices but there are no special requirements to report them as conservation practices when filing your income tax returns, because the practices are also integral to how you produce crops or livestock.</p>		<p>Is anyone using a conservation practice that is also directly related to how they produce crops or livestock?</p> <p>Are any of you working with the NRCS to develop and implement these practices?</p> <p>Have any of you used EQIP to help pay for these practices?</p>
9	Conservation Expenditures Not Directly Tied to Production	<p>A third type of conservation expenditures are those that are</p>	<p>These practices are designed to protect soil and water, prevent erosion and protect</p>		<p>Does anyone have conservation practices like</p>

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		<p>not directly related to producing crops or livestock. These include:</p> <p>Soil or water conservation projects such as grading, terracing, planting trees as windbreaks, hedges, or grassed waterways, installing livestock ponds, or fencing off waterways.</p> <p>Projects to create or enhance habitat, especially for rare, threatened or endangered species.</p>	<p>certain endangered species. So even though they are not part of annual production practices, they may ultimately improve the productive capacity of the land.</p>		<p>these on their operation?</p>
10	Deducting Conservation Expenditures Not Directly Tied to Production	<p>Taxpayers may elect to deduct as long as:</p> <ol style="list-style-type: none"> 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 	<p>Taxpayers may elect to deduct conservation costs not directly tied to production as long as:</p> <ol style="list-style-type: none"> 1. They are in the business of farming or ranching 2. The land was previously used for farming or ranching (so not land recently brought into production) 3. The conservation expenditures are to implement a conservation plan approved by the USDA Natural 	<p>See Pub 225 for additional guidance on this topic.</p> <p>The election to deduct is made by including the expenses on Schedule F. Once the election is made, it cannot be revoked without consent of the IRS.</p> <p>The deduction is limited to costs related to land used in farming. If the costs pertain to farmland and other land, an allocation will need to be made.</p>	

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			Resources Conservation Service		
11	Deducting Conservation Expenditures Not Directly Tied to Production	<p>The deduction for each year is limited to 25% of gross income from farming and ranching for that year.</p> <p>Excess may be carried forward for future tax years until fully deducted.</p>	Gross income from farming and ranching in this case includes gains from sales of breeding or dairy livestock or draft animals.		
12	NRCS Payments to Cover Implementation Costs	<p>See Lesson 6.1 for the tax treatment of the income from EQIP.</p> <p>Expenditures to complete an EQIP-funded project are treated as discussed above:</p> <ol style="list-style-type: none"> 1. As ordinary and necessary business expenses 2. As purchase costs for assets used in the ordinary course of business 	<p>If you participate in the NRCS EQIP program, you will receive income to compensate you for the cost of implementing an approved conservation practice.</p> <p>The income will be reported to you and the IRS on a Form 1099-G.</p> <p>Report the income on your Schedule F. You may be able to exclude a portion of the payment if you meet certain</p>		

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		<p>3. As land improvements subject to deduction limitations (for conservation projects not directly tied to annual production practices).</p>	<p>conditions. See Cost-Sharing Exclusion section of Publication 225, Farmer's Tax Guide.</p> <p>Be sure to deduct all the associated expenses according to the rules for ordinary and necessary business expenses, assets, and deducting conservation expenses not directly tied to production.</p>		
13	<p>Other Conservation Payments</p>	<p>USDA also makes other payments related to conservation practices. See Lesson 6.1 for a discussion of the tax treatment of those payments.</p>			
14	<p>Questions?</p> <p>Thank you!</p>				

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15	How do I learn more about federal income taxes and my farm or ranch?	<p>There are previous lessons in this series.</p> <p>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.</p> <p>You can access the questions and the trainings at: https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php</p> <p>Additional project resources are available here: https://agftap.org/</p>			
16	How do I learn more about federal income taxes and my farm or ranch?	<ul style="list-style-type: none"> • IRS Publication 225, The Farmers Tax Guide • RuralTax.org • IRS website and publications 			
17	(Final UARK and funder logos)				
18	(Space for presenter contact info)				

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