

Farm Taxes 2026

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Road Map

- Changes in Big, Beautiful Bill
 - New above-the-line deductions
 - Standard deduction vs. Itemizing?
 - Changes to Section 179
 - Return of bonus depreciation
 - Increase in estate tax exemption
- Strategies

How to Calculate Income Taxes Owed

- Gross Income
- **Less: Above-the-line tax deductions**
 - **Yields:** Adjusted gross income (AGI)
- **Less: Below-the-line deductions (or standard deduction)**
 - **Yields:** Taxable income
- **Multiplied** by *applicable income tax rate:* Tax burden
- **Less: Tax credits (if any)**
 - **Yields:** Actual income taxes owed

How to Calculate Income Taxes Owed: New Above-the-Line Deductions

(i.e., the deductions that
you can take even if you
itemize)

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Above-the-Line Deductions

- Retirement contributions (traditional only)
- Student loan interest
- Senior bonus deduction
- Charitable contributions (sometimes)
- HSA Contributions
- Business expenses
 - ½ of your self-employment tax
 - Home office tax deductions
- Alimony (now almost gone)
- Early withdrawal penalties
- Educator expense

ATL Deductions: Senior Bonus Deduction

- Colloquially, the 'no tax on Social Security'
 - Available to itemizers and standard deduction
- Previously, a tax deduction for taxpayers over 65 y/o:
 - Individual: \$1,000
 - Married: \$2,000
- Now, it *can be* increased by \$6,000/taxpayer*
 - Individual (2025-2028): \$7,000
 - Married (2025-2028): \$14,000
- But a 6% phaseout of only the increase occurs when modified adjusted gross income (MAGI) is over phaseout point
 - Individual: \$75,000
 - Married: \$150,000

***increases set to expire in 2029**

Effects of BBB on Charitable Giving, Starting in 2026

Standard Deduction

- Amounts of ATL deduction:
 - Individual: \$1,000
 - Married: \$2,000

Itemizers

- 0.5% AGI floor on charitable deductions
 - i.e., Only the amount of charitable giving that exceeds 0.5% of your AGI will be deductible

How to Calculate Income Taxes Owed: Taking the Standard Deduction vs. Itemizing

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Standard Deduction: What Changed?

	2025, before BBB	2026, before BBB	2025, after BBB	2026, after BBB
Individual	\$15,000	\$8,350	\$15,750	\$15,750 with inflation adjustment in future years
Married	\$30,000	\$16,700	\$31,500	\$31,500 with inflation adjustment in future years

***increase in standard deduction is permanent**

Common Itemized Deductions: Increase to SALT Deduction

- SALT: State and local tax deduction
 - Before BBB, \$10,000
 - Sunset of BBB in 2030 puts it back at \$10,000

Year	2025	2026	2027	2028	2029	2030
SALT Cap	\$40,000	\$40,400	\$40,804	\$41,212	\$41,624	\$10,000
Income Threshold	\$500,000	\$505,000	\$510,050	\$515,151	\$520,303	n/a

How to Calculate Income Taxes Owed: Tax Credits

- Gross Income
- Less: Above-the-line tax deductions
 - **Yields:** Adjusted gross income (AGI)
- **Less:** Below-the-line deductions (or standard deduction)
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- **Multiplied** by *applicable income tax rate:* Tax burden
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Child Tax Credit

- Increases to Child Tax Credit (for children under 17 y/o)
 - Before: \$2,000
 - Now: \$2,200
 - And indexed for inflation
 - Also increases the refundable amount to \$1,700
 - BUT: Earned income must be at least \$2,500 for refundable credit
 - Phaseout after certain income levels:
 - Individual: \$200,000
 - Married: \$400,000

To investments in assets...



Defining Basis, Adjusted Basis

- Basis: Amount of investment in property
- Adjusted basis usually calculated as:
 - Initial costs
 - Plus: Improvements
 - Plus: Labor costs related to improvements
 - Less: Depreciation
- Note: Adjusted basis not always (rarely) same as FMV

Section 179

- Typically, when you purchase a qualifying asset, you have a depreciation expense for a certain, IRS-specified number of years
 - Example: You purchase a vehicle, which has a usable life of 6 years, for \$60k. For each of the next six years, you get a \$10k deduction
- Section 179 allows businesses, like farms, to depreciate the full amount of a qualifying asset in the first year
 - Example: The same \$60k truck gets you a \$60k deduction in the year of the purchase.
 - Qualifying asset: Most tangible, personal property
 - Excludes:
 - General real estate (but not improvements to commercial land)
 - Multipurpose buildings

Section 179

Before & After Big, Beautiful Bill

	2025, before BBB	2025, after BBB
Maximum deduction	\$1,250,000	\$2,500,000, with inflation adjustment in future years
Maximum investment limit (phase-out occurs after this)	\$3,130,000	\$4,000,000, with inflation adjustment in future years

Bonus Depreciation

- For Section 179 property that has an IRS-specified useful life of 15-years or less, you can deduct an ***additional*** 100% of the asset's cost in the first year
 - Before BBB, it was 40% - and set to expire in 2027
- Bonus depreciation can be used alongside Section 179
 - Unlike Section 179, bonus depreciation can create a loss

Final Note on Section 179 & Bonus Depreciation

- Using Section 179 to fully depreciate an asset in the first year renders that asset's basis to be \$0 (in the eyes of the IRS)
- Two potential issues arise:
 - (1) Resale of asset = ordinary income
 - (2) Insurance proceeds on asset = ordinary income
 - i.e, income taxes in year of disaster
- So plan ahead!

To estate taxes...



“The estate tax is going to be the death of *me!*”

Terminology of Basis

- Basis: Amount of investment in property, as perceived by Internal Revenue Service (IRS)
- Amount in Basis (AB): The basis of the property that the IRS perceives you as having
 - Usually, just the AB of the property when you assumed control
 - Can be increased by improvements to property (e.g., an addition to your house)
- Amount Realized (AR): The amount that you receive for selling the property
- Gain/Loss: The difference between AB & AR
 - $\text{Gain/Loss} = \text{AR} - \text{AB}$
- Stepped-Up Basis: The basis that a beneficiary (e.g., heir) takes in property if received after death

Example of Basis: Buying a Property

- Mom & Dad buy a house for \$100,000.
- What is their amount in basis (AB)?
 - Amount in basis: \$100,000

Example of Basis: Selling the Same Property

- Mom & Dad sell the same house 20 years later for \$200,000 to Buyer (third-party, no relation to Mom & Dad).
- What is Mom & Dad's amount realized?
 - AR: \$200,000
- What is Mom & Dad's gain? Recall: $\text{Gain} = \text{AR} - \text{AB}$
 - \$100,000
 - $\text{Gain} (\$100,000) = \text{AR} (\$200,000) - \text{AB} (\$100,000)$
- What is Buyer's AB?
 - \$200,000

Example of Basis: Gifting to a Child

- Mom & Dad, wanting to downsize, decide to gift the house to Son. The fair market value of the house is \$200,000, but Son receives the house for free.
- What is the son's AB?
 - \$100,000
 - RULE: Son, as receiver of gift, takes the parent's AB
- If Son decides to sell the house five years later for \$250,000, what is Son's gain?
 - Gain (\$150,000) = AR (\$250,000) - AB (\$100,000)
 - Effect: Son gets capital gains taxes on \$150,000 of gain
- Capital Gains Taxes:
 - Short-term capital gains tax rates = ordinary income tax rates (10% - 37%)
 - Long-term capital gains tax rates = 0%, 15%, or 20%

Example of Basis: Inheritance for a Child

- Mom & Dad, via will, trust, or intestacy (no difference), decide to leave the house to Son after they both pass away. They pass away five years later, when house is worth \$250,000.
- What is the son's AB?
 - \$250,000
 - RULE: Son, as receiver of gift, takes the parent's house with AB equal to its fair market value
- If Son decides to sell the house after they pass away, what is Son's gain?
 - $\text{Gain } (\$0) = \text{AR } (\$250,000) - \text{AB } (\$250,000)$
 - Effect: Son gets no capital gains taxes

Estate Taxes

- Estate taxes are levied on value of decedent's gross estate over the exemption amount
- What is in gross estate?
 - Beneficial interests (i.e., what you have in trusts)
 - Ownership interests of real property
 - Measured at fair market value
 - Tangible personal property
 - Salary owed at death (including bonuses)
 - Accrued interest on investments
 - Insurance proceeds (includes certain life insurance policies)
 - Business interests (e.g., what you 'own' via LLC)
 - Gifts made within three years of death

Estate Tax Exemption: What Changed?

	2025, before BBB	2026, before BBB	2025, after BBB	2026, after BBB
Individual	\$13.99 million	\$7 million	\$15 million	\$15 million w/inflation adjustment
Married	\$27.98 million	\$14 million	\$30 million	\$30 million with inflation adjustment

Estate Tax Brackets

Taxable amount of estate (over exclusion amount)	Estate Tax owed
Between \$0 and \$10,000	\$0 plus 18% of amount over \$0
Between \$10,000 and \$20,000	\$1,800 plus 20% of amount over \$10,000
Between \$20,000 and \$40,000	\$3,800 plus 22% of amount over \$20,000
Between \$40,000 and \$60,000	\$8,200 plus 24% of amount over \$40,000
Between \$60,000 and \$80,000	\$13,000 plus 26% of amount over \$60,000
Between \$80,000 and \$100,000	\$18,200 plus 28% of amount over \$80,000
Between \$100,000 and \$150,000	\$23,800 plus 30% of amount over \$100,000
Between \$150,000 and \$250,000	\$38,800 plus 32% of amount over \$150,000
Between \$250,000 and \$500,000	\$70,800 plus 34% of amount over \$250,000
Between \$500,000 and \$750,000	\$155,800 plus 37% of amount over \$500,000
Between \$750,000 and \$1,000,000	\$248,300 plus 39% of amount over \$750,000
Over \$1,000,000	\$345,800 plus 40% of amount over \$1,000,000

To strategies...

Strategy: Employ your children!

- Realize:
 - Your children likely perform services of some type of the farm
 - It's possible to start as young as 6 or 7 years old
 - You are in a higher tax bracket than your children
 - i.e., you pay more in taxes per dollar than your child
 - Payroll is a tax deduction for your business
 - Regardless of the employee (excludes owners)
 - Gifting your children money is not a tax deduction, but paying them is a tax deduction
- So, employ your children, deduct their (reasonable) salary, and pay less in taxes

Strategy:

Succession Planning & Entity Selection

- Farms are typically 'lost' from the family due to two concerns:
 - Probate
 - Excessive liability
- Avoid probate with a revocable trust
- Avoid liability issues with one or more LLC's
- End goal:
 - You, as owner of farm, are trustee of a revocable trust.
 - The revocable trust owns an LLC.
 - The LLC owns the land.

Strategy: Business Use of Farm Vehicle

- Farmers may deduct up to 75% of their farm vehicle expenses as a qualified business expense *without business records needing to be substantiated*
 - Alternative: Mileage rate is \$0.70/mile

Takeaways

- Likely going to see a decrease in income taxes
 - Reason: Lower income tax rates, higher standard deduction, increases in other deductions
- Farmers who pay significant property taxes likely to itemize - this means tax planning is important!
 - Reason: Higher SALT cap → Taxpayer needs to itemize → More deductions from expenditures
- Certain investments in tangible personal property are incentivized
 - Reason: Return of bonus depreciation, increases to Section 179
- Most farmers unlikely to pay estate taxes
 - Reason: Higher estate tax exemption

Questions?

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