PKF O'CONNOR DAVIES
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Tax Notes

Farmers: Bonus Depreciation Rules for Tax Years 2023-2026

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Farmers play a crucial role in ensuring the overall economic well-being of our community. The government recognizes this fact and has placed great emphasis on ensuring farmers are given tax incentives specific to them. Bonus depreciation, which is available for all businesses, is one such incentive from which farmers benefit. For tax years 2023-2026, this incentive is inclusive of all farming industries, including those who have previously missed out on this accelerated depreciation benefit.

The Tax Cuts and Jobs Act (TCJA) has provided bonus depreciation as a benefit to businesses since 2017. Through January 1, 2023, the TCJA allowed for 100% bonus deprecation. Starting in 2023, this benefit has decreased to 80% and will drop as follows over the next several years:

- 60% for property placed in service in 2024
- 40% for property placed in service in 2025
- 20% for property placed in service in 2026
- 0% for property placed in service in 2027 and later years

As part of the TCJA, there are specific bonus depreciation rules relating to farmers that plant particular specified plants, such as fruits, nuts and vines as part of their everyday farming activity that will also expire in 2026. In this article, we will explain the provisions relating to bonus deprecation and explain how these provisions benefit all businesses, including farmers.

Understanding Bonus Depreciation

Depreciation is an accounting method that allows businesses to allocate the cost of an asset over its useful life. It factors normal wear and tear of an asset and helps businesses recover their investment over time. Businesses, including farmers, can deduct a significant portion of the asset's cost in the year of acquisition, rather than spreading it over several years. Below is a Q&A on key issues relating to depreciation, including specific rules for farmers.

When does depreciation begin and end?

The general rule states that depreciation begins when property is placed in service for use in a trade or business. For specified plants, such as fruits, nuts, or vines, the plant was considered placed in service only once the plant reached the income-producing stage. Depreciation ends when the cost or other basis of property is fully recovered over its useful life, or when the property is sold or retired from service, whichever happens first.

For tax years 2017-2026, specified plants that produce fruits, nuts and vines are considered placed in service when planted. This is a big change - under the standard rule, it could take up to three years for these trees and vines to be considered depreciable. Thus, not only is bonus depreciation available, the timing of when depreciation can begin is significantly accelerated for specified plants through 2026.

PKF O'Connor Davies Observation: Timing of investments could be key for farmers if the bonus depreciation rules as currently written lapse after 2026. Not only would bonus depreciation end for farmers (like other businesses), but the accelerated beginning of depreciation in the year of acquisition would be lost. Thus, plant life that is sown in 2026 can begin being depreciated (with a 20% bonus) in 2026; but a plant sown in 2027 may not be able to begin depreciation until 2029 or 2030 (whenever it reaches the income- producing stage).

How do farmers make the election to treat specified plants as "placed in service," allowing them to take bonus depreciation in the year of purchase?

Internal Revenue Code §168(k)(5), *Special Rules for Certain Plants Bearing Fruits and Nuts*, is the code section that allows farmers to treat specified plants as being placed in service upon purchase. To make the election, farmers should attach a statement to the timely-filed tax return indicating they are electing to apply this code section. Farmers should also identify the specified plants for which they are making the election.

Looking Ahead

Farmers can now benefit by accelerating depreciation through tax year 2026. While full bonus depreciation has expired, taking 80% of bonus depreciation in 2023 is still very advantageous, as is the acceleration of when depreciation can begin. Farmers who take advantage of this will have an increased cash flow and a reduced overall tax liability. Knowing these provisions are available also provides a great incentive to purchase more equipment to keep up with modernized and competitive technology.

Contact Us

If you have any questions on bonus depreciation for farmers, contact your client service engagement partner or:

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