



Farm Depreciable Asset Valuations

Calculate Your I.R.C. Sections 179 & 180 Tax Savings

Depreciation is an accounting method used to calculate decreases in the value of tangible and fixed assets. By tracking the decrease in value, depreciation lowers taxable income which is ultimately used to calculate tax expense.

Example: A married couple filing a joint tax return with \$200,000 in taxable income purchases or inherits a 100 acre farm with \$600 per acre in residual soil fertility and \$500 per acre in existing drain tile for a combined \$110,000 in depreciable assets.

- **Not Using I.R.C. Sections 179 & 180:** The couple's taxable income would remain at \$200,000. They would owe approximately \$34,800 in Federal Tax and \$9,500 in Illinois State Tax (**flat tax rate of 4.75%**) for a total tax liability of approximately \$44,300.
- **Using I.R.C. Sections 179 & 180:** A standard practice for depreciating residual soil fertility and drain tile is 60% of the total value in Year 1, 30% in Year 2, and 10% in Year 3. Applying this practice, the couple's taxable income in **Year 1** would be reduced to **\$134,000**, lowering their tax liability to approximately **\$26,360**. **Year 2** of depreciation would lower their taxable income to **\$167,000**, and reduce their tax liability to approximately **\$35,290**. **Year 3** of depreciation would lower their taxable income to **\$189,000**, and reduce their tax liability to approximately **\$41,175**.

Year 1: Tax without Depreciation \$44,300 vs. Tax with Depreciation \$26,360 = **\$17,940 tax savings**

Year 2: Tax without Depreciation \$44,300 vs. Tax with Depreciation \$35,290 = **\$ 9,010 tax savings**

Year 3: Tax without Depreciation \$44,300 vs. Tax with Depreciation \$41,175 = **\$ 3,125 tax savings**

Estimated Total Tax Savings: **\$30,075 tax savings**

2023 Federal Income Tax Brackets				
Married Filing Jointly				
Tax Rate	Income From	Income Up To	Portion Taxed at Tax Rate	Tax
10%	\$ -	\$ 22,000.00	\$ 22,000.00	\$ 2,200.00
12%	\$ 22,001.00	\$ 89,450.00	\$ 67,449.00	\$ 8,093.88
22%	\$ 89,451.00	\$ 190,750.00	\$ 101,299.00	\$ 22,285.78
24%	\$ 190,751.00	\$ 364,200.00	\$ 173,449.00	\$ 41,627.76
32%	\$ 364,201.00	\$ 462,500.00	\$ 98,299.00	\$ 31,455.68
35%	\$ 462,501.00	\$ 693,750.00	\$ 231,249.00	\$ 80,937.15
37%	\$ 693,750.00	and up		

The information above is merely an example and should not be considered legal or accounting advice. There are a number of factors that influence tax liability, and you should always consult with your accountant or tax professional before making any decisions.

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