Reducing the Tax Bite in 2010
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Legislation passed by Congress and signed by the President on September 27, 2010 will reduce the tax bite for many farmers this year. Three of the provisions of the Small Business Jobs Act of 2010 (SBJA) may have a major impact on small businesses including farmers. All three affect the amount of self-employment tax liability for 2010.

Self-Employed Health Insurance

The first provision allows the health insurance premiums paid by self-employed individuals for themselves and their families to be deductible on Schedule F. In the past, the premiums were deductible, but were claimed on the front of the tax return rather than on the farm schedule. Therefore, they did not reduce self-employment (SE) income. An Illinois farm couple with two children can easily pay $1,500 per month for health insurance. Under the new law for 2010, this taxpayer’s net Schedule F income is reduced by $18,000. This reduces the SE tax by $2,543.

*Note. This provision applies only to the 2010 tax return.*

There was another change to the health insurance deduction this year. The Patient Protection and Affordable Care Act (Health Care Bill) allows a parent to deduct the amount they pay for health insurance for their child until they reach the age of 27. Payments must be made on or after March 30, 2010. Therefore, if the parent pays the premium, the cost will also reduce the net farm income. This provision does not have any expiration date, but the deduction from SE income is only for 2010.

Section 179 Expensing Election

Congress has once again increased the IRC §179 expensing election. Instead of a maximum deduction of $250,000, Congress has increased the deduction to a maximum of $500,000 for tax years beginning in 2010 and 2011 only. The deduction is reduced if qualifying purchases exceed $2 million.

Farm equipment and all of the other assets that qualified for the deduction in the past continue to qualify. SBJA also added three new categories for 2010 and 2011. Two of the new categories do not apply to a farm return; however, one may be applicable.

The expensing election now applies to qualified leasehold improvement property. This is any improvement to an interior portion of a building which is nonresidential real property. The improvement can be made by either the lessee or the lessor to the portion
of the property included in the lease. The portion must be occupied exclusively by the lessee. The improvement will only qualify if the property has been in service more than three years. Certain improvements do not qualify, such as an enlargement of the building, a structural component benefitting a common area, and an expense attributable to the internal structural framework of the building. In addition, the lease cannot be with a related party.

While the §179 maximum deduction is $500,000, the maximum deduction for the qualified leasehold improvements is limited to $250,000.

50% Bonus Depreciation

The 50% bonus depreciation deduction for qualifying property was set to expire at the end of 2009. However, SBJA extended the deduction for 2010. The qualifying property must be placed into service before January 1, 2011. No change was made to the property qualifying for the 50% bonus.