New tax bills and higher incomes for 2010 make now the time for Nebraska farmers to start thinking about year-end tax planning, says the Nebraska Farm Business Inc. director.

“Three major tax bills came out this year, including the Health Care Reform Bill and the jobs bill,” said Tina Barrett, director, Nebraska Farm Business Inc.

When it comes to the health care bill, many changes will take effect in later years, but there is a health insurance credit farmers and ranchers can take advantage of this year. They can get up to a 35% credit on health insurance they pay for employees.

“It is very complicated, so be sure to ask your tax preparer about it,” she said. “In addition, there is still a question on whether or not a spouse as an employee counts, so be sure to bring that up with your tax preparer as well.”

The new jobs bill allows farmers and ranchers to get a credit for workers who worked fewer than 40 hours in 60 days.

“So if you had a summer student worker, for example, this is a chance to get credit,” she said.

Farmers and ranchers also can take advantage of a rate change with the Domestic Production Activities Deduction. This deduction is limited to 50% of wages a farmer or rancher pays, or 9% of farm income, whichever is less. This previous limit was 6%.

“This could be fairly significant, and you don’t have to do anything but make money and pay wages. Wages paid to family workers also are included,” she said.

When it comes to depreciation, the jobs bill increased the Section 179 expense limit to $500,000 of capital purchases in the year they were bought compared to $250,000 last year.

It also increased the purchase limit to $2 million. Previously it was $800,000. Both these limits will extend into 2011 as well.

The 50% bonus depreciation also is back and in place for 2010 only. This means any brand new asset with a life class of 20 years or less can use a 50% bonus and write off half of it this year.

“The flexibility we have this year with depreciation is wide open,” she said.

When it comes to tax planning, it is important to think about when to take income for cash basis taxpayers, Barrett said.

For tax planning this fall, there are higher grain prices as well as potential tax changes coming for 2011 with the expected expiration of the Bush-era tax cuts.

With these two factors, planning for 2010 needs to include a look at the income potential for 2011. The way the law is written right now, farmers and ranchers will be facing significant increases in the tax rates in 2011.

Some tax brackets will change; for example, the 15% tax bracket ends at $69,700 this year, next year it will go to $58,000. The 10% tax bracket will be eliminated and the 35% bracket is moving to 39%.

“If you had high income this year, now may be the time to recognize that instead of waiting until next year,” she said.