Tax Outlook

A Narrow Window, Little Consensus Suggest Status Quo in Tax Policy

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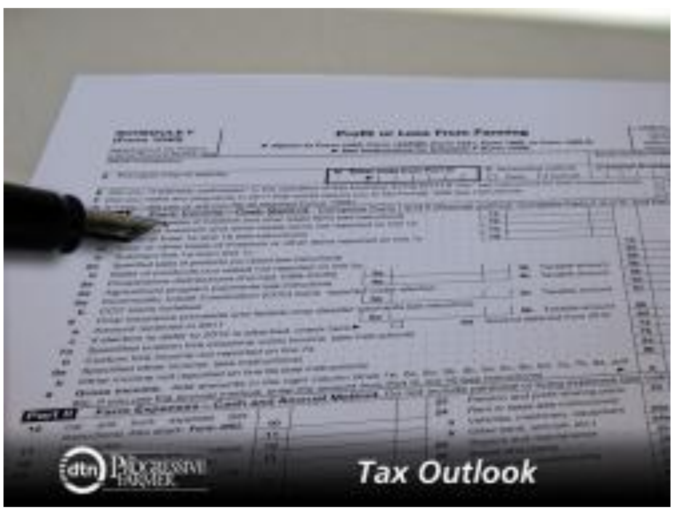
OMAHA (DTN) -- Tax reform is the Holy Grail of Capitol Hill. It's practically unattainable, but that doesn't keep a lot of people from searching for it.



While there may be little movement by politicians to reform tax policy, farmers need to be prepared for more paperwork and possible penalties. (DTN photo by Nick Scalise)

Politicians are talking about tax reform again this year in Washington. That talk, however, largely has been past each other. President Barack Obama suggested some changes that were immediately derided, while Congressional leaders offered other reform possibilities that the president's team disdains.

Thus, Roger McEowen, director of the Iowa State University Center for Agricultural Law and Taxation, sees little actually coming from this year's talk of tax reform. He sees the Obama administration blocking every effort that may come from Congress.

"He's not going to do anything. He's going to block everything until then.

That's my take. I think you will see a lot of action in the House and the Senate, but he will block it."

Katie Vlietstra, vice president for government relations and public affairs for the National Association for the Self-Employed, also is largely pessimistic about tax reform. "There's just a fundamental challenge in how Republicans in Congress will address tax reform and what President Obama would consider signing into law," Vlietstra said.

Vlietstra said too many in Washington want to knock out tax reform in one giant grand compromise that always appears elusive. Smaller, piecemeal provisions might be more viable.

McEowen said it has become increasingly difficult for farmers and other small-business people to plan a tax strategy. Over the past few years, Congress has increasingly delayed dealing with any tax policy until the very end of the year. Then the solutions are short-term extensions or retroactive provisions, as was the case when Congress passed a spate of business tax breaks two months ago that solely dealt with 2014.

"We have been stuck in this pattern for a number of years," McEowen said. "I think farmers have gotten conditioned to think that (Section) 179 is going to be at that $500,000, so we are going to go make our purchases on that belief and Congress is going to bail us out late in the year or after the fact. So far that strategy has worked. It's dangerous and not everybody is doing it, but so far it has worked."

Farmers and other small businesses are now accustomed to being allowed to deduct up to $500,000 in major equipment purchases as well as take 50% bonus depreciation on the rest of their machinery or equipment buys. Again, Congress opted to renew those provisions in December, but only for 2014. Businesses are once again back at the starting point, requesting Congress renew those equipment write-offs for 2015. One business group has the website section179.org to again ask Congress to keep the $500,000 level on those deductions.

McEowen sees little hope of Congress and the administration coming together to adopt longer-term policies, let alone actually reaching an agreement on tax reforms.

"I frankly don't see the pattern changing," McEowen said. He added, "I just think they are jammed up again."

The president's plan -- rolled out before the State of the Union address -- would increase capital-gains rates and eliminate the stepped-up basis. Wealthier Americans, including farmers, spit out their morning coffee when they heard about it, but a capital-gains hike already appears to be "dead-on-arrival" in Congress. Still, Senate Finance Committee Chairman Orrin Hatch, R-Utah, told a group of tax attorneys and business people last week he thinks the president might agree to some changes in business taxes.

"Members of both parties have expressed their support for a tax overhaul.

And, I believe there is real momentum to get something done on tax reform this year, if we remain committed. And, believe me, I'm committed," Hatch said in a Reuters article Jan. 23.

PLAN B: RENEW TAX CREDITS

Without a grand plan, Sen. Charles Grassley, R-Iowa, said Plan B would essentially be to again go back to a short-term renewal of 50 or so tax provisions that continue to sunset at the end of each year. Those would include the business write-offs as well as tax breaks for biofuels, wind and solar power.

"You almost have to have a scenario where everything drops through, and then you have to go back to the question you asked about, which is tax extenders," Grassley said. "I think that's a scenario that's realistic right now.

For the National Association for the Self-Employed, any simplification of itemization or deductions for small businesses would be helpful. Shoring up language on independent contractors would help. Allowing business owners to be classified as employees would also translate into tax savings. Moreover, the group wants to change the IRS rule on Health Reimbursement Arrangements (HRA) that now prevents reimbursement to employees for buying health insurance. The new rule actually means small businesses that are otherwise excluded from employer mandates could still be hit with a $100-a-day excise tax per employee -- that's $36,500 a year, one of the stiffest penalties under the law.

"At this point we've advised our members not to participate in an HRA program," Vlietstra said. Vlietstra has corresponded with lawmakers from both parties who are concerned about how the HRA provision will hit farmers. "It's a philosophical decision by the administration to eliminate HRAs, and it's another unacceptable fate that we are fighting."

Tax reform also comes with the narrowest window of opportunity. Grassley said he thinks presidential politics would begin to overwhelm any tax reform effort after Labor Day.

That short timeframe comes after former House Ways and Means Chairman Dave Camp, R-Mich., spent three years working on a tax plan that garnered very little support, despite cutting corporate rates and attempting to simplify tax law. Camp ended up retiring from Congress last year.

"He spent almost four years moving in a very thoughtful and methodical way at tax reform and it just didn't go anywhere," Vlietstra said.

FILING TAXES IN 2015

For tax season, the Affordable Care Act, or "Obamacare," changes the landscape for filing income taxes. There are more forms and penalties for everything.

For the Average Joe who works for an employer providing health insurance coverage, their W-2 will identify their health insurance and they then largely avoid the headaches.

Farmers who did not enroll in a health-insurance program for 2014 could face a higher penalty than they realized. The penalty is called the "shared responsibility payment." The law requires a shared responsibility payment that is either $95 per uninsured adult in the household, ($47.50 for children under 18) or 1% of household income after adjustments. For example, a farm couple with two children with a household income of $70,000 would subtract their tax-filing threshold of $20,300. That $49,700 left over translates into a penalty of $497. That's higher than the flat fee, which would be $285 for that family.

That shared responsibility payment penalty increases to 2% of household income in 2015 and 2.5% in 2015.

Moreover, farmers who did buy insurance through the marketplace will also need to file a new form, a 1095-A form that will be issued by the Health Insurance Marketplace. That 1095-A form will be needed to fill out Form 8962, the Premium Tax Credit. Form 8962 will be used to determine whether taxpayers get a premium credit, how much it may be or if the taxpayer may have to pay back some of the Premium Tax Credit they receive in advance when they enrolled for insurance. People who earn above 400% of the federal poverty level -- $95,400 for a family of four -- do not get the tax credit. Thus, they could be hit with a penalty if they took that credit in advance.

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