ROB BALLINGER

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TYPES OF LANDS THAT QUALIFY
Cropland, grassland

TYPE OF PROGRAM
Incentive

MONETARY BENEFIT
Tax deduction

Federal Soil & Water Tax Deduction

To assist with the cost of practices that improve soil and water quality on agricultural lands, the Internal Revenue Service (IRS) allows voluntary deductions for certain expenses for soil and water conservation or erosion prevention on farmlands.

ELIGIBILITY

A landowner in the business of farming is eligible for this tax deduction.

According to the IRS, a person is considered a farmer if that person cultivates, operates, or manages a farm for profit, either as owner or tenant. A person is not considered a farmer if they farm for recreation or pleasure and not for profit. Also, forestry and the growing of trees are not considered farming by the IRS.

The IRS defines a farm as including stock, dairy, poultry, fish, fruit, and truck farms. Plantations, ranches, ranges, and orchards are also included. Also, according to the IRS, a plant nursery is a farm for the purposes of deducting soil and water conservation expenses.

The IRS allows for the deduction of soil and water conservation practices only if they are consistent with a plan approved by the Natural Resources Conservation Service (NRCS). A plan from a comparable state agency can be used if the farmer does not have a plan from the NRCS. Individual site plans and county plans can be obtained by contacting your local NRCS office.

QUALIFYING COSTS

A person cannot deduct expenses for soil and water conservation for draining or filling a wetland or for preparing land for center pivot irrigation systems.

In some cases, landowners have levied an assessment for soil and water conservation practices conducted by the area soil and water or drainage district. These expenses are also deductible as a conservation expense; if they cover expenses, you could deduct if you had paid them directly or covers expenses for depreciable property used in the district's business. Types of depreciable property include pumps, locks, concrete structures (dams and weir gates), track hoes, and similar equipment.

The IRS does not allow deductions for ordinary and necessary expenses such as interest and taxes, the cost of periodically clearing brush from productive land, the annual removal of sediment from drainage ditches, and other expenses paid or incurred to produce an agricultural crop.

Expenses that a farmer incurs for soil and water conservation are deductible only for lands owned by the farmer or tenant using the land for farming. The expenses that qualify for deduction include

- treatment or movement of the earth such as
  - leveling
  - conditioning
  - grading
  - terracing
  - contour furrowing
  - restoration of soil fertility
- construction, control, and protection of
  - diversion channels
  - drainage ditches
  - irrigation ditches
  - earthen dams
- watercourses, outlets, and ponds

FEDERAL SOIL & WATER CONSERVATION TAX DEDUCTION EXAMPLE

A landowner has a 200-acre tract of pasture land that has experienced erosion. The landowner would like to plant upland hardwoods on 100 acres. Chemical and mechanical site preparation are also needed on the tract due to years of compaction by cattle before upland hardwood planting can occur at 10' x 10' spacing between trees. Of the 100-acre tract, 5 acres were left out of the planting on the most level ground for a supplemental food plot.

Costs

The costs for chemical site preparation is $38.34/acre, mechanical site preparation is $128.29/acre, and the seedling cost is $0.35 per seedling. On 95 acres, at 10' x 10' tree spacing, or 435 trees/acre, the planting will require 41,325 seedlings.

Sample Calculation

$38.34/acre × 95 acres = $3,642.30
$128.29/acre × 95 acres = $12,187.55
$0.35 per seedling × 41,325 seedlings = $14,463.75

Total soil and water conservation costs = $30,293.60

Tax Deduction = $30,293.60

Approximate Cash Value of Deduction
(assuming a 40% tax bracket) = $12,117.44

The Mississippi Land Trust works with willing private landowners and government agencies to protect fish and wildlife habitat in Mississippi.
P.O. Box 23 | Stoneville, MS 38776
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The Mississippi River Trust works with willing private landowners and government agencies to protect fish and wildlife habitat in the Lower Mississippi River region.
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Wildlife Mississippi works with willing private landowners and government agencies to conserve fish and wildlife habitat in Mississippi.
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