Alabama Irrigation Tax Credit

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Beginning with the 2012 tax year Alabama farmers will be allowed a state income tax credit on the purchase and installation of qualified irrigation equipment, qualified reservoirs, or the conversion of irrigation equipment from fuel to electricity. The credit is 20% of the unreimbursed cost not to exceed $10,000. This credit is an Alabama income tax credit only. It does not affect Federal income tax or Self-employment tax (SE tax).

To qualify for this credit you must be an Alabama tax payer that is an agricultural business that qualifies under the North American Industry Classification System (NAICS) sector 11 designation, and the activity must conform to existing environmental and water laws of Alabama. Qualifying property for this credit includes the following:

- **Qualified Reservoirs**
  - An off stream upland pond or lake whose sole purpose is as a source of water for irrigation.

- **Qualified Irrigation Equipment**
  - Equipment used in irrigation systems, including equipment used to construct irrigation systems and water wells.
    - Pivots, pumps, pipe, wells, electrical equipment, etc.

- **Conversion of irrigation equipment from fuel to electricity**

This credit is for tax years beginning after December 31, 2011 and can only be taken in the year the system has been placed in service. The placed in service date is the date the property is ready and available for specific use. It is not necessarily the date it is first used. A taxpayer is only allowed to take this credit one time. It is a nonrefundable credit and can only be applied in the year in which the equipment is placed in service, which means it cannot be carried back or forward. Also this credit allows you to take Section 179 expense or bonus depreciation on an item and claim the credit in addition.

The following example demonstrates how this tax credit may affect a typical farm family. John owns a 1,000 acre row crop farm. He is married to Jane who is a teacher. They file a married
filing joint tax return. Jane receives W2 wages in the amount of $50,000 and they have interest income in the amount of $2,500. John has Schedule F earnings before depreciation in the amount of $100,000. His prior year’s depreciation is $65,000 and his 2012 capital purchases include a $35,000 planter, a $70,000 tractor, a $50,000 well for irrigation and a $100,000 center pivot. If John does not elect any state Section 179 expense or bonus depreciation their Alabama taxable income for 2012 is $54,462 and their state tax liability equals $2,683. John qualifies for the maximum irrigation tax credit of $10,000 ($150,000 x 20% = $30,000), but since this credit is nonrefundable and can’t be carried forward he is only allowed to offset his 2012 tax liability of $2,683, so his irrigation tax credit is $2,683.

To maximize this credit they would need an Alabama taxable income of $200,000, and assuming their W2 wages and interest income remain the same John’s state Schedule F would have to show net earnings of $228,000 to take full advantage of the credit.

Since everyone’s tax situation is different, you should meet with your individual tax preparer before the end of the year so you have time to develop a plan that best addresses your individual tax situation.

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