

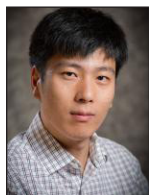
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Commodity prices and higher interest rates drive modest farmland value loss

By Wendong Zhang, extension economist, 515-294-2536, wdzhang@iastate.edu

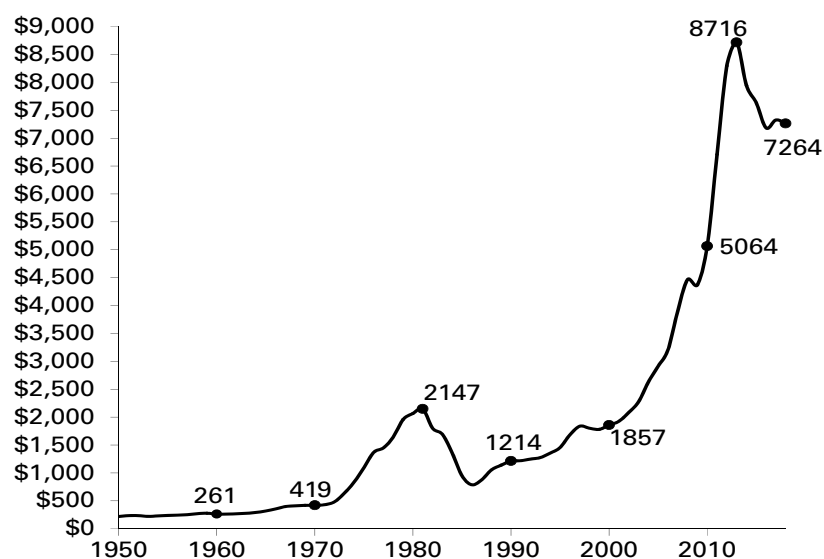
After a reprieve in 2017, commodity prices, interest rates, and trade disruptions drove Iowa farmland values down for the fourth time in five years. The average statewide value of an acre of farmland is now estimated to be \$7,264 (Figure 1). This represents a decrease of 0.8 percent, or \$62 per acre, from the 2017 estimate.

Land values were determined by the 2018 Iowa State University Land Value Survey, which was conducted in November by the Center for Agricultural and Rural Development (CARD) at Iowa State University and Iowa State University Extension and Outreach. Results from the survey are consistent with results by the Federal Reserve

Bank of Chicago, the REALTORS Land Institute, and the U.S. Department of Agriculture. Dr. Wendong Zhang, Assistant

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Figure 1. Average value per acre of Iowa farmland



Source: Iowa State University Land Value Survey

Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Grain Storage Alternatives: An Economic Comparison – A2-35
(7 pages)

2018 Farmland Value Survey – C2-70 (8 pages)

Please add these files to your handbook and remove the out-of-date material.

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Professor of Economics at Iowa State University, led the annual survey.

The \$7,264 per acre estimate, and 0.8 percent decrease in value, represents a statewide average of low-, medium-, and high-quality farmland. The survey also reports values for each land quality type, crop reporting district (district hereafter), and all 99 counties individually.

Farmland values hit an historic peak of \$8,716 per acre in 2013 (Table 1); however, they immediately declined by 8.9 percent, 3.9 percent, and 5.9 percent, respectively, the following three years. Farmland owners received a small reprieve in 2017 when the statewide average increased two percent. While modest when compared to 2014, 2015, and 2016, 2018 marks the fourth time in five years that statewide average farmland values have declined. In nominal value, the statewide average for an acre of farmland has fallen 17 percent since 2013.

Commodity prices were one of the biggest factors driving down farmland values this year. Lower commodity prices, in part due to the recent trade disruptions, were cited as the most significant negative factor driving down land values. Despite the downturns, farmers don't need to worry about a sudden collapse of the U.S. agricultural sector similar to the 1980s farm crisis. Limited land supply and strong demand by farmers still seems to hold up the land market. For five consecutive years, survey respondents have reported fewer sales than the year before, and the ag economy is still robust with 82 percent of the land in Iowa fully paid for.

Land values by county

Seventy of Iowa's 99 counties reported lower land values, the remaining 29 reported higher values. For the sixth year in a row, Scott and Decatur counties reported the highest and lowest farmland values, respectively. Decatur County reported a value per acre of \$3,488, a gain of \$8, or about 0.2 percent, from last year's report. Scott County reported a value of \$10,537, an increase of \$40 per acre, or about 0.4 percent.

Hamilton County reported the largest dollar decrease in value, \$285 per acre, and Humboldt

Table 1. Recent changes in Iowa farmland values

Year	Value per acre	Dollar change	Percentage change
1981	\$ 2147	\$ 81	3.9
1982	1801	-346	-16.1
1983	1691	-110	- 6.1
1984	1357	-334	-19.8
1985	948	-409	-30.1
1986	787	-161	-17.0
1987	875	88	11.2
1988	1054	179	20.5
1989	1139	85	8.1
1990	1214	75	6.6
1991	1219	5	0.4
1992	1249	30	2.5
1993	1275	26	2.1
1994	1356	81	6.4
1995	1455	99	7.3
1996	1682	227	15.6
1997	1837	155	9.2
1998	1801	-36	-2.0
1999	1781	-20	-1.1
2000	1857	76	4.3
2001	1926	69	3.7
2002	2083	157	8.2
2003	2275	192	9.2
2004	2629	354	15.6
2005	2914	285	10.8
2006	3204	290	10.0
2007	3908	704	22.0
2008	4468	560	14.3
2009	4371	-97	-2.2
2010	5064	693	15.9
2011	6708	1644	32.5
2012	8296	1588	23.7
2013	8716	420	5.1
2014	7943	-773	-8.9
2015	7633	-310	-3.9
2016	7183	-450	-5.9
2017	7326	143	2.0
2018	7264	-62	-0.8

and Wright Counties reported the largest percentage decrease, 3.3 percent. Floyd and Mitchell Counties reported the largest percent increase in values, 3.1 percent.

Land values by district

Five of nine crop reporting districts showed an increase in land values. The South Central district reported the largest percentage increase, 3.8 percent. The Central and Southeast districts reported decreases of 2.4 percent and 3.6 percent, respectively. The Northeast and Southwest districts reported no notable change in value. The Northwest and South Central districts reported the highest and lowest averages at \$9,311 and \$4,329 per acre, respectively.

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Commodity prices and higher interest rates drive modest farmland value loss, continued from page 2

Land value by quality

Statewide, high-, medium-, and low-quality farmland values decreased 0.8 percent, 0.7 percent, and 1.7 percent, respectively. Despite decreases across all other types of land in all districts, low-quality land in the Northeast, South Central, and West Central districts increased in value. High-, medium-, and low-quality farmland statewide are \$8,863, \$6,805, and \$4,609 per acre, respectively.

Certain factors drive the variations in land value changes across counties and districts in Iowa. Put simply, land value equals farm income divided by interest rates. Local market competitiveness, local land availability, and local income shocks tend to drive variations in land market changes across districts, counties, and land quality classes.

Factors influencing land values

The most common positive factors influencing land prices noted by survey respondents were limited land supply, strong yields, and low interest rates. The most commonly cited negative influences were lower commodity prices, higher long-term interest rates, and recent tariffs on US soybeans, pork, and other agricultural products.

The ISU land value survey was initiated in 1941, the first in the nation, and is sponsored annually

by Iowa State University. The survey is typically conducted every November and the results are released mid-December. Only the state average and the district averages are based directly on the ISU survey data. The county estimates are derived using a procedure that combines the ISU survey results with data from the US Census of Agriculture.

The ISU Land Value Survey is based on reports by agricultural professionals knowledgeable of land market conditions such as appraisers, farm managers, agricultural lenders, and actual land sales. It is intended to provide information on general land value trends, geographical land price relationships, and factors influencing the Iowa land market. The 2018 survey is based on 793 usable responses from 624 agricultural professionals. Sixty-two percent of the 624 respondents answered the survey online.

CARD offers a web portal at www.card.iastate.edu/farmland/ that includes visualization tools, such as charts and interactive county maps, allowing users to examine land value trends over time at the county, district, and state level.

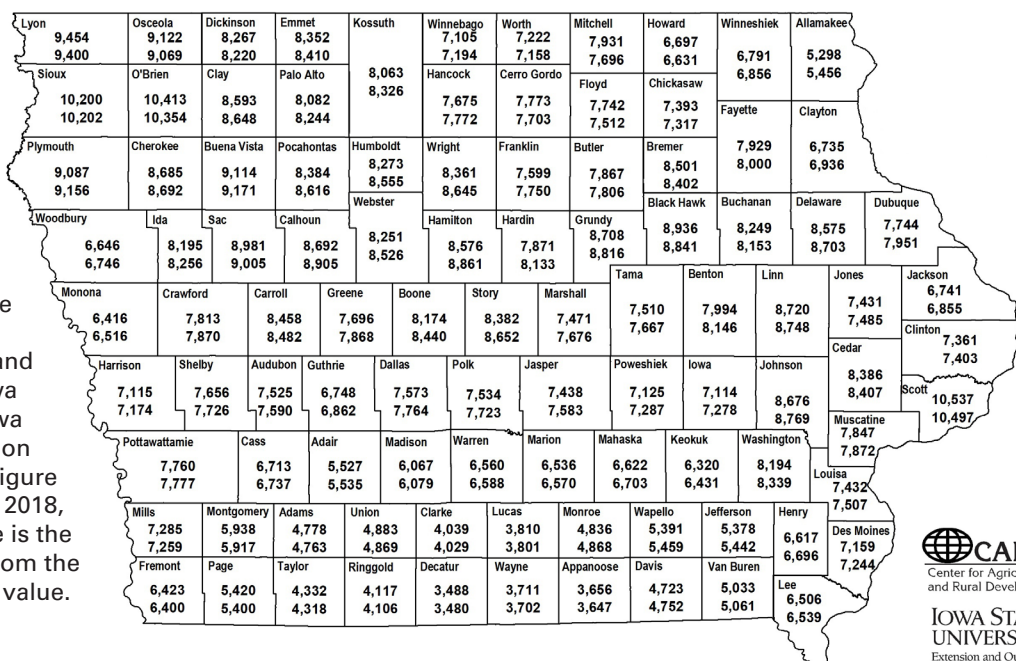
Figure 2. 2018 and 2017 Iowa land values by county

State Average Values

Nov 2018: \$7,264

Nov 2017: \$7,326

County estimates of average dollar value per acre for Iowa farmland based on U.S. Census of Agriculture estimates and the Nov. 1, 2018, Iowa Land Value Survey conducted by Center for Agricultural and Rural Development, Iowa State University and Iowa State University Extension and Outreach. The top figure is the estimated Nov. 1, 2018, value; the bottom figure is the percentage of change from the estimated Nov. 1, 2017, value.





Production evidence for market facilitation program and crop insurance

By Steve Johnson, extension farm management specialist, 515-957-5790, sdjohns@iastate.edu

Farmers are wrapping up harvest and applying for payments available with the new Market Facilitation Program (MFP). There are a couple things to keep in mind before you go to your local FSA office. The new form CCC-910 requires an actual production number by crop and the source of production evidence. You do not need to submit your records to the FSA.

The MFP is self-certification program, subject to spot check of your production evidence. This would be similar to the Loan Deficiency Payment (LDP) that farmers used extensively from 1996 through 2006. The easiest source of production evidence is likely “soft records” that crop insurance requires prior to determining if a crop insurance loss is likely. These records are typically yield monitor data or scales on grain carts with proof of calibration. Also, consider the use of self-measured grain bins in addition to scale tickets. The FSA doesn’t require you to come into their office with “hard records” verified by a third party. Examples include warehouse receipts, settlement sheets and certified grain bin measurements.

However, FSA will want you to use the net production or net weight of those bushels. This simply means they want production adjusted for dry weight bushels. So, you’ll adjust the gross production of wet bushels down to 13 percent moisture soybeans and 15 percent moisture corn just as you do for crop insurance purposes.

Expect to see soybean crop insurance claims

The USDA’s Risk Management Agency (RMA) recently released its harvest prices for figuring potential 2018 crop insurance losses to farmers who have revenue policies. These prices are \$8.60 per bushel for soybeans and \$3.61 per bushel for corn, respectively. These are the simple average daily closes in the month of October for November soybean and December corn futures.

That soybean price as compared to the spring projected price of \$10.16 per bushel is a decline of over 15 percent. If your average 2018 soybean production was equal to your Actual Production History (APH) and you elected an 85 percent coverage level, you are at that threshold for a revenue loss payment. Expect several farmers to trigger losses for soybeans resulting from the adverse weather this past growing season. However, your crop insurance agent needs to know your production by farm in order to determine that potential loss payment.

Consider submitting these same “soft records” used for the MFP to your crop insurance agent. Use the same records with FSA that you used initially for crop insurance purposes and reduce both time and effort.

What about the soybean quality issues?

Some soybean fields were damaged by heavy rains just prior to harvest. Beans might have developed mold that added to foreign material or splits prior to being delivered to an elevator or processor. Depending on the amount of damage, there might have been a crop insurance loss payment for quality. Hopefully you notified your crop insurance agent about those concerns prior to harvest.

Elevators and processors may charge farmers soybean quality discounts beyond the moisture adjustment from gross production to net production. Most of these discounts are a reduction in the price per bushel—dollars and cents.

Consider visiting your FSA office and apply for the MFP payment as soon as you finish harvest and have actual production records compiled by crop. Keep in mind you are going into the office with one number, actual production by crop and indicate the source of production evidence.



Is there a better way to support your charity?

By Charles Brown, Iowa State University Extension and Outreach farm management specialist, 641-673-5841, crbrown@iastate.edu

The Tax Cuts and Jobs Act (TCJA) had some major changes affecting itemized deductions for 2018 income tax returns. Those individuals filing as Married Filing Jointly (MFJ) now have a \$24,000 standard deduction and those filing as Single or Married Filing Single (MFS) have a \$12,000 standard deduction. In order to itemize on “Schedule A” you would have to exceed these dollar amounts or you just take the standard deduction.

What is included on your “Schedule A” as itemized deductions? Generally, this includes unreimbursed medical expenses, interest and property taxes on your personal residence, state, local and foreign income taxes, general sales tax, and charitable donations.

Medical expenses have to be reduced by 7.5 percent of your adjusted gross income and you only get to use the remainder as an itemized deduction. In order for mortgage interest to be deducted, it now must be secured by the qualifying residence. Home equity loans that are not used to buy, build or substantially improve the qualifying residence are no longer deductible. In addition, interest on that vacation home is no longer deductible. Interest expense used for your farming operation is still 100 percent deductible on your “Schedule F”. A maximum of \$10,000 has been placed on the combined total of state and local property taxes and state and local income taxes for MFJ and \$5,000 for MFS. For example, if the total of your state income tax and property taxes paid on your personal residence total \$12,000 you are only allowed to use the maximum of \$10,000 as an itemized deduction.

All those itemized deductions that were subject to two percent of your adjusted gross income such as; unreimbursed employee expenses, tax preparation expense, safe deposit box rental, hobby expenses,

and investment fees and expenses are no longer included as itemized deductions.

The limit for cash charitable contributions have been raised from 50 percent of adjusted gross income to 60 percent of adjusted gross income. Those amounts over 60 percent can now be carried forward five years.

The new standard deduction of \$24,000 for MFJ means that many farmers will no longer be able to itemize and will just use the standard deduction. Money given to charities, while benefiting charities, will not increase tax deductions.

Farmers have a unique opportunity in the ability to gift inventory such as grain to a charity. The farmer does not receive a charitable deduction for the gift of grain, but they also are not reporting the sale of the grain and paying income and self-employment tax on the sale. The farmer will still get the \$24,000 standard deduction if filing MFJ.

There is a right and a wrong way to make this gift. The key is that ownership of the grain must be transferred to the charity before the grain is sold. Grain can be delivered to the grain merchandizer and a scale ticket or warehouse receipt should be made out to the charity. Then someone from the charity should arrange with the grain merchandizer when to sell the grain. The farmer does not need to reduce their production costs of raising the grain gifted, even if gifted in the year it is raised, as long as it is gifted to a qualified charity. This also works for C Corporations, who are limited to 10 percent of taxable income for cash contributions. The farmer should not just deliver grain to the grain merchandizer and tell them to make a check out to the charity.

Always check with your tax preparer for guidance when making tax planning decisions.



Seminar addresses multigenerational farm transitions

By David W. Baker, extension farm transition specialist, 515-252-7801, baker@iastate.edu

Transitioning a farm from one generation to the next is a complicated matter. Not only should business and financial issues be considered, but potentially difficult conversations about when a transition should be made and the direction of the farm must take place.

The Returning to the Farm Seminar, www.extension.iastate.edu/bfc/returning-farm-seminar, offered by the Beginning Farmer Center through Iowa State University Extension and Outreach, is designed to help farmers start these conversations. The seminar will be held on Jan. 10-11 and Feb. 8-9, 2019 at the Gateway Hotel and Conference Center in Ames. The four-day seminar provides an opportunity for families to begin developing a succession plan.

ISU Extension and Outreach's Beginning Farmer Center, www.extension.iastate.edu/bfc/, works to help multigenerational farms understand what needs to be discussed and considered as a transition approaches.

"During the 24-year history of this seminar, attendees share two common themes," said Dave Baker, director of the Beginning Farmer Center at Iowa State. "They are more prepared to actually start the conversation regarding transitioning

the family farm and they are equipped with a progressive, seven-step system to use to prepare and put the transition in place."

The seminar will cover topics including conflict resolution, goal setting, business analysis, estate planning, farm planning and farm management. It provides multigenerational farm families an opportunity to discuss how to live and work together as the farm business is passed from one generation to the next. ISU Extension and Outreach specialists, as well as other industry experts, will present throughout the seminar.

Cost for the seminar is \$450 for up to four participants. Each additional participant is \$50. The registration fee is for all four days of the seminar and includes lunch each day and a Farm Savvy binder filled with worksheets, exercises and additional management resources. Part one of the seminar will be held Jan. 10-11 and the second part will take place Feb. 8-9. Iowa State students can earn up to two credit hours for attending the seminar with their family. There is no additional academic cost to students currently carrying a class load of 12 credits. Students and their family must attend all four days of the seminar and complete a business plan paper to receive credit.

Updates, continued from page 1

Internet Updates

The following Decision Tool has been updated on www.extension.iastate.edu/agdm.

Grain Storage Alternatives – A2-35 (Decision Tool)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

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