Ag Decision Maker

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New survey on farm employee compensation

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

Over 20,000 people make their living each year as full-time employees on Iowa farms. Iowa State University and the North Central Risk Management Education Center recently conducted a survey to study the wages and benefits they receive. The average compensation paid to these employees in 2011 was $38,929 per year, before deductions for taxes. Cash wages accounted for $33,320, or 85 percent of this total. In addition, the average employee received fringe benefits valued at $4,185 and cash bonuses of $1,424.

In a similar survey conducted in 2006 the average farm employee received $34,640 in total compensation. The change represents an average annual increase of about 2.1 percent. Employees worked an average of 2,602 hours in 2011, so on an hourly basis cash wages averaged $12.96 and total compensation averaged $15.05. The average employee had 12 years of experience working on a farm, seven of which were with the present employer. Six percent of the employees included in the survey were female, and 16 percent were born outside the United States.

The most significant benefit provided was some type of insurance plan, usually medical. Other common benefits included housing, meals, farm produce, work clothing and recreational opportunities.

Factors such as farm size, employee duties, number of other employees supervised, education and years of farm experience had a major influence on how much each employee was paid. For more details about the farm employee compensation survey see the information file link: http://www.extension.iastate.edu/agdm/wholefarm/html/c1-60.html.

Handbook updates

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

Historical Corn Yields by County – A1-12 (10 pages)

Historical Soybean Yields by County – A1-13 (10 pages)

Iowa Corn and Soybean County Yields – A1-14 (4 pages)

Estimated Costs of Pasture and Hay Production – A1-15 (8 pages)

Important Crop Insurance Dates – A1-50 (2 pages)

continued on page 6

Inside . . .

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Extension and Outreach

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Iowa farm custom rate survey for 2012 now available

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

The 2012 Iowa Farm Custom Rate Survey showed consistent increases in rates this year. Most operations had increases of 5 to 15 percent over the average rates in the 2011 survey. The average rate for combining soybeans, exceeded $30 per acre for the first time.

Fuel prices are predicted to increase drastically over the coming months, which could affect the rates custom operators charge. In the survey, the average price for diesel fuel in 2012 was assumed to be $3.25 per gallon. As a rule of thumb, a $0.50 per gallon increase in the price of fuel will cause total costs for machinery operations to increase about 5 percent.

The values reported on the survey are simply the average of all the responses received for each category. The range of the highest and lowest responses received is also reported. These values are intended only as a guide. There are many reasons why the rate charged in a particular situation should be above or below the average. These include the timeliness with which operations are performed, quality and special features of the machine, operator skill, size and shape of fields, number of acres contracted, and the condition of the crop for harvesting. The availability of custom operators in a given area will also affect rates.

New operations and services included in the 2012 survey, include side dressing liquid fertilizer, aerating liquid manure and vacuuming grain.

The Ag Decision Maker website offers a Decision Tool to help custom operators and other farmers estimate their own costs for specific machinery operations. The Machinery Cost Calculator (File A3-29) can be found under Crops, then Machinery in the Ag Decision Maker table of contents.

The 2012 Iowa Farm Custom Rate Survey is available at county extension offices, as publication FM-1698 from the ISU Extension Online Store, or as Information File A3-10, Iowa Farm Custom Rate Survey on the Ag Decision Maker website.

Average Farm Custom Rates Reported for Iowa

Operation	1978	1988	1998	2011	2012
Chisel plowing, per acre	$6.00	$8.40	$9.65	$13.70	$14.90
Planting, per acre	$4.40	$6.80	$8.85	$14.80	$15.60
Spraying, per acre	$2.40	$3.50	$4.00	$6.05	$6.35
Combining corn, per acre	$16.20	$22.00	$23.40	$30.90	$31.85
Combining soybeans, per acre	$14.00	$20.60	$22.55	$29.65	$31.10
Baling square bales, per bale	$.21	$.29	$.36	$.50	$.55
Custom farming, corn, per acre	$58.00	$71.00	$75.80	$108.95	$119.80
Custom farming, soybeans, per acre	$50.00	$65.00	$70.65	$96.40	$105.70
Machinery operating wage, per hour	$3.50	$5.10	$7.20	$12.00	$13.40

Source: Iowa State University, Iowa Farm Custom Rate Surveys, FM-1698.

The "small partnership" exception: a way to escape partnership tax complexity

by Neil E. Harl, Charles F. Curtiss Distinguished Professor in Agriculture and Emeritus Professor of Economics, Iowa State University, Ames, Iowa. Member of the Iowa Bar, 515-294-6354, harl@iastate.edu

In 1982, Congress authorized a "small partnership" exception to the definition of "partnership" in legislation designed to tighten the rules on partnership audits. Tax shelters were dominating the discussion in tax circles and the 1982 legislation was aimed at bolstering the oversight over partnership transactions, much of which was being carried on by limited partnerships. However, the small partnership exception, by its terms, provides an avenue for many small partnerships (including limited liability companies and limited liability partnerships) to sidestep the complexity of federal partnership tax law.

The bounds of the "exception"

A partnership return on Form 1065 is required even though the partnership has no taxable income. A penalty of $195 per partner per month is imposed on the partnership for failure to file a timely or complete Form 1065 (a maximum of 12 months' penalty). This penalty is in addition to the criminal penalties for willful failure to file a return or supply information. A partnership is defined to include any partnership required to file a return other than those qualifying for the small partnership exception.

In general, under the statute, a "partnership" shall not include a partnership if the partnership has 10 or fewer partners, each of whom is a natural person (other than a nonresident alien), a C corporation or an estate of a deceased partner. Each partner's distributive share applies equally to every partnership item. A husband and wife are treated as one partner. A "flow through" entity cannot be a partner in a small partnership.

Note the verb "shall" in the statutory definition. Partnerships meeting the requirements to be a small partnership within the exception are ineligible to be deemed a partnership. In fact, the very next subsection outlines an election procedure for those within the small partnership exception who want to elect not to have the small partnership exception apply. The election, once made, applies for that taxable year and all subsequent taxable years unless revoked and revocation requires the consent of the Secretary. It is notable that no election is required to be a small partnership within the exception – that status flows automatically from meeting the statutory requirements.

The regulations go on to state that if the 10-partner limit is met, it is acceptable if more than 10 partners own interests in the partnership for some portion of the taxable year.

A small partnership meeting all of the requirements is considered to have met the reasonable cause test and is not subject to the penalty for failure to file a timely or complete Form 1065 provided that all partners have reported fully their shares of income, deductions and credits from the partnership on their own timely-filed income tax return.

As further evidence of the reasons behind the enactment in 1982, IRS in Rev. Proc. 81-1115 stated –"The committee reports indicate that Congressional intent was not to impose additional filing requirements on existing small partnerships of the type that historically had not filed partnership returns, e.g., a small family farm partnership, a small, family-owned retain store, or, in some cases, coownership of property."

How are partnership items reported?

So how do the small partnerships report their income? The statute is not clear on that point but the definition of "partner" implies that each partner is to take into account the "partnership items" which would include income, gains, losses and credits. Those items would be reported on Schedule C, F or E as would be appropriate for that partner.

continued on page 4

The "small partnership" exception: a way to escape partnership tax complexity, continued from page 3

Judicial response

To date, there have been 18 litigated cases on the "small partnership" exception. In McKnight v. Commissioner, the "small partnership" exception was upheld, the regulations were deemed valid and there was no conflict found with other pertinent regulations. In Davis v. Commissioner, the court held that no final partnership administrative adjustment was made because the partnership was excepted from partnership audit. The same conclusion was reached in Harrell v. Commissioner.

Importance of the provision

A significant proportion of all partnerships and a substantial fraction of farm and ranch partnerships appear eligible to meet the requirements to be within the "small partnership" exception. The availability of the exception generally means a lower annual cost for income tax return preparation and freedom from the onerous penalties for failure to file a timely or complete Form 1065, not to mention the advantage of sidestepping the complex rules that apply to partnerships generally such as the depreciation rules applicable to partnerships after transfer of depreciable assets to the partnership.

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Retirement planning for farm families

by Tim Eggers, extension field economist, 712-542-5171, teggers@iastate.edu

Farm families face challenges related to retirement planning and implementation similar to other small businesses. This article briefly addresses two primary challenges. They are the visualization of a retirement lifestyle and confidence in funding that lifestyle.

Farmers are uniquely situated to implement subtle variations of retirement allowing for individualized alternatives. There isn't a "turning in the keys" moment. Changes in enterprises, increased use of off farm labor sources, custom operations, custom farming, crop share and cash rent leasing of land allow for a transition from 100 percent of operations and management being provided by the farm family to simple ownership of the limiting resource in agriculture – land.

Visualization

The identity of a farmer is often closely tied to their occupation. This may be due to several factors including the percentage of time devoted to operation and management of the operation, the high level of interaction between the farm business and family activities. The length of time engaged in the business is another dominant factor for operators who were raised on a farm and became operators at a young age.

A first step in retirement planning is to visualize what retirement will be. An exercise to follow is:

1. Draw a sketch of your retirement fantasy without financial, geographical, health or other limitations.
2. On another sheet of paper, write the words to describe your retirement. Then write the words you do not want to use to describe your retirement.
3. Write a paragraph each for the things you want to do, be, have and contribute to in retirement. These four paragraphs can help to provide the positive expectations regarding the retirement phase of an individual's life.

To be practical, the next step is to outline the things you need to be doing now to make your future years dreams a reality. While there's mental work necessary to prepare, there's also financial groundwork to do.

continued on page 5

Retirement planning for farm families, continued from page 4

Costs of retirement for farm families

Farm families may be perceived as having a lower cost of living than non-farm families. There are some family living costs that may bear this out. The farm home may be mortgaged through a land note that is paid by the farm business. Rent or purchase of a new home needs to be built into the budget if the farm family plans to purchase a second home in a different climate or move off the farm in retirement.

If home utilities expenses were heavily mingled with farm utility expenses, then making certain that they are accurately estimated could be a challenge. Health insurance might have been covered by the farm business. Retirement healthcare costs are only partially borne at no cost by Medicare. The costs of Medicare components and supplemental insurance would need to go into budgets as the farm family transitions to retirement healthcare needs. Long Term Care Insurance is a product that will need to be carefully considered based on its capacity to offset what may be a major cost for a family.

A primary consideration of farm families when calculating the costs of retirement is to recognize that a simple monthly or annual ballpark estimate of costs of living allocated across a 25-30 year period is too simplistic. Months and years in retirement are not equally active, healthy or opportunity filled. R.C. Atchley outlined six stages of retirement; pre-retirement, retirement (honeymoon, immediate retirement routine or rest and relaxation), disenchantment, reorientation, retirement routine and termination of retirement.

Coming up with a monthly cost of living is a start. A second step is to budget the costs that are not monthly like trips, workshops and the other things developed in your retirement fantasy.

A third step is allocating those costs across different stages of retirement. For some this may result in financial gaps. As you attempt to fill in those gaps, consider the variations of income production from different sources. Some streams, like Social Security, have incentives to delay the beginning of the income. Others, like withdrawals from a 401K have penalties related to early withdrawal. Then there are assets that can result in rental income like land, while others like stocks, have valuation risk which may be unwelcome in retirement. One area that is difficult to estimate is the impact that inflation will have on retirement living expenses and retirement incomes. Some spreadsheets take this into consideration. As life expectancies have increased the impact of inflation has been greater.

Financial preparation for retirement

There is a default financial preparation built into many farm operations. Farming is a capital intensive business. For operations that have purchased land and equipment, there are financial returns expected as land is leased or sold and equipment is sold. Depreciation recapture and capital gains taxes can act to diminish the returns from outright sale of assets to fund retirement. Returns from the leasing of farmland may be a primary expected source of retirement income.

The are options unique to small businesses, IRS Publication 560 (http://www.irs.gov/pub/irs-pdf/p560.pdf) provides an explanation of the plans available for farm families. Each farm operation will have a different level of ability to access the tools at any given time, and each vehicle is unique, making it important to find the right one for your individual situation.

Farming, Investment Planning (http://www.extension.iastate.edu/Publications/PM1167i.pdf) is a good starter source of information about the tax treatment of off-farm investments. The online course Investing for Farm Families (http://www.extension.org/pages/23204/investing-forfarm-families) provides additional resources to compare on and off farm investments. Social Security is another source of retirement income that requires preparation by farm families. For tax purposes, taxable income may have been mini-

continued on page 6

Retirement planning for farm families, continued from page 5

mized. That can have a significant and negative impact on social security benefits. A good starter source of information on issues farmers should consider about social security is "Farming: Social Security Issues" (http://www.extension.iastate.edu/Publications/PM1167h.pdf).

The complete "Retirement Planning for Farm Families" publication is Ag Decision Maker Information File C4-56. Visit the Transition and Estate Planning section on Ag Decision Maker at: http://www.extension.iastate.edu/agdm/wdbusiness.html for more retirement planning related materials.

Updates, continued from page 1

2012 Iowa Farm Custom Rate Survey – A3-10 (2 pages)

Feeder Cattle Basis – B2-43 (1 page)

Feeder Steer-Heifer Price Spread – B2-45 (1 page)

Wages and Benefits of Farm Employees - 2011 Iowa Survey – C1-60 (8 pages)

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

Internet Updates

The following information files and tools have been added or updated on www.extension.iastate.edu/agdm.

Bonus Plans for Farm Employees - 2011 Iowa Survey – C1-61 (3 pages)

Federal Gift Tax – C4-23 (2 pages)

Federal Estate Tax – C2-24 (4 pages)

Iowa Inheritance Tax – C2-25 (4 pages)

Retirement Planning for Farm Families – C4-56 (4 pages)

Estate Planning Questionnaire – C4-57 (15 pages)

Estate Planning Goals – C4-58 (2 pages)

Trusts as an Estate Planning Tool – C4-59 (4 pages)

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

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

Returns for Farrow-to-Finish – B1-30

Returns for Weaned Pigs – B1-33

Returns for Steer Calves – B1-35

Returns for Yearling Steers – B1-35