Inside . . .

Late harvest and crop insurance coverage

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

Iowa and other Corn Belt states are experiencing one of the latest and slowest harvest seasons on record. Some producers have had concerns about whether their crop insurance coverage will be still be in effect if harvesting drags into December.

The standard policy for corn and soybeans in the Midwest states that Dec. 10 is the end of the insurance period. However, producers may request their insurance company allow them additional time to complete harvesting. This can be granted when timely notice is given to the agent and the delay is due to an insured cause, such as wet weather or snowfall. This will allow any claims to be settled based on actual harvested production rather than an appraisal in the field.

If insured acres are still unharvested by early December, producers should contact their crop insurance agents and request additional harvest time beyond Dec. 10. Producers are required to make an honest effort to harvest the crop during the extended period if conditions allow, or to document why they were unable to do so with a written record and even photos.


The standard crop insurance policies cover quality losses due to low test weight, foreign material and mold, as well as low yields and prices. However, increased drying costs and charges are not covered.

More information on crop insurance is available at http://www.extension.iastate.edu/agdm/cdcostsreturns.

Handbook updates

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

- Cost of Storing Grain – A2-33 (2 pages)
- Livestock-Cost and Return: Table of Contents – B1-00 (1 page)
- Optimal Marketing Dates for Feedlot Enterprise Profitability – B1-70 (7 pages)
- Historic Hog and Lamb Prices – B2-10 (4 pages)
- Historic Cattle Prices – B2-12 (4 pages)

Please add these files to your handbook and remove the out-of-date material.

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Ag Decision Maker is compiled by:
Don Hofstrand, dhof@iastate.edu
extension value-added specialist and co-director of the Agricultural Marketing Resource Center
Proving harvest yields advised

by Steven D. Johnson, farm and ag business management specialist, (515) 957-5790, sdjohns@iastate.edu

Harvest is upon us and most producers look forward to finalizing their 2009 yields. However, good record keeping during harvest should be practiced. Each year a producer can provide the actual production guarantee from their farm fields to help determine the Actual Production History (APH) for crop insurance purposes. Proving the actual dry weight yields for each farm field or crop insurance unit should be the goal.

In 2009, many producers switched to crop insurance enterprise units in order to reduce their premium. However, producers should continue to prove the actual yields for the smaller optional unit, likely reflecting the section of land and each land owner in that section. This should improve the producer’s chances of having a higher APH yield for this smaller unit in the future, especially if they choose to use optional units for crop insurance coverage.

Here are 5 harvest-time reminders for crop insurance:

1) Contact your crop insurance representative within 72 hours after discovering damage to report potential loss and to protect your coverage.

2) Keep production separate for each unit using a written ledger and record loads of production for each crop with the field name or number, date of harvest and identify the vehicle or wagon, weight, moisture and estimated volume per load.

3) Identify the specific bushels delivered whether they are sold, placed into commercial storage or stored on-farm:
   a. Mark your scale tickets by unit, farm name or reference number.
   b. Level your grain bins between each unit, identify the depth of grain in the bin and mark on the storage structure using a permanent marker.
   c. Avoid commingling old crop with new crop bushels in the same bin. The prior year’s production must be measured by a crop insurance adjuster or USDA representative before adding new crop.

4) Keep track of feed records as production is being fed before a final count is tallied and verified.

5) Report production to your crop insurance representative right after harvest to update your APH information and to check for a potential revenue loss.

Yield monitor records

1) Printed records from combine monitors must show field location, name of crop, date and number of pounds or bushels of the crop harvested.

2) Field identification and unit number must be identified on the records.

3) Final yield monitor records must be available to the crop insurance adjuster.

Grain quality concerns

When dealing with corn or soybean quality adjustment issues, in most cases the samples to be tested must be extracted by a certified adjuster. In the case of aflatoxin and for certain types of mycotoxins, the samples not only must be extracted by a certified representative, but also samples should come directly from the field and cannot be samples taken from stored grain.

Deadline for filing a revenue loss

For crop insurance revenue policies (Revenue Assurance or Crop Revenue Coverage), once the production guarantee has been achieved, the deadline for reporting a claim is extended to 45 days after the harvest price has been announced. This period will begin approximately Nov. 1 for all CRC policies (corn and soybeans). For RA policies on corn, the period will begin approximately Dec 1.

Specific questions regarding crop insurance should be directed to a producer’s crop insurance provider. As the old saying goes, “an ounce of prevention is worth a pound of cure.”
Recent reviews of two fact situations, hundreds of miles apart and both the products of planning a half century or more ago, illustrate the hazards of using a deceptively simple estate plan – basing the plan on successive life estates. The strategy often involves unexpected federal estate tax consequences, federal gift tax problems, income tax basis complications and assorted problems relating to like-kind exchanges, involuntary conversions and easements, to mention just a few of the more likely events occurring during the term of the life estates. Although often viewed as more complex (and costly to set up), a carefully drafted trust generally provides a more satisfactory platform for intergenerational transfers than successive life estates.

What is the income tax basis?
Other than for tax audits and title problems, the most likely occasion for examining a trail of life estates spanning several decades is the question of income tax basis. The individual or individuals ultimately acquiring a fee simple ownership of the property decides to sell the property or dispose of it in a taxable exchange and wants to know what the income tax basis is currently. This often occurs several years after the last determination of income tax basis for the property.

Retained life estate or life estates. One common feature of plans involving successive life estates is that the original owners often retained a life estate for themselves with a life estate granted to one or more children (and perhaps their spouses) to follow their retained life estate or life estates followed in turn by a fee simple interest to grandchildren. If that is the pattern, the retained life estate or estates assured that the property in question would be included in the gross estate or gross estates of the holder or holders of the retained life estate (the original grantors). That may trigger federal estate tax liability, of course. Even if it does not result in federal estate tax liability, the inclusion in the federal estate tax gross estate determines the income tax basis for the property for purposes of depreciation, depletion or amortization as well as for purposes of gain or loss on sale or taxable exchange. In the event the property is owned in joint tenancy, additional complications arise. If the property was acquired by the donors after 1954 and before 1977, the rule of *Gallenstein v. Commissioner* may possibly apply which allows the so-called “consideration furnished” rule to be used to determine the amount to be included in the gross estate at the first of the joint tenants to die and to determine the income tax basis. Five more cases have been decided, in addition to *Gallenstein*, all in favor of the taxpayer. Thus, if it is a husband and wife joint tenancy, the property was acquired in 1975 with the husband providing the consideration and the husband died in 1981, for example, the entire value of the property would be included in the gross estate and receive a new income tax basis. On the other hand, if the wife provided all of the consideration, none of the value would be included in the gross estate and the income tax basis would be unaffected by the husband’s death. The Tax Court has held that the *Gallenstein* rule is mandatory, not optional and IRS has acquiesced in that decision. However, for the *Gallenstein* rule to apply, the joint tenancy feature must have continued to the death of the first to die and there is a question whether the rule applies to a conveyance of joint tenancy property with a retained life estate which may depend upon whether the joint tenancy feature was severed at the time of the conveyance.

A further question is whether the basis, if the *Gallenstein* rule does not apply, is derived equally from the two deaths or whether the income tax basis would pass from the second death if the retained life estate is deemed to be in joint tenancy (either by express language or otherwise). In *Glaser, Jr. v. United States*, a transfer with retained life estates of property held in tenancy by the entirety (similar to joint tenancy) for which the decedent furnished the entire consideration and which, therefore, the entire value if held until death would have been includible in the gross estate, only a one-half interest was required to be included in the decedent’s gross estate. In *United States v. Heasty*, the Tenth Circuit Court of Appeals reached the same con-
clusion with joint tenancy property. The Seventh Circuit in Glaser and the Tenth Circuit in Heasty agreed that I.R.C. § 2040 on taxation of joint tenancy property applies only to property held at death.

Effect of successive life estates on the basis. As for the successive life estates, following the termination of the retained life estates, the deaths of those holders of the granted life estate would not affect the income tax basis of the property. Granted life estates are not included in the gross estate of the holder or holders and, therefore, do not affect the basis. Of course, this assumes no depreciable property which would add another complication.

Federal gift tax concerns
If successive life estates are set up during the lifetime of the original owner or owners, the life estates following the retained life estates would almost certainly have encountered federal gift tax requirements for gifts of future interests. A gift of a life estate interest in property to commence at a future time would be considered a future interest. Therefore, the federal gift tax annual exclusion would not have been available to cover or to help to cover the transfer.

The rule against perpetuities
In those states that have not repealed the Rule Against Perpetuities, successive life estates can violate the rule just as surely as would life estates in trust. Indeed, the original litigation, The Duke of Norfolk’s Case, involved successive life estates. This issue, for situations dating back several decades, is most likely to be raised, if at all, in connection with a title examination (or by unhappy heirs). Basically, the Rule provides that no interest in real estate is good unless it must vest, if at all, not later than 21 years after some specified life or lives in being at the creation of the interest. A slightly different rule applies in states that have adopted the Uniform Statutory Rule Against Perpetuities (USRAP).


Improvements to ag decision maker

by Ann M. Johanns, extension program specialist, 641-732-5574, aholste@iastate.edu

Changes to the Ag Decision Maker (AgDM) website and publications have recently been made to better meet the needs of our users. The print version of AgDM will remain the same, but website updates of Information Files and Decision Tools will switch to a bi-monthly format.

The Ag Decision Maker newsletter with Information File and Decision Tool updates will now be posted the middle of each month. The first week of each month another update will be done to include more Ag Decision Maker updates, as well as the Iowa Farm Outlook newsletter and the Ag Marketing Resource Center’s Renewable Energy newsletter. Notification of these updates is free and sign-up is available by e-mailing agdm@iastate.edu or through the Notification web page at: http://www.extension.iastate.edu/agdm/notify.html.

A blog has also been created to answer frequently asked questions from clients. The blog will be updated several times a week with answers, upcoming events, and other resources on Iowa farm management and outlook for making well informed ag decisions. The address for viewing the blog is: http://blogs.extension.iastate.edu/agdm/.
Farm Financial Planning is Iowa State University Extension’s farm financial analysis program. It consists of one-on-one financial counseling, a computerized analysis of the farm business, and referral to other extension programs or outside services that may be useful.

Who is it for?
Farm Financial Planning is for anyone who wants to understand a complete picture of their farm financial situation. It helps take the guesswork out of whether or not a change would increase profitability and improve cash flow. A FINPACK analysis may provide a more in-depth evaluation of the farm business, which many lenders are requiring before they will extend further credit.

What does it do?
Farm Financial Planning helps you evaluate your farm business and determine whether or not a change is desirable. It provides an in-depth plan for the farm business so the operator and the lender can make decisions for the future. Farm Financial Planning helps answer three basic questions of sound business management.

• Where am I today?
• Where do I want to be in the future?
• How do I get there?

The computer analysis looks at profitability, liquidity, solvency, and risk-bearing ability. This information is provided for three or more alternative plans at a time. Examples of alternative plans could be the addition, expansion or phasing out of a livestock operation, or buying, selling or renting land. Farm Financial Planning can help evaluate ways to correct negative cash flow and profitability problems.

A trained extension associate meets with the family to discuss the results of the analysis and the possible effects if changes are made. The extension worker may introduce other farm and family financial materials or information about outside sources of help.

How much does it cost?
The service is currently available at no charge through a grant from CF Industries.

Who performs the analysis?
The Farm Financial Management associates are part-time extension employees with college degrees and special training in farm budgeting and financial analysis. They have farm backgrounds so they understand the current farm situation.

Is it confidential?
Yes. Only you and the associate will know the results of the analysis. Information will not be shared with other people without your permission.

How long does it take?
The first meeting with the associate to provide information from your records usually takes one to two hours. The second meeting may take anywhere from one to three hours. The time required is dependent upon the size and complexity of the operation.

How do I make an appointment?
To set up an appointment, contact the associate in your area. For more information, contact your ISU Extension county office or the Beginning Farmer Center at 1-877-232-1999.

Find the Farm Financial Associate in your area and more information at: http://www.extension.iastate.edu/farmanalysis/.
Updates, continued from page 1

**Internet Updates**
The following updates have been added on www.extension.iastate.edu/agdm.

- Hail Damage Can Affect Crop Insurance Yields – A1-49 (2 pages)
- Cost Terms – A2-06 (1 page)
- Estimating Farm Machinery Costs – A3-29 (8 pages)
- Combine Ownership or Custom Hire – A3-33 (8 pages)
- Considerations When Selecting a Consultant – C5-60 (4 pages)
- When to do and How to Use a Feasibility Study – C5-64 (3 pages)
- Feasibility Study Outline – C5-66 (3 pages)
- Writing a Business Plan – C5-68 (4 pages)
- Create Your Own Business Plan – C5-69 (15 pages)
- Business Strategy and the Board of Directors – C5-74 (2 pages)
- Governance Issues Unique to Start-up Businesses – C5-75 (2 pages)
- Board of Director Educational Needs – C5-76 (2 pages)
- Steps for Using Trade Shows – C5-141 (2 pages)

**Decision Tools and Current Profitability**
The following tools have been added or updated on www.extension.iastate.edu/agdm.

- Season Average Price Calculator – A2-15
- Projected ACRE Payments for Iowa Crops – A1-33
- Corn Profitability – A1-85
- Soybean Profitability – A1-86
- 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

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