



# Ag Decision Maker



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## New and updated Iowa State University farm bill tools

By Alejandro Plastina, extension economist, [plastina@iastate.edu](mailto:plastina@iastate.edu), 515-294-6160

As part of the strategy to educate agricultural producers and farm-land owners about the new farm programs under the 2014 Farm Bill, ISU Extension and Outreach staff have provided educational resources through multiple outlets. Farm Management Specialists from Iowa State University Extension and Outreach, along with USDA Farm Service Agency staff have been providing an overview of the options available through educational programming across the state this winter. A Web page dedicated to Farm Bill information was created on the Ag Decision Maker website ([www.extension.iastate.edu/agdm/info/farmbill.html](http://www.extension.iastate.edu/agdm/info/farmbill.html)). The website includes Information Files, Decision Tools, meeting information, webinars, and links to USDA resources. The Decision Tools focus on evaluating expected payments

under different combinations of programs. The “[Base Acreage Reallocation and Payment Yield Update](#)” Decision Tool and the “[ISU Farm Bill Analyzer](#)” Decision Tool have been available on the Ag Decision Maker website for several months. These Decision Tools are updated frequently as new information becomes available.

Since these tools became available, they have been heavily used by Iowa producers and land owners. We have received great feedback on these resources and continue to improve the spreadsheets to include refinements in the USDA programs and address common questions from our users.

Along with the resources already available, new this month is a *Farm Bill Calculator* as well as a simplified version of the existing *Analyzer* including

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### Handbook updates

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

**Historic Hog and Lamb Prices** - B2-10 (4 pages)

**Historic Cattle Prices** - B2-12 (6 pages)

**Lean Hog Basis** - B2-41 (1 page)

**Live Cattle Basis** - B2-42 (1 page)

**Feeder Cattle Basis** - B2-43 (1 page)

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

Please add these files to your handbook and remove the out-of-date material.

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additional information on the interpretation of the simulation results. Both worksheets address five combinations of programs at the whole farm level: PLC for corn and soybeans, ARC-CO for corn and soybeans, PLC for corn and ARC-CO for soybeans, PLC for soybeans and ARC-CO for corn, and ARC-IC.

The *Calculator* ([www.extension.iastate.edu/agdm/crops/html/a1-36.html](http://www.extension.iastate.edu/agdm/crops/html/a1-36.html)) reports annual payments for alternative combinations of farm programs, based on historical farm production data and the user's expectations about planted area, prices and yields. A chart illustrates the differences in net present values of payments across alternative combinations of programs. The *Calculator* is strictly based on the data provided and does not include any simulations.

The simplified *Analyzer* ([www.extension.iastate.edu/agdm/crops/html/a1-33.html](http://www.extension.iastate.edu/agdm/crops/html/a1-33.html)) still relies on simulations of prices and yields (to reflect their uncertain nature), but it focuses only on farm programs (no crop insurance), and it reports both annual expected payments and the probability that the actual payment be lower than or equal to an expected payment. The *Analyzer* also highlights the first- and second-best combinations of programs for each of the following goals:

- 1) Minimize the probability of not receiving payments.
- 2) Maximize Low, but Likely Payments (payment surpassed 75 percent of the time by simulated payments)
- 3) Maximize High, but Unlikely Payments (payment surpassed 25 percent of the time by simulated payments)
- 4) Maximize the probability of receiving payments greater than the Expected Payments

The simplified *Analyzer* complements the numerical analysis with eight charts that illustrate, for each of the five program combinations:

- 1) The annual probability of no payment (the lower the better!).

- 2) The average annual probability of not receiving a payment 2014-2018.
- 3) The annual low, but highly likely payment, i.e. the payment surpassed 75 percent of the time by simulated payments.
- 4) The net present value 2014-2018 of low, but highly likely payments.
- 5) The annual high, but highly unlikely payment, i.e. the payment surpassed only 25 percent of the time by simulated payments.
- 6) The net present value 2014-2018 of the high, but highly unlikely payment.
- 7) The expected annual payment, i.e. the average annual payment over 500 simulations.
- 8) The net present value 2014-2018 of expected payments, and the associated probabilities of receiving payments lower than or equal to the expected payments.

On a technical note, each of the 500 simulations of yields and prices per year are centered on the projected values provided by the user. So the average of the 500 prices and yields simulated for each year will be very close to the projected prices and yields provided by the user. However, some simulated prices (or yields) for a particular year will be much lower or higher than the projected price (or yield) for that year. As a result of the simulations, the simplified *Analyzer* might report positive expected payments for PLC even when the projected prices are higher than the reference prices. However, the simplified *Analyzer* will also likely show that the probability of receiving a PLC payment under those projected prices is low. Furthermore, the *Analyzer* enables the user to compare expected payments and probabilities across programs on a year-by-year basis as well as over the 2014-2018 period.

The *Calculator* and the *Analyzer* share a number of characteristics. They both have historical county production data and national price data

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embedded in their structures to eliminate the need for external data. As a starting point for price expectations, the user can choose from three sets of price projections: USDA, Food and Agricultural Policy Research Institute (FAPRI) and futures prices. However, all prices and yield projections can be overwritten to reflect the user's expectations. The impact of base acreage reallocation on program payments can also be evaluated with both worksheets.

With the Yield Update and Base Acre Reallocation decisions, and the Election decision looming upon us (February 28 and March 31, respectively), the *Calculator* and the simplified *Analyzer* are expected to provide producers and land owners with additional insights for the decision process.



### Retirement resources for every age

By Barb Wollan, Human Sciences Extension and Outreach, Family Finance, 515-832-9597, bwollan@iastate.edu; Laura Sternweis, ISU Extension and Outreach, Organizational Advancement, 515-294-0775, lsterne@iastate.edu

No matter how close or far Iowans are from retirement, the new "[Retirement: Secure Your Future](#)" Web page from Iowa State University Extension and Outreach will help them prepare, said Barb Wollan, a human sciences specialist in family finance.

The Web page includes resources for three general audiences: those who are just starting to prepare for retirement, those in mid-career and those who are nearing retirement. It includes publications on a wide range of topics, all available for free online review or download. Video learning modules, usually 10 to 20 minutes in length, also are available on specific topics.

"Currently three modules are available. We expect to add several more in the next month or two, and build the collection over time," Wollan said.

"Our goal is to provide information that can help people understand their retirement planning decisions," Wollan said. "For example, young adults often will tell us, 'I've got plenty of time before I retire; right now I have other things to worry about.' Many young adults don't realize



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the tremendous retirement benefit they will gain by starting early, even if they only set aside a small amount each month. One of the publications and an upcoming module help to explain this concept."

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Investors of all ages have questions about investing and asset allocation, and may be confused by the various types of tax-advantaged accounts they can choose from, Wollan said. Two publications address those questions in clear, straightforward language.

For those approaching retirement within the next five to 10 years, a set of four "Retirement Transitions" publications explains key topics that affect retirement well-being, including Social Security options, required minimum distributions, income annuities and strategies for establishing a steady income flow in retirement.

In addition to materials consumers can use on their own, the "Retirement: Secure Your Future" Web page also highlights three core retirement workshops from ISU Extension and Outreach. These workshops are available to groups and

sometimes are offered to the public, with a modest fee to cover expenses, Wollan said.

"ISU Extension and Outreach materials always are non-commercial, with no vested interest in promoting any particular products or services," Wollan said. "That makes them fairly unique in the retirement planning world, which is dominated by commercial firms and organizations that have commercial interests through advertising. I don't discourage people from reading and learning from commercial material, but it's important to critically evaluate the motives of those sources. ISU Extension and Outreach materials are based on research."

Visit the "Retirement: Secure Your Future" Web page at [www.extension.iastate.edu/humansciences/retirement](http://www.extension.iastate.edu/humansciences/retirement).



### Dividing up assets after death\*

By Neil Harl, Charles F. Curtiss Distinguished Professor in Agriculture, and emeritus professor of economics, Iowa State University, Ames, Iowa; member of the Iowa Bar Association, 515-294-6354, harl@iastate.edu

Dividing assets among the heirs after death rarely poses a tax problem although there may be hurt feelings for years among those who get less than a proportionate share of the estate. The problems, if they develop in dividing up the assets after death, usually arise when the parents left undivided interests in assets, particularly if the assets are of unequal value and an equal division is difficult or impossible to achieve. That could occur with one-of-a-kind personal property items or of farmland with widely varying productivity and value. Unfortunately, none of the alternatives will assure that all parties will be completely satisfied. However, some of the options score higher than others. With careful pre-death planning the level of satisfaction can be elevated significantly.

### Undivided interests passing to the heirs

The first issue is whether the heirs are willing to continue for the foreseeable future as happy, cheerful and contented holders of undivided interests in the assets including the farm or ranch land involved. If so, the major concern is in deciding who will bear responsibility for management, how the ownership will be handled long term (as undivided interests or as co-owners of an entity formed prior to or after death such as a limited liability company, limited liability partnership or some other organizational structure) and how those eventually wanting to exit from the arrangement can do so on a fair basis. All of those concerns should be carefully worked out and agreed to in writing in a manner that will be enforceable even on the part of a minority owner.

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A mere partition of the assets (if that is possible) may be acceptable if the assets in question can be fairly divided. However, few tracts of land have sufficient uniformity of value to permit a partition without some adjustments made in the division of assets. One very important point – a partition of assets by heirs after death can avoid recognition of gain unless a debt security (such as a promissory note, a commitment to share the crops unequally for a stated period in favor of the recipient of the less valuable land or some other form of “boot”) is paid and received or property is received that differs “materially. . . in kind or extent” from the partitioned property. If those conditions are not met, the risk is that it is likely to be deemed a like-kind exchange and most likely a related-party like-kind exchange.

**Property is left in trust and the trustee has the authority to allocate the assets**

One of the lesser understood options is for the property to be placed in trust and the trustee given specific authority to allocate the assets between or among the heirs. In a 2003 private letter ruling, the decedent’s will stated that, at the time of termination of the trust, the trustees were to partition (or have the properties judicially portioned) between and among the children. The plan of termination allowed for the beneficiaries to request the type of assets that would be distributed to them at the time of termination of the trust and that the distributions would not necessarily be made on a *pro rata* basis. A state statute made it clear that distributions did not have to be *pro rata*. Those state statutory provisions were applicable to trusts with a *situs* in the state.

An earlier IRS ruling had taken the position that if neither the trust instrument nor local law authorizes the trustee to make *non-pro rata* distributions of property in kind, the distribution is treated as a sale or exchange even though there

is a mutual agreement between or among the beneficiaries as to the plan of distributions. A 1981 ruling added a warning that where a federal statute specifies that gain must be recognized, that takes the matter out of the realm of state law and gain (or loss) must be recognized.

What this adds up to is this – unless the federal statute in question specifically requires recognition of gain or loss, if there is a state law provision permitting *non-pro rata* distribution and the trustee has the authority exercisable at that time to make such *non-pro rata* distributions, the exercise of that authority does not result in the recognition of gain or loss to the beneficiaries.

**Specific bequests**

Another discrete alternative is for the parents simply to make the decisions on who is to receive which property after the deaths of the parents and specify that outcome in the will or trust. That avoids the tax aspects of the division of property after death but it may result in criticism of the parents’ decisions. That aspect often weighs heavily upon the parents to the point that they end up preferring for someone else to make those decisions.

If that is the case, the parents should consider authorizing the trustee to make the decisions. It is not completely clear that a passage in a will or trust alone is sufficient authorization without a state law provision authorizing a trustee or trustees to so act but the passage in the 2003 private letter ruling referring to the fact that, in discussing *Rev. Rul. 1969-486*, reference is made to the passage, in that ruling that “neither the trust instrument nor local law authorized the trustee to make a *non-pro rata* distribution. . . .” That would suggest that a provision in the trust alone might be sufficient authority for the trustee to act.

*\*Reprinted with permission from the Jan. 30, 2015, issue of Agricultural Law Digest, Agricultural Law Press Publications, Kelso, Washington. Footnotes not included.*

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**Internet Updates**

The following Decision Tools have been updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

2014 Farm Bill Analyzer: Data and Methods - A1-33 (Decision Tool)

Farm Bill Calculator - A1-36 (Decision Tool)

Farmland Tile Drainage Investment Analysis - C2-90 (Decision Tool)

Iowa Beginning Farmer Tax Credits and Loan Programs - C4-30 (2 pages)

**Current Profitability**

The following tools have been updated on [www.extension.iastate.edu/agdm/info/outlook.html](http://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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