



Ag Decision Maker

A Business Newsletter for Agriculture

Vol. 23, No. 1

www.extension.iastate.edu/agdm

November 2018



Winter cash flow strategies

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

If you know cash flow is already going to be a problem, communicate early with your creditors. Many primary ag lenders spent the past few winters restructuring existing farm loans to stretch out principal payments and free up depleted working capital. These same lenders might be reluctant to restructure loans anytime soon without a commitment from the borrower to improve their cash flow management to meet existing debt obligations. Farms without access to typical operating loans should use caution before advancing family living and farm related expenses on credit cards or higher interest-bearing debt.

For bushels you plan to store, the United States Department of Agriculture (USDA) Farm Service Agency (FSA) offers a low-interest, nine-month non-recourse marketing loan on harvested grain. On-farm

stored bushels will need to be measured, and commercially stored grain be placed under a warehouse receipt. This marketing loan amount is limited to your county loan rates, which in Iowa are typically below the national loan rates of \$1.95 per bushel for corn and \$5 per bushel for soybeans, respectively. Thus, the marketing loan program is not a marketing strategy for cash grain, just access to cheaper interest rates for up to nine months.

Beware of the tax consequences when using the USDA non-recourse marketing loan. If you have declared the loan as income in a past year then you have to declare it as income in later years or file Form 3115, change of accounting method, to change back to a loan for income tax purposes.

To free up cash and possibly some loan obligations, some

continued on page 2

Handbook updates

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

Deductible Livestock Costs for Adjusting Income Tax Returns – B1-15 (1 page)

Federal Gift Taxes – C4-23 (3 pages)

Federal Estate Taxes – C4-24 (3 pages)

Iowa Inheritance Tax – C4-25 (4 pages)

Please add these files to your handbook and remove the out-of-date material.

continued on page 6

Inside . . .

- New tool helps farmers make cover crop decisionsPage 2
- 2018 income tax updatePage 4
- Pro-ag seminars to examine market outlook and farmland operating marginsPage 5

Winter cash flow strategies, continued from page 1

farmers may be entertaining the idea of selling some assets. Making a list of essential and non-essential assets would be a good way to start. Many of us probably have assets that are no longer used or may have become outdated for the operations of today. A few years ago, I visited with a farmer that decided to have a small farm auction and he cleaned out his machine shed and the old fence row behind the barn. His neighbors started stopping by and asking about renting his farm, they thought he was selling out.

When making the decision on what to sell, be careful about selling productive assets. Those assets that are producing the income for the farming operation should be the last ones sold. That doesn't mean that we can't look at alternatives. Maybe at today's commodity prices we cannot justify owning a combine that is used just a few weeks during the year. Hiring it custom done might be a better financial alternative.

Beware of tax consequences when selling assets. In the case of selling farm machinery, the recapture of depreciation is ordinary gain, not capital gain. The difference is that ordinary gain is taxed at whatever tax bracket the taxpayer falls into. Capital gain has a maximum rate of 0 percent, 15 percent, or 20 percent, depending on the taxable income of the tax payer.

Use the example of a combine that was purchased in 2010 for \$200,000 and is now fully depreciated and has a \$0 basis. If that combine is sold in 2018

for \$100,000, that income is all ordinary gain and subject to the same income tax percentage as the other farm income. It is not subject to self-employment tax.

A change in the tax laws for 2018 is the 199a deduction. The 199a deduction can become very complex, but in general a farmer will get to reduce their farm income, Schedule F, by 20 percent. Ordinary gain from the sale of machinery is included in the calculation as farm income, but not capital gain. Again, I am simplifying a very complex portion of the tax code. See the article in this month's newsletter on 2018 income tax update for a few more details.

If assets have liens against them, make sure to visit with your lender before selling the assets. Make arrangement to have a portion of the income from the sale set aside to cover the income tax obligations. You don't want to be in the position of having all the proceeds go to the lender and be left with no money to pay the taxes.

Everyone's situation is different, so always visit with your accountant and tax preparer to determine the tax consequences before making the sale. You don't want to have any surprises after the fact.

Consider using Ag Decision Maker or Iowa State University Center for Agricultural Law and Taxation web pages at www.extension.iastate.edu/agdm/ or www.calt.iastate.edu/.



New tool helps farmers make cover crop decisions

By Alejandro Plastina, extension economist, 515-294-6160, plastina@iastate.edu; Nathan Cook, communications specialist, 515-294-3809, nmcook@iastate.edu

A study funded by the North Central Region of the Sustainable Agriculture Research and Education Program and the Center for Agricultural and Rural Development at Iowa State University has resulted in a new free online tool that helps farmers make decisions about planting cover crops.

The tool is intended to help farmers who don't currently use cover crops to evaluate expected annual net returns to cover crop adoption under alternative scenarios, and to serve as a benchmark for farmers who already use cover crops and want to improve the return on their investment.

Winter cash flow strategies, continued from page 2

“The rate of adoption of cover crops in Iowa is low (about three percent of all tillable acres) due to a variety of reasons, including thin windows of opportunity to plant due to weather, uncertainty associated with adoption of new practices, and low corn and soybean prices that limit the ability of farmers to use their own resources in conservation practices,” said Alejandro Plastina, assistant professor of economics and extension economist at Iowa State.

Plastina led the NCR-SARE/CARD funded study that used farmer surveys to evaluate the net returns to cover crops in row crop production in the Midwest. Ultimately, the study found that although some farmers profit from cover crops, the average farmer in the sample incurred annual losses when using cover crops, even after accounting for cost-share payments.

“Uncertainty about the net returns to cover crops has been a major barrier to adoption, and this new tool is intended to help farmers evaluate their own net returns, and reduce uncertainty,” Plastina said.

Plastina said he hopes the new tool will promote cover crop use and help farmers identify ways in which they can make cover crops profitable.

“I expect that by using this tool, farmers will be better able to identify areas in which cost savings are required to generate positive net returns, and increase cover crop use,” he said. “However, the tool might steer some farmers away from using cover crops if they cannot realize the required cost savings. In the end, both groups of farmers should benefit from the tool, one through realizing gains in profits and the other through avoiding losses associated with cover crops.”

Though the initial survey focused on Iowa, Plastina said the new cover crop tool is suitable for farmers anywhere in the United States.

“Since the tool allows the user to create his or her own scenario using their own data, it can be used by any farmer in the U.S. to evaluate the net returns to cover crops in a corn-soybean rotation,” Plastina said.

The cover crop tool is available online at <http://bit.ly/CoverCropCalculator>. A video presentation on the economics of cover crops is also available at <https://vimeo.com/295266082>.

About the Center for Agricultural and Rural Development

For 60 years, the Center for Agricultural and Rural Development (CARD) at Iowa State University has conducted innovative public policy and economic research on agricultural, environmental and food issues. CARD combines academic excellence with engagement and anticipatory thinking to inform and benefit society. Center researchers develop and apply economic theory, quantitative methods and interdisciplinary approaches to create relevant knowledge. Communication efforts target state and federal policymakers, the research community, agricultural, food and environmental groups, individual decision-makers and international audiences.

Begin here:

Agricultural District:
 State of Iowa Northwest North Central Northeast West Central Central East Central Southwest South Central Southeast

Following Cash Crop:
 Corn Soy

Tillage method:
 All observations Rotational no-till or continuous no-till Conventional or vertical tillage

Years of experience with cover crops:
 All observations <=3 4-9 10+

Grazing livestock on cover crops or harvesting cover crop biomass for forage:
 All observations Yes No

Farm size:
 All observations 50+ acres

Do you custom hire your cover crop planting? No Yes

Do you apply a pre-plant burn down in all your acres (with and without cover crops)? No Yes

Do you custom hire your herbicide application to terminate cover crops? No Yes

Expected crop price (\$/bushel): autofill with:

Sources of changes in net profits	Mean (\$/acre)	Median (\$/acre)	Your Scenario (\$/acre)
<input type="button" value="Import Mean"/> <input type="button" value="Import Median"/>			
A) Changes in Revenue			
1. Cost-share program	\$22.41	\$20.00	<input type="text"/>
2. Value of change in following cash crop yield	(\$8.62)	\$0.00	<input type="text"/>
3. Savings or extra revenue from grazing/harvesting cover crop for forage	\$35.00	\$22.00	<input type="text"/>
Subtotal A. Changes in Revenue	\$48.79	\$42.00	

Cover crop tool from CARD



2018 income tax update

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) was signed into law on December 22, 2017. Most of the changes took effect in 2018, but there were a few that were retroactive to 2017. TCJA has been promoted as simplifying the tax code and providing tax savings to taxpayers. For the average W2 wage earner, this may be the case. However, for a farmer or business owner, TCJA brings changes that have not made things simpler. Although there may be some tax savings, the complexity of TCJA and Iowa not coupling with some of the new tax law will add a significant amount of time to tax preparation.

The *personal exemption deduction* was eliminated for 2018. In 2017, this amounted to \$4,050 per dependent. To help compensate for eliminating the personal deduction the *standard deduction* was raised to \$24,000 for those filing married filing jointly. A tax payer will now have to exceed \$24,000 in order to itemize deductions on Schedule A. Many farmers will not be able to exceed \$24,000 and will use the standard deduction of \$24,000. Those farmers that will use the standard deduction may want to consider gifting grain to charities rather than giving money. In addition, you are limited to using a maximum of \$10,000 of state income taxes paid as an itemized deduction.

The *Section 179 Expense Election* has been made permanent and is \$1,000,000 for federal tax purposes, but Iowa only allows \$70,000 in 2018. For a C-Corporation, Iowa only allows \$25,000 in 2018. There are phase-out rules for those that purchase an excessive amount of qualifying assets.

Bonus depreciation is 100 percent through 2022. It now applies to both new and used assets. Iowa did not couple with federal on bonus depreciation, so on the Iowa depreciation schedule, assets would be depreciated over their years-of-life.

The *class life* for machinery has changed. New machinery now has a class life of five years, but used machinery stays at seven years. There is also an option to select 200 percent double declining balance as the method of depreciation or use 150 percent double declining balance, as it was in previous years.

Like-kind exchange rules now only apply to real property transactions, such as farmland. Like-kind exchange rules no longer apply to farm machinery. If a farmer trades tractors and the purchase price of the new tractor is \$200,000 and the amount allowed for the trade-in is \$100,000, the farmer has to treat the trade-in as a sale and realizes \$100,000 of taxable gain. Assuming the old tractor was fully depreciated, the gain will be treated as ordinary gain, not subject to self-employment tax. The farmer will depreciate the full purchase price of \$200,000 on the new tractor. Iowa did not couple with the new like-kind exchange rules. So on the Iowa return the farmer will just depreciate the difference paid of \$100,000 on the Iowa depreciation schedule and not realize a taxable gain to report.

One of the more complex parts of the new tax law is the *199a deduction*. In general, a farmer will get to reduce their Schedule F income by 20 percent and only pay income tax on 80 percent of their farm income. This is a very simple explanation of the 199a deduction. Selling grain to co-ops or having taxable income over \$315,000 can complicate the calculations. C-Corporations cannot use the 199a deduction.

These are only a few of the changes for 2018. The Tax Cut and Jobs Act is a very complex tax law. The majority of the new tax provisions end in 2025 and revert to the tax laws in affect in 2017 for the 2026 tax year. *Contact your tax preparer for the details that might affect your own operation.*

Pro-ag seminars to examine market outlook and farmland operating margins

Sessions scheduled across Iowa during November and December

As harvest comes to a close, producers, ag lenders and suppliers are planning ahead for next year. Iowa State University Extension and Outreach economists will offer valuable insight on key factors impacting 2019 operating decisions at 12 Pro-Ag Outlook and Management Seminars to be held across the state in November and December.

Each three-hour seminar includes information on grain price outlook and global factors to watch, livestock prices and margins, and farmland operating margins, outlook and trends.

The focus of the program is to provide agribusiness leaders a concise evaluation of current market conditions, expected trends in crop and livestock income potential and management implications. Participants also will gain insight on implications trade agreements have on Iowa producers and the critical role of land values and interest rates in the stabilization of the agricultural sector.

Speakers line-up will vary by location but will include ISU Extension and Outreach state specialists Chad Hart, associate professor in economics and extension grain markets specialist; Alejandro Plastina, assistant professor and extension economist; Lee Schulz, assistant professor and livestock economist; Keri Jacobs, assistant professor and cooperatives economist; and Wendong Zhang, assistant professor and extension economist. ISU Extension and Outreach field specialists will also be present at the meetings.

This program takes an in-depth look into the outlook for agriculture in 2019 and provides an opportunity to discuss the current Iowa economic situation with university experts.

Seminar locations and dates:

- Altoona – Friday, Nov. 9 at 9 a.m., ISU Extension and Outreach Polk County office, 515-957-5760

- Carroll – Monday, Nov. 12 at 9:30 a.m., ISU Extension and Outreach Carroll County office, 712-792-2364
- Fort Dodge – Wednesday, Nov. 14 at 4 p.m., ISU Extension and Outreach Webster County office, 515-576-2119
- Waterloo – Thursday, Nov. 15 at 9:30 a.m., Hawkeye Community College, Tama Hall, 319-234-6811
- Mason City – Friday, Nov. 16 at 12:30 p.m., Muse-Norris Conference Center, North Iowa Area Community College, 641-423-0844
- Cresco – Wednesday, Nov. 21 at 9 a.m., Howard County Fairgrounds, Featherlite Center, 563-547-3001
- Greenfield – Monday, Dec. 3 at 9 a.m., Warren Cultural Center Auditorium, 641-743-8412
- Iowa City – Wednesday, Dec. 5 at 12:30 p.m., ISU Extension and Outreach Johnson County office, 319-337-2145
- Mt. Pleasant – Thursday, Dec. 6 at 8 a.m., ISU Extension and Outreach Henry County office, 319-385-8126
- Bloomfield – Thursday, Dec. 6 at 2 p.m., Pioneer Ridge Nature Center, 641-673-5841
- Sheldon – Wednesday, Dec. 12 at 9 a.m., Northwest Iowa Community College, Building A, Room 117, 712-957-5045
- Storm Lake – Wednesday, Dec. 12 at 2 p.m., Prairie Lakes AEA, 712-732-5056

The sessions are open to the public, however pre-registration is requested two days prior to the date of the event. Speakers, registration fees and provided meals vary by location. For locations, times and program information, contact the farm management field specialist in your area or visit www.extension.iastate.edu/agdm/info/meetings.html.

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Updates, continued from page 1

Internet Updates

The following Information Files and Decision Tool have been updated on www.extension.iastate.edu/agdm.

Economics of Cover Crops – A1-91 (video)

Risk Management Practices: Organic No-Till Grain Production with Cover Crops – A1-92 (4 pages, accompanying video)

Risk Management Practices: Pre-Harvest Marketing New Crop – A2-55 (3 pages, accompanying video)

Risk Management Practices: Small- to Medium- Size Swine Producers – B2-25 (2 pages, accompanying video)

Risk Management Practices: Avoid Employment Pitfalls on the Dairy Farm – C1-83 (4 pages, accompanying video)

Risk Management Practices: Financial Benchmarking – C3-64 (2 pages, accompanying video)

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

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

2017 Land Ownership Survey Available for Order (\$5 per copy)

The new, 60-page 2017 Iowa Farmland Ownership and Tenure Survey report is available for order at the Extension Store for only \$5 each paper copy at <https://store.extension.iastate.edu/product/6492>. This is a unique survey across the nation which provides statistically representative information on many aspects of land ownership, tenure and transitions in Iowa. For example, the survey finds that 60 percent of Iowa land is owned by people 65 years or older, 82 percent of Iowa land is owned free of debt, and 29 percent of all acres are primarily owned for family or sentimental reasons.

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