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American Farm Mortgage & Financial Services
a subsidiary of Legence Bank

The Farmer's "Market"

What's Inside:

Message from the President

ALAN HOSKINS

2020 has been a year like any other. No, there was no misspelling in the prior sentence and yes, you read it correctly. I fully realize there is an ongoing pandemic and many, many lives have been affected in unimaginable ways. Many have lost jobs or have family members who are either infected with the virus or have passed away. I do not want to minimize that in any manner. However, please allow me to explain the context in which my statement is being made.

As I write this article, we are preparing to celebrate Thanksgiving in the coming week. It is my opinion, we continue to live in the most blessed country in the world. We are privileged to have an extremely stable, and affordable, source of food. America's farmers and ranchers spend untold hours each week working diligently to ensure this continues. They face the same health challenges as the general public and have the same concerns as to what this pandemic may mean to their business and family. Yes, we have experienced times this year where grocery stores did not have the supply of food we are accustomed to seeing. This, however, was not due to the lack of effort from this nation's farmer and ranchers. They continue to perform their vital role in this country's ongoing success. In fact, dairy and hog producers this year were, at times, asked to either dump milk or euthanize animals solely due to the lack of processing capacity. Those producers put their heart and soul into ensuring they provide the best product possible to the American consumer. Being asked to destroy what they were a part of providing was certainly not easy for them.

One U.S. farm presently produces the items necessary to feed 166 people both here and abroad. That is in contrast to the 26 people each American farm fed in 1960. That is a truly remarkable growth rate.

As I close, I want to go back to my opening statement. 2020 has been a year like any other. I say this from the perspective that, even during an unprecedented pandemic, America's farmer and ranchers continue to work diligently, and for the most part, thanklessly to ensure the American consumer has food to enjoy. This Thursday most everyone will take time to reflect on the things for which they are thankful. I wonder how many of those reflections will include the efforts of America's farmers and ranchers? As I can only control my thoughts, I know for certain, there will be at least one. Will you please join me in making sure there are more?

7 SAFE WAYS TO CELEBRATE CHRISTMAS THAT HAVE NOTHING TO DO WITH ZOOM

HERE'S HOW TO FIND JOY THIS HOLIDAY SEASON-EVEN IF COVID-19 CHANGES YOUR TRADITIONS.

1) PRIORITIZE THE TRADITIONS THAT MATTER MOST TO YOU
2) DO YOUR GIFT SHOPPING AND SHIPPING EARLY
3) TRIM A TREE OUTDOORS
4) MAKE SPECIAL MEMORIES
5) FIND WAYS TO MAKE THE MOST OF YOUR TIME WITH LOVED ONES
6) SPREAD SOME JOY
7) REMEMBER THAT WHAT'S DIFFERENT MAY MAKE THIS HOLIDAY MORE SPECIAL

SOURCE: REALSIMPLE.COM

Key Year-End Tax Planning Tools

By Paul Neiffer
AG Web

Harvest is rapidly coming to an end for many producers and that means key year-end tax planning is needed. Especially this year with all of the CARES Act changes.

One of the key tools we use almost every year is deferred payment contracts. A grower may sell his crop now and then elect to have the payment made right after the first of the year.

Most years we will pick up the income when the farmer receives the cash, however this is considered an installment contract and under those rules, we can elect to pick up the income in the year of sale. This gives us great flexibility in picking our correct taxable income.

However, as one reader asked me today "Can I pick the number of bushels to pick up as income?". The answer is no. This is on a contract-by-contract basis. Therefore, we like to have some small, medium and larger contracts. This allows us to pick the best one(s).

As an example:

Erica sells her corn on various deferred payment contracts. 2 are for 5,000 bushels, 2 are for 10,000 bushels and 2 are for 25,000 bushels. When preparing the tax return, we determine her taxable income is negative $100,000 and she would like it to be positive $50,000. We elect to pick up one of each of the small, medium and large contracts that will bring her income up to about $50,000.

You need to make sure to record that contracts in your books so that you do not double count this income in 2021.
Another key option is to prepay farm inputs. Most farmers already understand this but we are seeing more IRS audit activity on these payments since many of the payments are deposits not qualified prepayments. To qualify, it should:

- Have a stated farm input (seed, gas, diesel, fertilizer, chemicals, etc.),
- Have a stated quantity,
- Have a stated price per unit,
- Not allow for a substitution, and
- Should not exceed 50% of farm expenses (in most situations).

Many of the invoices we review are really deposits and would not stand up to an IRS audit.

These are two of the best tools in your tax planning kit, but you need to make sure to follow the rules.

Tips on Designing a Farm Succession Plan

By Betsy Freese
Successful Farming

LISTEN TO MOM AND DAD'S GOALS FOR THE FARM FIRST. YOU MIGHT BE SURPRISED.

COVID-19 has forced many farmers to take stock of their farm succession plans. Here are tips on that process from two experts.

The initial meetings to design a farm succession plan should take place with the patriarch and matriarch to make sure their goals and objectives are on the same page, says Brandon Dirkschneider, certified financial planner, Insurance Design Management, Blair, Nebraska. Mom and Dad often have a good read on who in the next generation has the business and management skills to make decisions so the farm can succeed. The next generation, including on-farm and off-farm children, join a later meeting to hear their parents' goals for the farm. "If the kids hear Mom and Dad say it, there's not so much bickering and fighting when they are gone," explains Dirkschneider.

The older generation goes over what they've accumulated over their lifetime, how the farm has gotten to this point, and what kind of cashflow it takes to make profit from the operation. At that point, says Dirkschneider, they can say, "In order for this farm to succeed for future generations, Johnny is going to get 60% of the farm ground and the rest is going to be divided between our non-active kids with cash rental agreements in place, because he needs every acre to cover his costs and still afford to raise his family."

Unfortunately greed often sets in with non-active family members, says Dirkschneider. They may have jobs with a company retirement plan, employee benefits, and wages, where the active farm child only has sweat equity.

"Start transitioning wealth while parents are still alive," says Dirkschneider. There are different tools and techniques, such as family limited partnerships limited liability companies, or gifting certain parcels outright. "As soon as you've identified a family member that is going to be the successor of your operation, and they've been there long enough that you know they're not going anywhere, that's what you have to start building out that plan."

Create a mentorship relationship between you and your on-farm children. Don't treat them as general labor and never teach them how to make management decisions. Let them market grain and livestock, help with tax planning, and make decisions on crops and expenses. "The farm families that are successful are the ones that are mentoring and teaching that next generation along the way," says Dirkschneider.

He works with one fifth-generation family who allows the kid coming back from college to make all the choices on 80 acres of land.

Developing a succession plan requires building a team, he points out. You need an estate planning attorney, CPA, property and casualty insurance people, and a certified financial planner that understands the agricultural marketplace.

"The pandemic has given everybody a new perspective on getting their ducks in a row," says Dirkschneider. About 70% of farm families don't have a written estate plan, let alone a succession plan, he says. "If you look at the average age of the American farmer, in the next 20 years 80% of the farm ground is going to change ownership. And 70% of those families, don't have an estate plan."

INSURING YOUR FUTURE

Insurance is one way to keep the farm unit intact, yet be fair to those that are not coming back to the farm, says Tony Jesina, senior vice president of insurance for Farm Credit Services of America. A second-to-die life policy may fund some equalization, allowing people not a part of the farm to be compensated, while keeping the asset base to continue. "That way you don't have to sell land to equalize the estate with the non-farming family members," says Jesina.

You need to update your transition plan often, he says, because families change frequently as people get married, divorced, and have kids. "Sometimes the parents say we are going to give the farm to the person on the farm, but other kids are going to get the life insurance policy," says Jesina. "That way the dollars are meant to come out equal. That's one way you can fund an estate transition."

Long-term care policies are often non-existent or underfunded by farm families, says Jesina. As a result, nursing homes and other care facilities can end up consuming the assets you are trying to transition.

"If there is any type of blessing with the pandemic, this environment has caused more people to be aware of what they have for a plan. Will my plan cover me if I get sick because of COVID? Farming is dangerous itself, let along having a pandemic. There is a renewed sense of urgency around evaluating your plan. COVID has opened a lot of people's eyes that we are all vulnerable. It's easier to bring that conversation up now. We all realized we are all more vulnerable than we originally thought."

The hardest part of the transition process is getting everybody to the table, especially the ones that own the majority of the operation that needs to be transitioned, says Jesina. "Dad may have a plan, but it's in his head. His will may have been written back when the children were little, providing for them equally."

Every year producers review and update their operating plan. That same thing should happen with a transition plan, says Jesina. You need to have a review. The current administration changed the tax laws, capital gains taxes, and estate tax exemption limits. If that administration changes, those tax laws could change or expire in 2025.

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