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American Farm Mortgage & Financial Services®
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The Farmer's "Market"

What's Inside:

Message from the President

ALAN HOSKINS

On Friday, May 21st, my wife Debbie and I experienced the joy of seeing our youngest child, Sydney, graduate from high school. This fall, she will be attending Purdue University and is excited for the opportunity to continue increasing her formal education in the field of biochemistry. It will also allow her to be exposed to a group of people who have a similar field of interest and learn from the exchanging of thoughts and ideas with other students. I hope this is merely the next step in a lifelong educational process from which she will continue to grow and experience joy in finding ways to solve problems and help others through her chosen vocation.

How does this relate to farmers and ranchers? Many producers used their increased 2020 profits to upgrade machinery and equipment, irrigation systems, grain systems, etc. Others made land purchases or improved their homes. If you utilized monies as outlined above, how many dollars did you invest in the last year growing your knowledge level? There are many educational opportunities to help both grain and livestock producers increase their production skills. Are you content with your business acumen? If not, look for educational classes to help you learn more about the financial performance of your operation. What about your skills in managing people? As the market for labor continues to become more competitive, producers who understand how to create a better work environment should expect to experience lower employee turnover. Whether its increased production, improved financial management or creating a better work environment, these should all translate to higher profits.

If you have hired workers, what volume of 2020 monies did your operation devote to making them more valuable by improving their education? There is an old business axiom that says "what if I invest money in my employees and they leave"? I believe the best answer to that is still, what if you don't help them improve and they stay? What competitive advantages could your operation develop if you offered employees the opportunity to grow their formal knowledge? How could their growth allow you more time to perform other tasks on your farm or ranch learned from your educational investment? An additional benefit to your employees of increased knowledge is their self-satisfaction. Most everyone feels a true sense of appreciation and increased contentment with their job when employers make tangible investments to help them expand their knowledge and skills.

An observation I have made over time is many people come to a greater appreciation education as they move through their professional life. As the maturity process occurs, most will see the true privilege knowledge and learning can offer. The passage of time may provide a "rear-view" perspective of life's experiences that enables us to see the true loss of educational opportunities being forgone at earlier points in our journey. It is my firm belief we all should be "life-long learners" in many aspects of our lives. If you are looking for competitive advantages in today's economic marketplace, what is the downside to investing in increased knowledge for both you and your people? In contrast, what is the downside of your competitors increasing their knowledge while you and your people maintain the status quo?

5 Succession Planning Mistakes to Avoid

By Sara Schafer
AG Web

It's time. You need to finally make your farm's succession plan a priority. As you take a first or second or 20th step in the process, shoot to avoid some common landmines.

"Although there are a lot of scary stories out there about succession planning, there's actually way more positive stories," says Rena Striegel, president of Transition Point Business Advisors based in Des Moines, Iowa. "I encourage everyone to become one of those positive stories. Take that first step or break through the roadblocks so you can be one of those success stories."

Here are the roadblocks Striegel sees farmers commonly face.

You engage only one professional.

"Our philosophy is a farm needs to have a collaborative team of professionals that helps them with the decisions and discussions around succession planning," Striegel says.

This team can include a CPA, lawyer, business adviser, banker, insurance professional and others. By having all these viewpoints at the table, you ensure your plan is comprehensive and meets your goals.

"I personally do not believe any one professional can come up with a succession plan independent of the other professionals," she adds. "We encourage farm families to work with their team to develop and implement their transition plan."

Your plan is driven by tax implications.

Taxes, of course, are a big concern for farmers, especially with the new tax policies coming out of Washington, D.C.

"But if you do succession planning with the sole intention of reducing or eliminating taxes, you actually miss a lot of really valuable tools you could be utilizing if taxes were not the major goal," Striegel says. "What we try to do with farm families is identify the true goal of the family. Almost always the goal isn't: I want to transition in a tax-effective way. Most of the times it's about making sure that my operation stays viable, multiple families can support themselves or the farm is going to be here for future generations."

You ignore the elephants in the room.

Succession and transition discussions are stressful. Most of the time, they will include several topics you'd just rather not talk about.

"We don't want to talk about someone dying," Striegel says. "There's a lot of things about these conversations that make people feel really uncomfortable. And so oftentimes, even families who communicate well tend to have a hard time being really open."

If you fall into this category, Striegel suggests working with a mediator or facilitator to help ease the tension and encourage honest and focused communication.

You don't draw lines between being a family and a business.

"The thing we have found that has really helped farm families is when we can separate the family dynamics from the business itself," Striegel says. "We try to help families understand when conversations are business discussions versus family discussions."

In having clear lines between family and business conversations and decisions, she says, you can remove some of the emotional pieces from the equation.

"When we separate those a little bit, it does make it easier for farm families to be able to communicate and make decisions together as a group," Striegel says.

You procrastinate, procrastinate and then wait a little longer.

The worst option for farm families, Striegel says, is waiting until your farm or family is at a breaking point before seeking help. Don't wait until a family member is threatening to leave the farm.

"Oftentimes when the family fractures, so does the farm," she says. "If you think that you're going to need help, it's far better to seek that help out and bring those resources in to preserve your family relationships. Wherever you are, today is the day to start."

Biden's Proposed Tax Changes Could Cause Family Farms to Accrue Additional Debt, Study Shows

By Tyne Morgan
AG Web

The Biden Administration's proposed tax changes could be costly for family farms. That's the takeaway from a new report from Texas A&M University's Agricultural & Food Policy Center (AFPC). The report looked into the proposed inheritance tax code changes currently being debated in Washington.

"There would be a significant tax liability across all the farms that we looked at, except for two, so 92 of the 94 farms," says Joe Outlaw, co-director of Agricultural Food Policy Center and a Texas A&M economist. "The one for sure thing I can tell you is even with the projection of higher prices from FAPRI that we have right now, none of those farms can absorb this tax liability without having to refinance and go into debt. Not one. That's the take home."

AFPC uses a database of 94 representative farms in 30 states. The data is then combined with a farm-level policy simulation model. The economists found all but two operations would be impacted by changes in the stepped-up basis, as well as inheritance tax. And the two farmers that look to be immune lease 100% of their land, with no owned farmland.

The results conflict with reports that say the possible tax changes wouldn't have a have a widespread impact on family farms. The White House and USDA both say Biden's plan to eliminate stepped-up basis for inherited assets beyond $1 million per individual or $2 million per couple, would not affect inherited family farms or small businesses that remain in those families. Outlaw says AFPC's research conflicts with those claims.

AFPC analyzed five scenarios, including the proposed Sensible Taxation and Equity Promotion (STEP) Act, which would eliminate stepped-up basis for capital gains taxes, as well as the 99.5% Act, a proposal that would lower the estate tax exemption to $1 million per individual. AFPC analyzed the tax changes separately, as well as combined.

According to the report, under current tax law, an intergenerational transfer of farm assets at death would see just two of 94 of the representative farms impacted by either estate or capital gains taxes, with an average incurred tax liability of $370,431. And when applied to the STEP Act in place, the same type of transfer would see 98% of farms impacted, with average tax liabilities of $726,104.

"Ninety-two of 94 farms, with an average tax liability due to losing a stepped-up basis of $726,000 per farm," says Outlaw. "So obviously, $726,000 on average, you have some with a little bit and you have some with millions upon millions of dollars of tax liability. So, the question is, how do you go about having them pay for that?"

Outlaw says that's where the issue of being able to absorb the added tax costs comes in. Under the AFPC's modeling system producing accounting records that show even with higher prices, most farms don't have the cash on hand to pay for it.

"In our modeling concept, we ask, 'Do you have the cash on hand?' These operations generally wouldn't have a short-term note and would just try to pay it out over time. And so, it increases their operating notes. It basically causes spiraling down of the business because they're financing more money and having to pay more debt service. So, with our analysis, it basically shows that it puts most people in a bind."

The 99.5% Act would affect 41 of 94 (44%) of farms, with an average tax liability of $2,166,415. Outlaw says when you combine the two policies, it also resulted in an equal or higher tax liability overall, affecting 98% of the farms in the study.

"If you combine the both tax proposals together, it would impact 92 of 94 farms, with an average across all those, again, averaging a lot of big numbers of $1.4 million per farm. Those are significant numbers," says Outlaw.

In addition to the added tax burden, the economists found the proposed tax changes will impact land that's been in a a family for multiple decades.

"A lot of our farms in this country have land that has been in their family for a long time," Outlaw adds. "We had significant amounts of our producers who told us 20% to 30% of their own land holdings have been owned for more than 30 years. If you look at what the basis on that land would be, there would be a lot of tax on that land."

AFPC's analysis is derived from the same group of farmers each time, with a good representation of U.S. farming and ranching operations.

"We want to represent the Corn Belt," Outlaw says. "They aren't an individual specific farm, they are developed to represent an area. And we have been monitoring those some of them for 36 years."

While this specific study was done at the request of Republicans leaders on the Senate and House Agriculture Committees, Outlaw says the research is apolitical with both Democrats and Republicans asking the economists research possible impacts of policy proposals on U.S. farmers and ranchers. He says the Center has been a resource for policy makers for more than 30 years. As a partnership with the University of Missouri's Food and Agricultural Policy Resource Institute (FAPRI), the groups have done analysis for Congress, which includes exploring potential outcomes of Farm Bills as legislators craft the policy every four years.

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