December 2022

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

What's Inside:

Message from the President

ALAN HOSKINS

Without any doubt, 2022 has been a year in which the country's economics has been a large part of the national narrative. Two specific examples are inflation at a forty year high and the current prime interest rate (6.25% on the date of this newsletter's creation) increasing to a level last seen on January 29, 2008. These are indeed real challenges that require navigation in the business management activities of farmers and ranchers.

However, inflation in commodity prices has allowed producers to potentially obtain profit opportunities during 2022. The widespread fertilizer and chemical shortages anticipated in the earlier part of this year did not materialize. These are just two of the opportunities the agricultural community has experienced this year.

Dr. David Kohl is Professor Ameritus in Agricultural and Applied Economics for Virginia Tech University (as well as being a farmer himself) and has a long history of working with both producers and bankers to aid in their success. During a 2013 presentation at the Graduate School of Banking at Colorado, Dr. Kohl stated "80% of economics has nothing to do with numbers. It is about emotion." I echo his thoughts. How we view information has as much to do with the data as the numbers themselves.

I was recently honored to speak at a conference that included farm equipment dealers, both new and used, as well as auctioneers, from twenty-five states and Canada.One presenter, while discussing equipment price trends, stated "DEF issues, "real or not", can drive purchasing decisions". An economist, during his presentation, also quoted a former Starbucks customer as saying "I quit Starbucks. I had to. I just didn't feel like that was justifiable." If you will notice, Dr. Kohl's statement seems to ring very true in both of these presentations. The first presenter did not say the DEF issues were real. He commented "real or not", this is having an economic effect. The Starbucks customer did not state the prices weren't justifiable but rather her purchasing change was due solely to how she "felt". Am I "splitting hairs" regarding these statements? I don't believe that is true but that is ultimately for you to decide.

I am of the opinion the language we utilize describes our true thoughts. I believe a large part of my responsibility to those I serve is to listen closely to their words for the purpose of being able to provide the best possible assistance based upon their true needs. Why do I feel this topic is important to discuss? Farmers and ranchers spend countless hours by themselves performing their incredibly important work. That is a lot of time to think. Long periods of isolation, when coupled with all of the negativity in today's world, can result in a mindset of there being little to no opportunities. I do not believe that is true. My ask is that producers routinely have discussions with their trusted advisors, particularly during this busy time of year, to avoid those limiting mindsets taking root. This is particularly true when significant decisions regarding their operations are required. What you do is extremely valuable and you are not in this alone.

AGRI-TALK EPISODE

Featuring - President & National Sales Director of American Farm Mortgage, Alan Hoskins discussing real estate values, the lending industry serving U.S. ag, and American consumerism mixed with the rise in debts.

Simply open camera on your smart phone and hover over QR code.

A link will pop up that will take you directly to PODCAST.

LISTEN HERE

2022 Year-End Tax Planning Tips

By Paul Neiffer
Ag Web

Tax planning seasons is rapidly approaching for farmers. The normal process is to determine the optimum amount of taxable income to report. Then you determine how much income to defer into the next year or how much farm in-puts to prepay this year.

Rarely do we want to show no taxable income. Our goal is to show enough income to soak up the standard deduction plus pay tax in the 10% and 12% tax bracket. Higher income farmers will soak up even more income. However, this year has some changes. Here is a brief guide.

Should we elect to defer crop insurance proceeds and Emergency Relief Program (ERP) payments? Many farmers will collect crop insurance this year. A farmer is allowed to defer their crop insurance proceeds to the following year if they meet the following requirements:

- They are a cash-method farmer.
- They normally report 50% or more of their crop sales in the year after harvest.
- The crop insurance proceeds were for damage in 2022.

However, any part of crop insurance proceeds related to price cannot be deferred (The IRS finally updated their Publication 225 to reflect this.). A lot of crop insurance proceeds this year will include both damage and price. The crop insurance company will usually let you know how much to expect.

None of the proceeds from the ERP can be deferred. Proceeds received in 2022 relate to damage that occurred in 2020 or 2021. Even payments related to the 2022 wheat crop likely are for drought damage that occurred in 2021 and can't be deferred.

What about expensing farm equipment purchases? Due to supply chain issues, a farmer might not be able to receive their new farm equipment before year end. If so, the deduction will need to be taken in 2023 even if you received and paid an invoice in 2022. Remember, 100% bonus depreciation will drop to 80% next year unless Congress extends it at year end.

Should I try to create a loss? A net farm loss can be carried back two years to offset income reported in 2020 and 2021. But, this applies only to the net farm loss, and you can only offset about $524,000 (singles can offset half this amount) against other income. If you still have a net taxable loss, you can carry it back two years or make the election to carry it forward to 2023. If you expect income to be higher in future years, then electing to carry it forward might make the most sense.

THE BOTTOM LINE
This year, more than ever, requires you to spend time with your tax adviser to pin down the right amount of taxable income to report. Good luck.

Family Business Matters

Ensure Continuity in Your Family Business

By Lance Woodbury
Progressive Farmer

When considering the future of the farm or ranch, most family members want the business to continue. The land might represent a legacy to pass on to others. The assets might provide an opportunity for future family members to create wealth. The senior generation often receives immense satisfaction in seeing the decades of effort and energy they poured into the business successfully transfer to the next generation of owners.

However, certain tendencies by senior-generation family members can create the opposite result. The hard work toward continuity is unwittingly undone by those most concerned for the future. Consider these five behaviors that create uncertainty in the family-business transition.

1. A failure to plan for the future. Several factors cause the senior generation to avoid planning. Disagreement between parents can cause a stalemate. A fear of mortality can foster indecision. The complicated nature of transitioning land, equipment and livestock while minimizing taxes can feel overwhelming. Conflict among the younger generation may leave the parents with a lack of clarity. Whatever the reason, a lack of planning generates anxiety about the future, which ultimately harms the business.

2. A focus on equal asset ownership. Many parents feel they should treat their children equally when completing their estate plan. This stems from a family culture and expectation of equality in our love for one another. But, when this culture is mixed with financial assets and applied to heirs -- some of whom have invested their career in the farm or ranch, and some who worked elsewhere -- a focus on equality can create significant financial challenges. On-farm heirs may lose control of their livelihood or have no good way to buy out a majority of off-farm heirs because of the voting power that naturally follows ownership interests.

3. A focus on equal compensation. This same tug of equality can cause the leaders of the business to compensate equally each family member who did return to the business, regardless of their management contribution. Or, the family member who has been back for one year gets the same pay as the family member who has been back 10 years. This is particularly irritating to the in-laws of working family members who usually see quite clearly the disparity in management contributions or longevity with no differentiation in pay.

4. A lack of acknowledgment and feedback. We often assume that family members who grew up in the same household know what is expected of them. We also expect family members to know that they are loved -- and don't need to be "told" as much. In an employment context, however, these assumptions work against the establishment of a professional work environment. It helps to clarify what results are expected in certain jobs and to offer feedback on how people are performing. Those are table stakes in nonfamily businesses. But, in many family businesses, the only kind of consistent feedback is negative, if any feedback is given at all.

5. Forcing the next generation to be business partners. In their desire to transition the business, parents sometimes give the company to their adult children, who may be incompatible as business partners. As long as the parents are alive and involved, they act as the glue that holds the business, including the next generation, together. But, when parents retire or pass away, conflict consumes the family, and the business suffers.

Decades of farming or ranching experience provides the knowledge of how to avoid major mistakes in operating your business. The problem with business transitions, however, is that you only go through them a couple of times, making it difficult to practice. These five behaviors lay out the common issues or mistakes that can derail business succession efforts and give you some insight into getting the transition right.

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