American Farm
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The Farmer's "Market"

What's Inside:

Message from the President

ALAN HOSKINS

The increased value of agricultural real estate over the last twenty years has been the primary driver in the rise of total assets on farmers' balance sheets. While not receiving the notoriety of the land worth rise, amplified new and used equipment prices have also significantly contributed to the growth in farm assets. The USDA National Agricultural Statistics Service reported the average value of all machinery and equipment on a U.S. farm increased by 31% over the five year period from 2007 through 2012. Most Midwest agricultural producers utilized the higher corn and soybean prices over the most recent ten year period to update much or all of their equipment line. As those commodity prices have softened, so has the value of equipment. However, while land values have held steady to slightly lower, used equipment values have decreased more rapidly. Late model combines, for instance, have been particularly affected.

I witnessed a 2012 John Deere S670 combine with 414 separator hours sell approximately 90 days ago for $191,000. This was a very clean machine and was nicely equipped. The estimated average retail cash value for this unit was $300,692 while the average wholesale value was projected to be $248,184 as obtained from a nationally recognized equipment valuation company. As such, the final selling price was 36.48% below the estimated retail cash value and 23.04% below the estimated wholesale value. For those who think this may have merely been an aberration, there were three other similarly sized, aged, and hour usage combines that sold for $194,000, $206,000 and $215,000 on that date. While the units in this narrative were John Deere combines, Case-IH, Gleaner and New Holland have also suffered similar reductions.

While not as dramatic, late model (3 years old and less) used tractor values have also decreased. A 2013 John Deere 7200R with MFWD and 708 hours recently brought $105,000. The same valuing entity as referenced in the combine example above estimated the average wholesale value of this unit to be $119,122 while retail cash value was projected to be $141,249. The selling price was 11.86% below wholesale and 25.66% below retail cash. As is true with the combine, all manufacturers have seen decreases in their used equipment values.

The value of farm equipment is in a time of significant change. Having a lender with knowledge of the marketplace can be a great boon to you the producer when having discussions relative to your overall financial condition. Take the opportunity to initiate this conversation to gauge your lender's comfort with the values shown in this area on your financial statement. Equipment is typically the second largest asset value category on a farmer's balance sheet and is worthy of discussion in order to ensure its accuracy.

Should We Meet Consumer Desires, Or Educate Them?

TROY MARSHALL
My View From The Country

I visited last week with cattlemen involved in a small branded beef program called Red Rock Beef. I'm amazed by how much they've learned about consumers since they started marketing directly to them.

These producers have been heavily involved in mainstream cattle production for quite some time, so they would be considered extremely knowledgeable by anyone's standard. Their direct contact with consumers has added considerably to their knowledge base about the challenges of marketing and how the consumer views our product.

Some people claim to be "grass farmers" and others "beef producers," because of their focus on particular aspects of production. However, I think most of us would consider ourselves simply cattlemen or cattlewomen. Yet, every person I know who has ventured into a branded beef direct marketing system has undergone a fairly radical transformation – changing their focus from cattle to beef, and from markets to consumers.

As a bystander, I was lucky to hear a rather unique conversation between one of the owners of the Red Rock Beef brand and a consumer. The consumer asked if the branded product was free of the hormones and antibiotics in other meat. This program does sell an all-natural product, but his response was surprising to me. He explained that the product was raised without growth promotants and antibiotics, but that conventionally produced beef normally available at retail was also completely free of them as well. I was impressed that this rancher took the time to educate consumers about the overall industry.

The misinformation that is out there among consumers is startling. This branded program does sell an all-natural product, but its true selling advantage is simply taste. Its buyers pay a premium for a better eating experience, and the success of the program seems to validate that it delivers on that promise.

This scenario does raise the point, however, as to whether the industry should be educating consumers with the facts, or simply responding to their desires, even if those desires aren't based on fact. Without question, the industry must continue to educate consumers about how our cattle are raised, the healthfulness of our product, and the industry's positive impacts on the environment and the economy. This is becoming more and more critical as the misconceptions and falsehoods about our product are repeated and re-repeated to the point that they've become almost universally accepted truths.

Cattlemen tend to be shocked at how misinformed the consumer is about our industry, but it's not because they are naïve or lack intelligence; rather, it's because it's all the consumer hears or sees. Mainstream media does not provide a filter, but has become a conduit for the misinformation of activists. Perhaps all cattlemen need to become beef producers, and then beef advocates.

SUCCESSION PLANNING: 3 Asset Transfer Options to Consider

SARA SCHAFER
Farm Journal Legacy Project

Once you've had the crucial conversations about who will be involved in the future of your operation, it's time to get technical. How will you actually transfer the operation's assets? "Farming is a very capital intensive business," says Paul Neiffer, partner at Clifton Larson Allen and author of The Farm CPA blog. He says the incoming generation rarely has the funding to purchase their own machinery, land, etc., so typically the current farmer's transfer their ownership in some way.

1 ANNUAL GIFTS

"Making annual gifts, especially of the land entity, is often overlooked," he says. "Via annual exclusion gifts, it is fairly easy to gift at least $400,000 of value each year with no gift tax consequence and still retain all of the lifetime exemption amount ($5.34 million for 2014)."

The only downside, Neiffer says, is it hasn't allowed the next generation to get some skin in the game. "I see too many cases where the whole thing is just gifted," he says. This can cause equal-versus-fair issues, especially if there are on-farm and off-farm children.

2 INSTALLMENT SALES

"To provide retirement income for the current owner, installment sales are a powerful tool," Neiffer says. "The sale price is often at a reduced level—creating a part gift and part capital gains situation."

An alternative is an installment sale that allows the farmer to have the gain taxed at lower capital gains rates, he says. Plus, the buyer gets a full step up in depreciable basis of the assets purchased, and it freezes the value of the estate at the sale price.

3 TRUSTS

"If your goal is to retain the farm in the family for multiple generations, a trust is a good option," Neiffer says. "A trust lets you freeze the estate value at the time of the first spouse's death and not have of the remaining growth get taxed in the second spouse's estate."

For any of these options to be successful, Neiffer says you must plan ahead. "Usually these options are planned for and structured over a 10, 15 or 20 year period," he says. "If anyone says this can be done in three months, they are kidding themselves. It takes time."

Additionally, he reminds that farm families must have open and honest discussions about the future of the farm and who will be involved, before you start involving trusts or gifting. "The emotional side is more important than the technical or tax side," he says.

Farm Bill Update: Crop Planting Requirements

BRAD WATKINS & BOBBY COATS
Delta Farm Press

The 2014 farm bill offers producers several different choices and requires many decisions to be made by landowners and producers. Having many choices sometimes involves confusion, and this particular farm bill is the most complex yet.

One area of confusion for many producers is planting requirements for program payments. In short, some producers are wondering if they need to plant a particular program crop to obtain program payments. The answer to this question depends on which programs or products the producer's crops are enrolling in.

Farm programs and products are administered by two different United States Department of Agriculture agencies: (1) the Farm Service Agency, and (2) the Risk Management Agency. Planting requirements differ based on the programs or products administered by each agency.

FSA-administered programs

FSA administers commodity programs such as the Price Loss Coverage program (PLC) and the two Agricultural Risk Coverage programs (ARC-CO for county level revenue protection and ARC-IC for farm level revenue protection). FSA also is responsible for administration of payments on generic base acres (formerly upland cotton base acres).

Payments based on base acres – PLC and ARC-CO

Program payments for the PLC and ARC-CO programs are made on base acres rather than planted acres. Producers do not have to plant the covered program crop to receive triggered payments. For example, a rice producer with rice base acres could plant all rice acres to another crop such as corn or soybeans and still receive rice program payments under ARC-CO or PLC programs if such payments are triggered. Thus, the rice producer in this example can plant other crops based on market signals and is not tied to planting only rice to receive program payments.

Exceptions to the rule – generic base acres and ARC-IC:

Upland cotton is not considered a covered commodity for PLC or ARC programs under the 2014 farm bill. Upland cotton base acres are now classified as generic base acres. These generic base acres may be planted to any PLC/ARC covered commodity, and any triggered payments made will be based on the FSA program (ARC-CO or PLC) chosen for each planted crop. Generic base acre planting decisions may be made on a year-to-year basis.

The ARC-IC program is a kind of hybrid. When triggered, per-acre ARC-IC payments are paid on 65 percent of total base acres for the farm. However, per-acre ARC-IC payments are triggered when actual per-acre revenue for the farm falls below the farm's benchmark per-acre revenue. Both revenue numbers (benchmark and actual) are weighted by the number of acres planted to each covered commodity on the farm. Thus, ARC-IC payments depend on both the acres planted to each covered commodity on the farm and the total number of base acres across covered commodities for the farm.

Payments based on planted acres – RMA-administered products:

The RMA administers crop insurance products such as Catastrophic Risk Protection (CAT), Yield Protection (YP), Revenue Protection (RP), the Supplemental Coverage Option (SCO), and the Stacked Income Protection Plan (STAX).

The SCO became available in the 2014 farm bill and provides additional county or area coverage for a portion of the producer's underlying crop insurance policy deductible. The SCO is available in 2015 for most crops and locations and will be available for crops enrolled in the PLC program as well as for crops not enrolled in any commodity programs. Crops enrolled in the ARC will not be eligible for SCO coverage.

The STAX product is offered to cotton producers in the 2014 farm bill. It is an area revenue product that provides up to 20 percent coverage (between 90 and 70 percent) of expected area revenue in 5 percent increments.

Any triggered payments (indemnities) for the above mentioned insurance products, including both the SCO and STAX, are based on planted acres, and the decision to enroll in any of these insurance products is made by producers on a year-to-year basis.

In summary, payments for FSA-administered programs such as the PLC and ARC-CO are made on base acres rather than planted acres. Generic base acres planted to a covered commodity will be eligible for FSA-administered program payments. ARC-IC payments are based on both base acres and planted acres.

Payments (or indemnities) for RMA-administered products (crop insurance products including SCO and STAX) are based on planted acres, and enrollment decisions for these types of products are made on a year-to-year basis.

BEEF SHORT RIBS WITH GINGER-MANGO BBQ SAUCE

NATIONAL CATTLEMEN'S ASSOCIATION
4-6 Servings

INGREDIENTS

2 pounds beef Short Ribs Boneless, cut 2 x 2 x 4-inch pieces
1-1/2 cups diced fresh or drained jarred mango
1 medium onion, chopped
1 tablespoon minced fresh ginger
1 cup hickory-flavored barbecue sauce

INSTRUCTIONS

-Place beef short ribs, mango, onion and ginger in 3-1/2 to 5-1/2-quart slow cooker. Add barbecue sauce. Cover and cook on LOW 7-1/2 to 8-1/2 hours, or on HIGH 5 to 6 hours, or until beef is fork-tender. (No stirring is necessary during cooking.)
-Remove short ribs, season with salt and pepper, as desired. Skim fat from cooking liquid; serve over short ribs.

Nutrition information per serving: (1/4 of recipe): 390 calories; 19 g fat (8 g saturated fat; 9 g monounsaturated fat); 99 mg cholesterol; 704 mg sodium; 2 g carbohydrate; 1.9 g fiber; 34 g protein; 3.8 mg niacin; 0.4 mg vitamin B6; 3.7 mcg vitamin B12; 3.8 mg iron; 23.9 mcg selenium; 8.3 mg zinc.

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