



# Ag Decision Maker



## A Business Newsletter for Agriculture

Vol. 7, No. 1

www.extension.iastate.edu/agdm

November 2003



### Business development producer alliances

by Don Hofstrand, extension value-added ag specialist, 641-423-0844, dhof@iastate.edu

Producers are joining together to focus on adding value to the crops and livestock they produce. Rather than developing just one value-added business, some of these new alliances are focusing on developing a variety of businesses by identi-

fying new markets and creating new business ventures to service these markets. In other words they are in the business of creating value-added businesses.

#### Examples

Below are three examples of these new producer alliances. Many more have either been formed or are in various stages of formation. Although each alliance is unique, they all share the basic mission of creating new value-added businesses.

- **21<sup>st</sup> Century Alliance**— Kansas-based 21<sup>st</sup> Century Alliance was organized in 1996. Its mission is to provide profitable agribusiness opportunities for its members. The alliance has established seven value-added businesses including flour milling, a dry bean company and dairy production. It has about 700

members and has recently expanded in other states.

- **Ag Ventures Alliance**— This Iowa-based company was formed in 1998 and currently has over 1,100 members. Its mission is to create and facilitate the development of value-added businesses. Ag Ventures has created a corn ethanol business and helped existing value-added businesses like Golden Oval Eggs expand.

- **Heartland Agdeavor**— Based in Ohio, Heartland enhances farm income by

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#### Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

**Crop Planning Prices**— A1-10 (1 page)

**Lean Hog Basis**—B2-41 (2 pages)

**Live Cattle Basis**—B2-42 (1 page)

**Suggested Closing Inventory Prices**—C1-40 (1 page)

Please add these files to your handbook and remove the out-of-date material.

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providing investment opportunities to its members in businesses that add value to agricultural commodities. It serves as a clearinghouse for value added ideas, conducts feasibility studies and prepares business plans.

**Advantage of alliances**

These new alliances provide advantages for producers involved in value-added business development that are not available when working in isolation on a single project. Alliances provide a unique form of business “incubator.” Not an incubator in terms of physical space and equipment, but an incubator in terms of skills development, leadership, idea sharing and access to resources.

- **Developing business skills**—Instead of developing entrepreneurial and business skills to build just one value-added business, these skills can be used over and over to build several businesses. In the process, these skills are further developed and honed.
- **Building leadership skills**—Critical to the success of developing value-added business are leaders. These individuals are often called “champions” because they provide the drive and momentum needed to take a business idea and create a viable business from it. Alliances provide a forum for leaders to get together to learn and draw strength from each other.

- **Sharing idea**—Alliances bring together individuals from different backgrounds with different market and business ideas. This allows for interaction and sharing of ideas that would not occur in isolation.
- **Building relationships**—Alliances provide a framework for building relationships with other organizations and individuals such as researchers, financial providers, technology providers, public sector providers and others who are critical to building viable value-added businesses.
- **Accessing funds**—Alliances may provide “seed” capital for investigating potential business ideas. Alliance members may be a source of equity for the capitalization of business ventures.
- **Timing business**—As critical as “which” market or industry to enter is the question of “when” to enter. Alliances provide the longevity and patience needed to wait until the proper time to enter an industry or market with a new business.

Producers are attempting to enhance the value-added business development process by creating these entrepreneurial organizations. In the eyes of this observer, these alliances are critical to the success of the value-added movement.



**Federal estate taxation of farm and ranch estates \***

by Neil E. Harl, Charles F Curtiss Distinguished Professor in Agriculture and professor of economics, 515-294-6354, harl@iastate.edu

**R**epeal of the federal estate tax (as well as the generation-skipping transfer tax) effective for deaths after 2009 and the “sunset” provisions specifying that “all provisions of, and amendments made by the Act shall not apply to “estates of decedents dying, gifts made or generation-skipping transfers after December 31, 2010” have focused attention on

the wisdom and the consequences of that part of the Economic Growth and Tax Relief Reconciliation Act of 2001.

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Federal estate taxation of farm and ranch estates, continued from page 2

**Justification for repeal**

One of the most frequently cited reasons for repeal of the federal estate tax is the “hardships that the tax inflicts on closely held family businesses and farms.” The data, however, do not support that frequently-made assertion.

**Impact on farms.** Data from federal estate tax returns (Form 706) filed in 2001 provide fairly clear evidence of the impact of the tax on farms and ranches. The data show that the largest amount of farm property subject to federal estate tax is held by decedents with taxable estates of \$20,000,000 or more.

The number of estates subject to the federal estate tax has been quite modest in recent years. Of the roughly 2.3 million deaths in 2001, 51,841 incurred estate tax liability (approximately 2.2 percent of all deaths). In that year, \$23,532,542 was paid in federal estate tax which averaged about \$453,936 per estate.

**Estates reporting farm property.** Of the total number of taxable estates (51,841), 2601 decedents with taxable estates reported some farm property in 2001. That is 0.11 percent of all deaths. The number of estates in each tax bracket and the average amount of farm property are shown in Table 1.

IRS does not separately report farm real estate. Farm real estate is reported under the category of “Other Real Estate.” A report released by the Congressional Research Service on June 9, 2003 included an estimate of the amount of farm real estate included in the “Other Real Estate” category. Approximately \$1.6 billion of the assets reported in the “Other Real Estate” category is believed to be farmland. The estimate by CRS was that farm

real estate included in taxable estates in 2001 was estimated to total \$1,582,774,000

which is approximately 1.28 percent of all taxable estate value. Farm assets in total account for 1.6 percent of total taxable estate value.

The CRS conclusion was that “farm assets and business assets represent a relatively small share of total taxable estate value. And, most of the farm and business assets in the estate tax base are concentrated in estates valued at or above \$10 million.”

As show in Table 1, the 44 estates with taxable estates over \$20,000,000 reporting some farm property reported an average of \$3,389,841 in farm assets for federal estate tax purposes. The \$10,374,200 average benefit of repeal to that group would likely result in a portion of that amount going into farm assets. *Over time, this would be expected to lead to a gradual increase in farm asset ownership by the very wealthy.* The proportion of land rented would be expected to rise as farmers would have an increasingly difficult time in competing for land ownership.

**Tax paid by state.** In confirming the fact that the big run-up in wealth in recent years has largely bypassed the agricultural sector, the data show that the average tax paid in 2001 in states that are heavily agricultural is dramatically lower than the more urban states.

The bottom five states in terms of average federal estate tax paid in 2001 were Hawaii (\$209,267), Idaho (\$207,464), Iowa (\$196,403), West Virginia (\$179,379) and North Dakota (\$61,898).

**Table 1. Average value of farm property by estate tax bracket**

Tax bracket	Number	Average value of farm property
625,000—1,000,000	916	36,772
1,000,000—2,500,000	1,192	38,057
2,500,000—5,000,000	319	263,467
5,000,000—10,000,000	72	612,775
10,000,000—20,000,000	60	735,067
20,000,000 or more	44	3,389,841

Federal estate taxation of farm and ranch estates, continued from page 3

On the other hand, the federal estate tax paid in the top five states in 2001 averaged \$887,437 in Georgia, \$842,200 in the District of Columbia, \$829,823 in Connecticut, \$772,066 in New Hampshire and \$708,458 in Nevada.

Who would benefit from repeal

The top 469 estates (those with taxable estates exceeding \$20,000,000) paid an average of \$10,374,200 each in federal estate tax in 2001. The top 1337 (those with taxable estates exceeding \$10,000,000 of taxable estate) paid an average of \$5,982,049 each. The top 3502 (those with estates exceeding \$5,000,000 in taxable estate) paid an average of \$3,515,461 each in federal estate tax. That is a measure of tax benefit had the federal estate tax been repealed

in 2001. It is obvious what is really driving federal estate tax repeal.

In conclusion

Possible repeal of the federal estate tax and generation-skipping transfer tax is being played out against a backdrop of striking increases in concentration of wealth in recent years. Much of that increase in wealth has bypassed the farming sector.

The revenue loss from federal estate tax repeal would result in a shift of burden to other taxes, most notably the federal income tax. The income tax is a concern to a far greater segment of agriculture than the federal estate tax.

New soybean oil eliminates need for hydrogenation and cuts trans fats

by Walter Fehr, Charles F. Curtiss Distinguished Professor in Agriculture, (515) 294-6865 or 294-4779, wfehr@iastate.edu

New soybean varieties developed at Iowa State University hold promise for food manufacturers scrambling to remove unhealthy trans fats from their products. The new soybeans produce oil that doesn't need to be hydrogenated.

The oil passed critical laboratory tests for frying and flavor stability last year, and is being made available this month to many major food companies for evaluation in various products.

The Food and Drug Administration has given food manufacturers until 2006 to include trans fat information on package labels. Trans fats may raise blood cholesterol levels and contribute to heart disease. Most trans fats in the nation's food supply are created in the hydrogenation process, which is used to extend shelf life and stabilize flavor in countless baked, fried and processed foods, including chips, snack crackers, cookies, candies and salad dressings.

Manufacturers hydrogenate soybean oil to reduce its content of unsaturated fatty acids, particularly linolenic acid, the primary culprit responsible for causing food to become stale or

rancid. Soybeans typically produce oil with seven percent linolenic acid. Iowa State's new soybean oil has only one percent linolenic acid.

The new soybean was developed through conventional breeding practices. We started working on the project in the late 1960s. By the early 1990s, we had isolated the three soybean genes that control the one percent linolenic acid trait.

The Iowa State University Research Foundation holds the patent for the one percent linolenic acid soybean.

This year, the one percent linolenic soybeans were planted and harvested in Michigan by Zeeland Farm Services Inc., Zeeland, Mich. In early November, 210,000 pounds of crude oil were extracted from the harvested soybeans. Loders Croklaan, a producer of specialty and nutritional oils and fats in Joliet, Ill., will refine about 70,000 pounds of the oil for distribution to oil suppliers and food companies that have purchased it for testing. The remaining crude oil will be kept in Michigan until more refined oil is needed.

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New soybean oil eliminates need for hydrogenation and cuts trans fats, continued from page 4

Interest in the new oil is growing. A major supplier of frying oil this week requested oil for testing. In addition, Fehr will travel to Japan next week to discuss the new oil with representatives of their vegetable oil industry.

To cut trans fats in their products by 2006, the food industry could switch from soybean oil to alternative oils that don't contain linolenic acid. However, the supply of alternative oil is limited.

"There aren't enough acres of alternative vegetable oil crops, like canola or sunflower, to meet the industry's oil needs.

More than 73 million acres of soybeans are grown in the United States. Soybeans supply 81 percent of the U.S. food industry's needs for edible oils and fats.

I am working with Iowa grower groups, including Innovative Growers and the Iowa Quality Agriculture Guild, that will plant the one percent linolenic acid soybean next spring.

This is a special opportunity for growers who already are getting a premium for their non-GMO soybeans. The current premium applies only to the value of the non-GMO protein obtained from the soybeans. The one percent linolenic acid soybeans will make it possible to get an additional premium for the oil.

Growers will plant about 40,000 acres of the one percent linolenic acid varieties in 2004 to obtain the seed needed for large-scale oil production in 2005. We'll need one million acres in 2005 to meet the demand that the food industry estimates it will have for this oil.

## The Agricultural Marketing Resource Center for value-added agriculture

by Christa Hartsook, communications specialist, Agricultural Marketing Resource Center, hartc@iastate.edu

The Agricultural Marketing Resource Center (AgMRC) is a national virtual resource center for value-added agricultural groups. The purpose and mission of the AgMRC is to provide independent producers and processors with critical information to build successful value-added agricultural enterprises.

The Web site, [www.AgMRC.org](http://www.AgMRC.org) contains links and AgMRC developed materials on everything from networks of ethanol cooperatives to organic beef producers to value-added worm businesses. This extensive collection of resources and tools can help anyone involved in value-added agriculture develop and improve any aspect of their business.

### Content

The content portion of the AgMRC Web site is divided into four main sections:

- Commodities and Products
- Markets and Industries

- Business Development
- Directories and State Resources

The **Commodities and Products** section provides information on adding value to the commodities and products traditionally produced on the farm. Examples are adding value to corn, beef, fruits, etc. Information is provided along the supply chain from production, processing and marketing for each commodity/product, focusing on marketing.

The **Markets and Industries** section provides information on the major markets and industries (food, energy, etc.) that producers will participate in during the process of adding value to their farm products.

The **Business Development** section focuses on information needed to create and operate a viable value-added business. The information is provided sequentially for use during the business analysis, creation, development and operation process.

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The Agricultural Marketing Resource Center for value-added agriculture, continued from page 5

The final main area of content is the **Directories & State Resources** section. Several directories were created for the Web site by AgMRC staff, including directories of consultants and service providers, value-added agricultural businesses and specific contacts in each state.

**Partners**

The Center combines expertise at Iowa State University, Kansas State University and the University of California. The center works with other leading land grant universities, such as Oklahoma State University and Montana State University, as well as organizations such as Sparks Companies and CoBank on value-added projects. Partial support is derived from the USDA Rural Business-Cooperative Service.

**Contact us**

Producers, consultants, extension personnel, rural development specialists and others in-

involved in value-added agriculture can contact the resource center either via toll free phone at 866-277-5567, e-mail at [agmrc@iastate.edu](mailto:agmrc@iastate.edu) or the Web site, [www.agmrc.org](http://www.agmrc.org).

AgMRC staff would be happy to come speak at value-added agricultural gatherings or at annual meetings to share with your group what the Center offers. Additionally, we will provide promotional or other background information for meetings and events.

Please contact us through the above channels with any questions or opportunities to share the message of the Center. We look forward to hearing from you.

**... and justice for all**

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