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Ag Decision Maker

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Payments under 2014 Farm Bill safety net provide small cushion for producers in many Iowa counties

By Alejandro Plastina, extension economist, 515-294-6160, plastina@iastate.edu; Ann Johanns, extension program specialist, 641-732-5574

Final data on 2015 county level yields was recently released by the USDA Farm Service Agency. This is the final information needed for calculating payment rates under the ARC-CO program. The Marketing Year Average (MYA) Prices for the marketing year starting September 1, 2015 and ending August 31, 2016 were released at the end of September. Final National MYA prices for the 2015 marketing year were $3.61 for corn and $8.95 for soybeans. The payments released by FSA starting in October 2016 are for crop acres enrolled during the 2015 crop year.

Payments under the 2014 Farm Bill are tied to the base acres on a farm and are not influenced by the crop grown in the payment year.

ARC-CO payments

Figures 1 and 2 give ARC-CO payments by base acre for corn and soybeans. Under the ARC-CO program, producers receive payment on 85 percent of their base acres. This 15 percent reduction is factored into the values seen in the images. Furthermore, a 6.8 percent deduction is applied due to the Federal government's sequestration of the budget. Farms enrolled in ARC-CO in seven counties (Appanoose, Decatur, Henry, Lucas, Marion, Monroe, Washington), all located in the South Central and Southeast portion of the state will not see a payment for corn or soybean acres. Eight counties (Clarke, Jefferson, Keokuk, Pottawattamie, Ringgold, Van Buren, Warren, Wayne) will receive a payment on soybean acres, and not on corn, and farms in another 26 counties will receive a corn payment and no soybean payment (Adair, Bremer, Buena Vista,

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

2015 Corn and Soybean Loan Rates – A1-34 (2 pages)

Deductible Livestock Costs for Adjusting Income Tax Returns – B1-15 (1 page)

Labor and Machinery Sharing Agreement– C4-45 (3 pages)

Please add these files to your handbook and remove the out-of-date material.

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Inside . . .

IOWA STATE UNIVERSITY
Extension and Outreach

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Payments under 2014 Farm Bill safety net provide small cushion for producers in many Iowa counties, continued from page 1

Calhoun, Carroll, Cerro Gordo, Clay, Davis, Dickinson, Emmet, Floyd, Franklin, Guthrie, Hancock, Howard, Humboldt, Kossuth, Madison, Mitchell, Monona, Palo Alto, Pocahontas, Sac, Winnebago, Worth, Wright). Base acres enrolled in ARC-CO in the remaining fifty-eight counties will receive a payment at some level for both crops.

PLC payments

With the 2014 Farm Bill, Iowa producers had two options to choose from, ARC (county or individual) or PLC. The PLC program provided a safety net for producers should the MYA prices be below the set reference prices of $3.70 for corn and $8.40 for soybeans. No payments were seen in Iowa under the PLC program for 2014, but a small payment will be received for corn base acres enrolled in PLC for 2015. The payment per bushel will be $0.07 (after 6.8 percent sequestration), and based on yield information at the farm level. Producers were given the option to update their yield information with FSA during program sign-up.

Statewide payments

The average ARC-CO payment per base acre on corn was $33.51 and $15.68 for soybean acres in Iowa. With over 22 million base acres in the state enrolled in ARC-CO or PLC, estimated payments for Iowa producers under ARC-CO for the 2015 marketing year is approximately $646 million with another $3.8 million going towards corn base acres enrolled in PLC.

Figure 1. 2015 ARC-CO payments on corn base acres (payments rounded to nearest dollar)

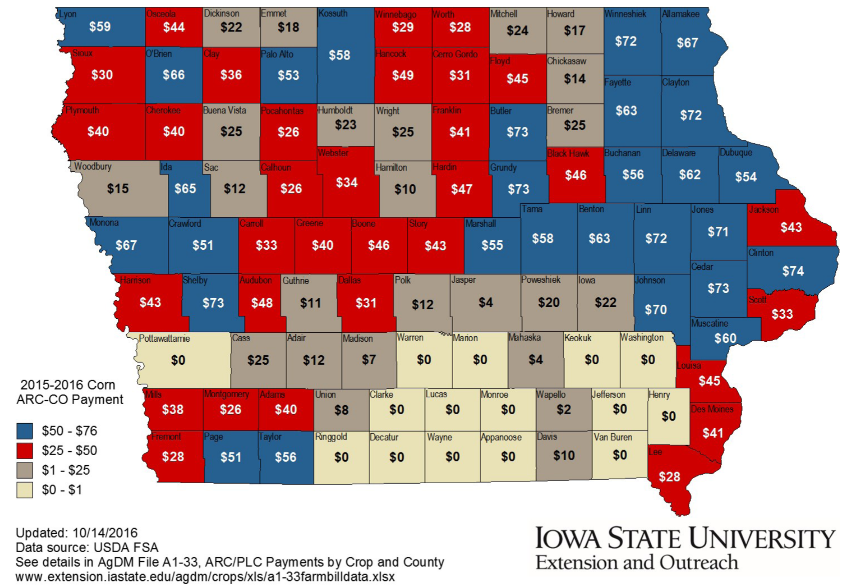
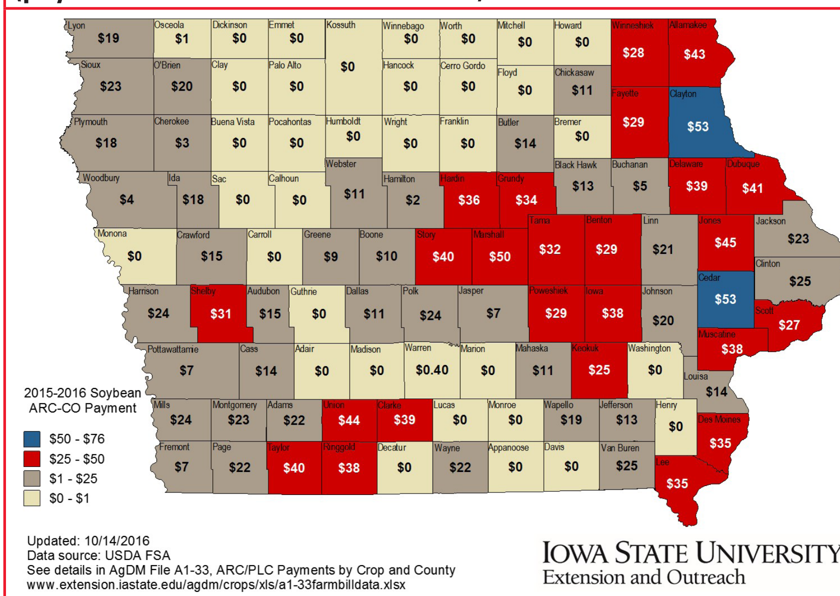


Figure 2. 2015 ARC-CO payments on soybean base acres (payments rounded to nearest dollar)



More information on the 2014 Farm Bill, including Decision Tools to see detailed calculations of payments by county is available on [Ag Decision Maker](). For other maps of payments, visit the [CARD Farm Bill Mapping Tool](). Projections for 2016/17 payments are updated regularly as information is released by USDA FSA.

Relieving farm cash flow problems with commodity credit loans

By Charles Brown, farm management specialist, 641-673-5841, crbrown@iastate.edu

In general, yields have been above expectations for both corn and soybeans in 2016, but commodity prices are also at low prices that we have not seen for several years. Cash flow is going to be tight going into 2017. In previous years, farmers have had excellent incomes and have offset that by using the Section 179 Expense Election. This has allowed them to expense up to $500,000 of qualifying asset purchases, which included machinery purchases. This has been done for several years and now a lot of farmer's depreciation schedules have little or no depreciation to use in 2016 and future years. With little cash to purchase assets in 2016 in order to use the Section 179 Expense Election, many farmers may find that they have higher taxable income than expected and still have payments to make on machinery loans. In past years, to help minimize taxes, many farmers have also rolled grain sales ahead and prepaid expenses. This year the high costs of inputs in comparison to commodity prices along with loan payments to make has tightened up cash flow. So, the dilemma is how to create cash flow and not create taxable income in a year when income may already be higher than expected.

With the higher commodity prices and excellent farm incomes the past few years' commodity credit loans have not seen the use they once did. This may change now that commodity prices are lower and cash flow is tight. When a farmer takes out a loan from the Commodity Credit Corporation (CCC) and pledges their grain as collateral, they have a choice as to declare the loan as taxable income in the year they receive the loan or declare it as a loan and then declare the taxable income in the year the grain is sold. The farmer is not limited as to what the Commodity Credit loan can be used for. They could prepay for seed, fertilizer or chemicals and possibly capture some discounts for early payment, plus reduce taxable income for 2016 or make payments on loans that may have a higher interest charge.

Visit Changing Farm Financial Conditions for resources on financial planning and stress management from Iowa State University Extension and Outreach.

Tax treatment of CCC loans

To report the CCC loan as income in the year the loan is received you report it on the Schedule F on line 5a. Once the CCC loan is reported as taxable income in the year received then it must also be reported in future years as taxable income in the year it is received. This can be changed by filing Form 3115, Application for Change in Accounting Method. Changing from reporting a loan as taxable income in the year received back to reporting it as a loan is an automatic election, but Form 3115 must be filed. This gives the farmer the flexibility to switch back and forth year to year if desired. Form 3115 only needs to be filed when switching from income to loan, it does not need to be filed when switching from loan to income.

It may have been some time since a farmer has taken out a CCC loan. They may not remember how they treated the last loan for tax purposes and may have to look at some past tax returns to find out. CCC loans are one way to generate some cash flow and the farmer has the choice as to how to treat it for income tax purposes. As always, consult with your tax professional to determine what is best in your situation.


ISU Extension and Outreach offers one-on-one farm financial planning support

By Chad E. Hart, extension economist, 515-294-9911, chart@iastate.edu;
Ann Johanns, extension program specialist, 641-732-5574, aholste@iastate.edu

It's safe to say that financial management for farm families is unique. Farm income can be irregular and unpredictable. Bills must be paid, livestock fed and crops tended to. Taking care of a family's needs can bring added stress.

Iowa State University Extension and Outreach offers Farm Financial Planning, a program providing one-on-one financial support and advice to farmers. The program includes a computerized analysis of the farm business using FINPACK software from the Center for Farm Financial Management. It also provides referrals to ISU Extension and Outreach programs and outside services such as counseling or financial management courses.

FINPACK gives information to make more informed and profitable decisions for the future of a farm business. The Farm Financial Planning program was initiated in the 1980s in response to the farm crisis. It continues to be available to give Iowans confidence with stressful issues, legal questions and financial concerns.

Any farmer who wants to understand a complete picture of their farm financial situation, which many lenders are requiring before they will extend further credit, should consider the Farm Financial Planning program. The goal of the program is to help determine farm business needs, and whether or not future changes are desirable.

As part of the program analysis, farm business operators will see at least three in-depth FINPACK business plans and how to implement alternatives like the addition, expansion or phasing out of a livestock operation, or buying, selling or renting land. Farm Financial Planning can also help evaluate ways to correct negative cash flow and profitability problems.

A trained ISU Extension and Outreach associate meets with the family one to two times to get farm records and to discuss results of the FINPACK analysis in confidence and possible effects if changes are made.

> A FINPACK analysis and counseling and finance management referrals are included in the support offered by ISU Extension and Outreach.

The service is currently available at no charge and is funded by the Agricultural Credit School, a program of ISU Extension and Outreach and the Iowa Bankers Association.

Farm financial associates are part-time ISU Extension and Outreach employees trained in farm budgeting and financial analysis. They have agricultural backgrounds and understand farming and the challenges it may bring.

To set up an appointment, contact your Farm Management Specialist or the Farm Financial Associate in your area:

David Entriken, Webster City, (515) 835-1565, dfe1943@yahoo.com
Tom Olsen, Newell, (712) 272-3232, tomolsen@windstream.net
Mark Olsen, Newell, (712) 660-1597, mtolsen@iastate.edu
John E. Jensen, Knoxville, (641) 842-5325, jejensen@windstream.net
Roger Stewart, Red Oak, (712) 623-6316, rogstewredoak@gmail.com
Sarah Drollette, Iowa City, (319) 435-0910, sarah.drollette@gmail.com

For questions regarding the Farm Financial Planning program, contact your ISU Extension and Outreach farm management specialist, www.extension.iastate.edu/ag/farm-management. Or contact the Beginning Farmer Center at 877-232-1999.

Changes in financial indicators for a panel of Iowa farms

By Alejandro Plastina, extension economist, 515-294-6160, plastina@iastate.edu

An examination of financial data from the Iowa Farm Business Association (FBA) revealed significant changes from January 1, 2015 to January 1, 2016 in liquidity and solvency for a panel of 316 Iowa farm businesses.

Farm operations that saw their liquidity or solvency rating fall between January 2015 and January 2016 accounted for 25.9 percent of the farms in the sample. Farms that experienced improvements in their liquidity or solvency rating over the same period accounted for 9.2 percent of the sample. The average decline in working capital across all farms in the panel between January 2015 and January 2016 amounted to -$91,658. In an environment of low commodity prices, protecting the working capital is key to the survival of the business, even if the operation has a strong balance sheet.

Table 1 summarizes the changes in categories for all farms in the sample between January 2015 and January 2016. The total number of farms that did not switch categories between January 2015 and January 2016 amounted to 204, and represented 64.6 percent of the sample.

The most common switch in category involved a lower liquidity rating while maintaining the solvency classification (16.1 percent of farms). This is a clear indication that lower commodity prices affected farm operations mostly through liquidity in 2015.

The second most common switch involved a lower solvency rating, while maintaining the liquidity classification (6.6 percent of farms). Farms in this group with vulnerable liquidity classification (12 farms), saw their farm net worth decline 23 percent on average in 2015, mostly due to operating losses and increasing debt. Farms with strong liquidity classification (9 farms), saw their net worth decline 6 percent on average in 2015, due mainly to increased debt taken to maintain liquidity levels (several farms in this group also purchased land or machinery in 2015).

The third most common switch involved improving the liquidity rating while maintaining the solvency classification (5.7 percent of farms). Only 3.2 percent of the sample experienced a simultaneous switch to lower liquidity and solvency ratings.

Full details of the analysis can be found in *AgDM File C1-12*, Iowa Farms: From Strong to Vulnerable in a Year?

Table 1. Summary of changes in categories between January 2015 and January 2016.

Type of change	Count of farms	Percent of total
No change	204	64.6%
Similar solvency rating, lower liquidity rating	51	16.1%
Similar liquidity rating, lower solvency rating	21	6.6%
Similar solvency rating, higher liquidity rating	18	5.7%
Lower liquidity and solvency ratings	10	3.2%
Similar liquidity rating, higher solvency rating	8	2.5%
Higher liquidity and solvency ratings	4	1.3%
Higher liquidity rating, lower solvency rating	0	0.0%
Lower liquidity rating, higher solvency rating	0	0.0%
Total	316	100.0%

2016 Iowa State University Land Value Survey

Dr. Wendong Zhang with Iowa State University Extension and Outreach and the Center for Agricultural and Rural Development is administering the 2016 ISU Land Value Survey. This survey will be sent out to farm managers, appraisers, brokers, ag lenders and other agricultural professionals via paper and online for participation from November 1, 2016 to December 2, 2016. The results of this survey will be released at a press conference on Tuesday, December 13 at the ISU Alumni Center.

If you are an agricultural professional knowledgeable about the farmland market who hasn't participated before, but would like to participate in this year's survey, please contact Dr. Wendong Zhang at wdzhang@iastate.edu or call 515-294-2536. You can also see the land value trends at the county, district and state level since 1950 at the new, interactive Iowa Farmland Value Portal at http://card.iastate.edu/farmland/.

Updates, continued from page 1

Internet Updates

The following Information Files have been updated on www.extension.iastate.edu/agdm.

Iowa Farms: From Strong to Vulnerable in a Year? – C1-12 (12 pages)

Understanding Cash Flow Analysis – C3-14 (4 pages)

Cash Flow Budget (corn, soybeans and livestock) – C3-15 (Decision Tool)

Planning your Future Together – C4-11 (3 pages)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15