Tracy Ellingson

From: Bryan Manny <bryanmanny@sbcglobal.net>
Sent: Wednesday, May 24, 2017 11:07 AM
To: Kent Vickre
Subject: 2-A-3 Bryan Manny, 2017 NAFBAS Professional Papers Awards Program
Attachments: July 2016 Newsletter Final Draft.pdf

To: Professional Papers Committee

Re: 2017 NAFBAS Professional Papers Awards Program

From: Kansas Farm Management Association, South Central - (office located in Hutchinson, Kansas, serving eleven counties)

(**Newsletter - Association) Category**

Newsletter was prepared by Clay Simons, Bryan Manny, Camille Claassen, Greg Regier in July 2016.

Please consider this "Association Newsletter" for the award category of: ***Newsletter-Association***

The newsletter discuss a variety of subject matters from farm management, income tax planning, economics/financial measures and history of the Kansas South Central Association for the past 85 years. Each association economist contributed to the newsletter to make it a "team" approach.

Thank you for your consideration in this award category.

Sincerely,

Bryan Manny, Clay Simons, Camille Claassen, Greg Regier

Bryan L. Manny Extension
Agricultural Economist Kansas Farm Management Assn., S.C.
620-662-7868

KFMA – SC Newsletter

July, 2016

Bryan Manny Camille Claassen Greg Regier Clay Simons

KFMA, SC Celebrates 85 Years of Service

The Kansas Farm Management Association in South Central has been a stable institution for over eighty-five years. The South Central Association was the second association to be organized in Kansas out of six regional associations. When you look back at history, it is amazing that a business could be established in the depression and still be a viable organization eighty-five years later. In fact, years ago I read a statistic that “90% of small businesses fail in the first year of operation”.

How many businesses can you recognize that have not changed their basic business model in eighty-five years in the type of ownership or operation during years of depression, recessions, and prosperous economic times? It reminds me of the three legged stool analogy. The three legs of the KFMA wooden stool are the membership, the economists and Kansas State University. Without each of these groups doing their part, the wooden stool would not be the solid seat that it is today.

The real success of the KFMA program is the membership of the association, which includes the board of directors that have been elected over the past eighty-five years. KFMA’s success has been due to their belief in the objectives of the program and that the Association’s existence would greatly benefit both individual farm families and the agricultural interests in the state of Kansas. Their faith in the future and the assumption of leadership responsibilities guided this program for over the past eighty-five years. KFMA provides a statistical model to measure agricultural progress in the eleven counties of the South Central area of Kansas.

The expertise of the KFMA Economists in providing high quality leadership and counseling has been imperative to the success of this Extension Program in Kansas. As members of the faculty of the Department of Agricultural Economics at Kansas State University, KFMA Economists have added respect and success to the overall K-State Research and Extension Program.

Since 1931, KFMA has been successful in cooperation with the K-State Research and Extension. The KFMA program would not have survived without the support of the Director of Extension and the Department of Agricultural Economics during the years of the great depression. Even today, the support of Kansas State University to KFMA is an important facet of the program.

Did you know that the original counties were Cowley, Harper, Kingman, Sedgwick and Sumner and the Association headquarters was located in Kingman? Also, William Spear was the first “fieldman” and he worked with 128 members in 1931. By 1950, the present eleven counties formed the Association as we now know it and the office had been in Hutchinson for some time.

To gain some perspective on the South Central KFMA program, we need to review the economists over the eighty-five years. In the first seventy-seven years of the South Central KFMA we had only sixteen Economists (1931 – 2008). From 1931 to 2016, there have been a total of twenty-four Economists in the South Central Association. Of those twenty-four Economists, seven of them had over fourteen years of service with KFMA and five of those seven had over twenty-three years of dedication to the KFMA Program. This is amazing in today's mobile society of employment.

Also, amazing is that we have members who are second and third generation farm families of KFMA. To exist for eighty-five years, it takes special farm families that have confidence and trust in a program that involves one-on-one relationships with their economists. **Bryan Manny**

KFMA, SC Looking to Hire Fifth Economist

For the past several years, the KFMA, SC Board of Directors has been looking to add a fifth Economist position to the Association's staff. The Board and K-State are ready once again to begin the interview process to identify and hire a new Farm Management Economist to fill this role.

By the time this newsletter is published, the Board Officers will have selected candidates to be interviewed. The selected candidates will interview with the full KFMA, SC Board in early August, 2016. The goal is to have a new Economist on board by mid to late August.

Members, of course, are curious as to who will be assigned as their primary Economist. The Economists realize this, but would ask for your patience as we go through this transition. While the Economists are making plans for the arrival of a fifth Economist, they would like to make sure that a new Economist is in place before finalizing membership loads. Thanks for your patience as KFMA, SC continues through this transition.
Clay Simons

Managing Working Capital in Low Income Years

Working capital is sometimes referred to as the "life blood" of a farming operation. Working capital is a measurement of *liquidity* or *cash flow* that reveals the ability of a farm to meet its financial obligations as they come due. To calculate working capital, subtract current assets (cash, grain, non-breeding livestock) from current liabilities (operating notes, accrued interest, and current obligations on intermediate and long term debt).

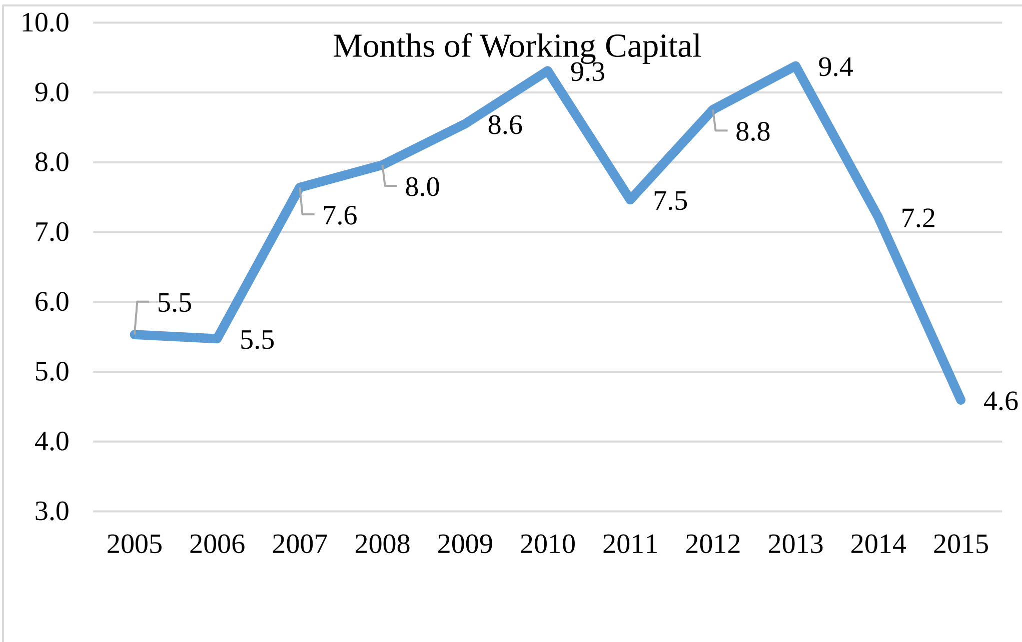
Working capital trended higher among South Central Kansas farms during the period of high commodity prices, from $95,720 in 2005 to its peak of $311,546 in 2013. Over the next two years, working capital dropped approximately $75,000 per year to $159,045 in 2015. Although working capital was higher at the end of 2015 than it was in 2005, current liabilities also increased from $113,338 to $201,756 between 2005 and 2015 respectively.

This decrease in working capital is due in large part to the decline in commodity prices beginning in 2014, but a number of other factors contributed as well. For example, in more profitable years many producers updated machinery, purchased land, or funded retirement accounts, effectively converting current assets to intermediate or long-term assets, thus decreasing working capital. If these investments were made wisely, they increased farm efficiency, profitability, and overall net worth.

An alternative way to view working capital is with a ratio calculated as working capital/(operating expense + interest expense). This ratio provides you with the portion of operating expenses that can be covered by working capital, based on last year's expenses. Multiply this ratio by 12, and you have an estimated number of months that your operation can continue before needing to borrow additional funds (see graph below). In

2005 and 2006, KFMA producers could go an average of 5.5 months, through the middle of June, when many producers are cutting wheat and will be getting a boost in cash flow. From 2007 to 2013, during years of higher prices, the average farm had enough cash to make it 8 or 9 months.

In 2015, the average farm could cash flow until the middle of April, well before wheat harvest. With this in mind, and with the tight margins facing many producers, purchase decisions must be made with working capital in mind. Many operations have increased net worth over the last decade by converting current assets to long-term assets, as mentioned previously. Although selling land or a piece of machinery is not ideal, converting long-term assets back into cash might be necessary for some operations in order to maintain cash flow. **Greg Regier**



Section 179 & Bonus Depreciation

The Section 179 depreciation deduction has been popular with agricultural producers, especially in higher income years. In 2015, the Section 179 deduction was essentially made permanent at the $500,000 level for tax years 2015 and on with a phase out beginning after $2,000,000 of equipment purchases. The amount of the deduction, as well as the phase out, will be indexed for inflation in future years. For 2016, the Section 179 deduction is $500,000 with the phase out beginning at $2,010,000 of purchases.

With the Section 179 deduction, a taxpayer can take a deduction on their tax return against their farm income for the cost of new or used qualifying business property. Qualifying property includes machinery, equipment, and single use agricultural buildings such as grain bins and facilities that can only be used in livestock production. Most buildings, such as machine sheds, shop buildings, and pole sheds, are multi-use buildings and do not qualify for the Section 179 deduction.

The total cost you can write off with Section 179 is limited to the taxable income of your trade or business. In addition to farm income, taxable income of your trade or business can include gains reported on form 4797 and W-2 wages reported on line 7 of your tax return. With low, and even negative, farm incomes possible in 2016, farmers may not need, or even be able, to utilize the Section 179 deduction.

Bonus depreciation has been extended through 2019. Bonus depreciation allows for a 50% deduction of the cost of NEW qualified property (machinery, equipment, and most agricultural buildings qualify). Bonus depreciation will decrease to 40% in 2018, 30% in 2019, and will phase out to 0% in 2020. **Camille Claassen**

Bogus IRS Phone Call Scams are a Serious Threat

Over the past year or so, KFMA Economists have been receiving calls from members who have gotten calls or are getting messages on their answering machines that sound something like this. "Hello, this is the Internal Revenue Service. You have unfiled returns that are accruing interest and penalties. If you do not contact us at 888-888-8888, we will file a lawsuit against you in Federal Court."

While these calls sound threatening and intimidating, they are a scam. The scammers are trying to get you to return the call and give them private information so they can either clean out your bank account or steal your identity.

The IRS or Kansas Department of Revenue will never contact you initially by phone or email. Initial contact will always be in the form of a letter from either agency. Only if you have an established relationship with an auditor or revenue agent will you be contacted through some channel other than the US Mail.

So if you receive a call like this, just hang up, do not interact with them or give them any personal information. If you receive, a voicemail or message on your answering machine, delete it. This type of message will always be a scam. **Clay Simons**

Newly Released Data Reinforces 2015 as a Turning Point Year

The recent release of the annual KFMA ProfitLink Analysis reveals strong indications of the economic changes Kansas farms and ranches are currently encountering. Kansas agriculture faced many challenges in 2015, and the outlook as we enter 2016 appears even more challenging. Last year brought a full year of a changing economic environment, in both the crop and livestock sectors. Additional pressures came from a wet spring (with some prevented plant insurance claims in parts of the state) and a dry late summer. Although crop and livestock prices declined considerably from their 2014 levels, machinery costs, input prices and land costs remained relatively high. Some recent decreases in input prices and machinery costs have improved the equation somewhat, but clearly not enough to reverse this economic transition. For example, crop machinery costs per acre dropped by a little over $4 from 2014 to 2015. However, they had risen by more than 27% in the three years leading up to 2014.

Net accrual farm incomes plummeted in every region of Kansas last year when compared to the prior year. However, it is important to remember that farms' net accrual income levels in 2014 (as well as the previous three- or four-year period) were excellent by historical standards. Although comparing 2015 to the recent past may be a bit unfair, it is clear nonetheless that 2015 was a concerning and troublesome year for the agricultural community. The statewide overall average net accrual farm income dropped by more than 96% to just $4,568 in 2015. This was the lowest nominal average net income in 30 years. Again, all regions experienced significant declines, with three (Northwest, Southcentral, and Northeast) actually realizing negative net accrual incomes (i.e. overall farm losses for the year). The Southwest region showed the highest accrual income at $37,423 per farm, whereas the lowest income was found in the Northeast region, which experienced a net accrual loss of $11,777 per farm.

Cash incomes were still solid in 2015. However, the accrual adjustment on farms and ranches was both negative and extremely large last year. Accrual adjustment is defined as the comparison of ending inventory values (livestock, crops, deferrals, prepays, etc.) with those of the beginning inventory. In this case, we are comparing the inventory values at the beginning of 2015 with those of December 31, 2015. Much of this deterioration in value was price-driven, although we did see some quantity decreases in grain on hand as well. In addition to the effect this large negative accrual adjustment has on net accrual income, it has an impact on the balance sheets of Kansas farms and ranches as well.

The recent data shows that the average net worth of KFMA farms has grown over the last few years, coinciding with a period of excellent profits. However, a closer look reveals that the average net worth of KFMA farms statewide actually decreased from the beginning of last year to the end of the year. The average decline in net worth through 2015 was $51,295 per farm. Similarly, the debt to asset ratio for these farms and ranches, while having improved from 0.220 at the end of 2011 to 0.202 at the beginning of last year, deteriorated slightly to 0.215 by the end of 2015. Certainly, the balance sheets of these farms remain strong in the aggregate. However, it is important to note that we have already seen both of these balance sheet measures (net worth and debt to asset ratio) weaken slightly on Kansas farms and ranches and we have just begun to progress through this changing agricultural economic environment.

We are clearly at a critical juncture for many Kansas farms and ranches. Will farm net worth continue to decline? How will the cost structure farms face respond to this weakening economic environment? Possibly the most important factor involved in answering these (and many more) questions is the length of time we will be dealing with crop and livestock prices at the current—or lower—values. Present Kansas farm and ranch balance sheets can withstand this economic environment temporarily, but for how long? **Craig Althauser**. *Craig is an Economist with KFMA, NE. Originally published in the June 2016 State KFMA Newsletter*

The Return of Commodity Credit Loans and Loan Deficiency Payments

The Agricultural Act of 2014 authorized 2014 – 2018 crop year Marketing Assistance Loans (MALs) and Loan Deficiency Payments (LDPs) for wheat and other certain crops. In Kansas, wheat prices are in the range where LDPs are applicable, so producers and crop share landlords need to understand the procedures to apply for and receive this assistance.

MALs and LDPs provide financing and marketing assistance for wheat, corn, grain sorghum, soybeans, sunflowers, cotton, canola and other crops. For a more detailed discussion on this subject, please go to the AgManager website (www.agmanager.info) at the Kansas State University Department of Agricultural Economics and review the article written by Dr. Art Barnaby on July 11, 2016

"Low Wheat Prices Have Triggered LDP Payments". The website is www.agmanager.info/crops/insurance/risk.

MALs provide producers interim financing after harvest to assist them in meeting cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows. A producer who is eligible to obtain and MAL, but agrees to forgo the loan, may obtain an LDP, if such a payment is available.

To be eligible for an MAL or LDP, producers must have a beneficial interest in the commodity, in addition to other requirements, such as actively engaged in farming. A producer retains beneficial interest when control of and title to the commodity is maintained. For an LDP, the producer must retain beneficial interest in the commodity from the time of planting through the date the producer files Form CCC-633EZ (page 1) in the FSA County Office. Page 2 of the form must be submitted when payment is requested.

For more information, producers should contact their local FSA county office or view the LDP Fact Sheet that is available on the USDA/FSA website. MALs mature on the last day of the ninth calendar month following the month in which the MAL is approved. If the grain is under commercial storage, you will be required to prepay storage for the nine-month period. If the MAL is redeemed before the end of the nine-month period, then a refund for unused storage will be prorated. All MALs will be charged interest starting with the day the loan is made. There are Adjusted Gross Income Limitations and Payment Limitations that must be reviewed by producers. Additional information on these limitations can be found at www.fsa.usda.gov/limits.

CCC Loans and Accounting Method Elections

Farmers are allowed to pledge grain as collateral to secure a loan from the government backed by the Farm Service Agency. In doing this, farmers effectively established a minimum price by being able to forfeit the grain if prices drop below the loan value and retain the opportunity to market the grain later if the commodity price increases. Farmers are required to report the loan proceeds under one of two methods. Grain under loan may not be disposed of (e.g. sold, fed or given away) without repayment of the loan. Grain disappearance will create legal proceedings against the taxpayer.

Loan Method

Under this method, cash received from the FSA is treated as a loan and not included in income. Income is recognized in the year the grain is sold or when the grain is forfeited to FSA. The Loan Method will be the "default" method on how the MAL are treated under IRS regulations.

If grain is forfeited to the FSA in satisfaction of the loan liability, the taxpayer must report the loan forfeit amount as taxable income in the year of the forfeit. The loan method often creates large amounts of taxable income with no cash flow in the year the grain is forfeited, because the loan amount was received in the prior year. If the loan proceeds were used to pay off debt, purchase capital assets or pay expenses, the taxpayer may lack the necessary cash to pay the tax on the income that must be recognize in the year of forfeit. This could be considered as "phantom income" in the year of forfeit because there is no cash income in the prior year when loan proceeds are received that must be reported as taxable income on the tax return.

Income Method

If a farmer makes a tax election under the IRS code section 77, income is reported in the year the grain is pledged to the FSA as collateral for a loan. The amount reported as income is the cash proceeds of the FSA loan, which then becomes the tax basis in the grain.

Thus, the loan is taxed as income in the year the cash is received.

Treatment of FSA Loan Buy-Back as a Current Year Expense

A repayment of a FSA loan is of no income tax consequence, regardless of whether the taxpayer has made a previous section 77 election and is on the income method. Rather, the farmer under the income method has tax basis in the grain as a result of the FSA loan. This tax basis is not deductible until income is recognized from the actual grain sale. This grain sale could be the same year of the loan received or the next taxable year. Thus, if loan buy-back is 2016 but grain is not sold until 2017, then the loan buy-back will not be deductible until 2017. Thus, deductibility and cash flow can be an issue if not completed in the same taxable year. Interest paid back to the FSA on the commodity loans is deductible in the year paid, regardless of which method is used.

NOTE: If the grain is acquired for livestock feed when the FSA loan is repaid, a feed expense deduction is allowable. This deduction is only allowed if the FSA loan is treated as the "income method" and not the "loan method".

Election the Section 77 Income Method

No permission is required from the IRS to elect the income method. Rather, if the income method is desired, the FSA loan proceeds for the year are included as income on the tax return. The income election is considered the adoption of an accounting method and is binding on all future years. However, since 2001, in its procedures allowing automatic accounting method changes, the IRS has provided that a farmer on the income method of reporting FSA loans can automatically switch to the loan method. This change in reporting requires certain filing procedures that must be made on a timely basis. The IRS Form 3115 must be attached to the taxpayer's tax return, indicating that the change is being made under the automatic consent procedures of Revenue Procedure 2015-14. Needless to say, this is a complex matter that needs to be discussed with you KFMA Economist.

Market Gains on FSA Loans

Under the FSA nonrecourse marketing assistance loan program, the repayment amount for a loan secured by the pledge of an eligible commodity is generally based on the lower of loan rate or the prevailing world market price for the commodity on the date of repayment. If the loan is repaid when the world price is lower, the difference between that lower repayment amount and the original amount is categorized as "market gain". Your county FSA office will have a Posted County Price or PCP on a daily basis. The farmer's treatment of this market gain depends on whether the taxpayer reports FSA loans under the loan method or the income method.

Thus, the above information is just a general introduction to the MALs. Since it has been over 15 years since many farmers have utilized the commodity credit loans, one must become acquainted again with the concepts of these loans. The first question is to determine how did I report these nonrecourse loans for income tax purposes in the past? You can review your personal page in your account book to see if there was a "check mark" on which method was chosen. Another option is to review income tax returns from many years ago to see if a "CCC Income Method was elected" on Schedule F or Form 4835. If you never received a Commodity Credit Loan, then you have not made any election and you have the option to decide which method.

As always please consult with your KFMA Economist to discuss this subject matter in more detail. This will become very important in regards to year-end income tax planning this fall. **Bryan Manny**

Don't Forget Form 2290 Heavy Highway Vehicle Use Tax Return Due

Form 2290 must be filed with the IRS every year for semis and heavy trucks with a gross weight of 55,000 pounds or more. The deadline to file this return is **August 31st, 2016**. No tax is required with the filing of Form 2290 if the vehicle was used for farming purposes, and if you will drive less than 7,500 miles per truck during the tax period which is July 1, 2016 through June 30, 2017. Even if you don't owe tax, you are still required to complete Form 2290.

Approximately 60 days after filing Form 2290, the IRS will return a stamped copy of Schedule 1 from this form, which serves as proof that the form was filed and any highway tax due was paid. You must take a copy of the stamped Schedule 1 to the tag department of your county treasurer's office when you renew your truck tags. Counties will not issue tags for your semi or other heavy truck without the stamped Schedule 1. It is possible that you may owe tax ONLY if you have a truck that is used for non-farm purposes, or you drive your truck more than 7,500 miles during the tax period.

To file Form 2290 you have a couple options: (1) The IRS website (www.irs.gov) has a Form 2290 which can be downloaded for free to your computer and filled out and printed. (2) Several online services such as www.taxexcise.com or www.jjkeller.com may be used to complete Form 2290, both of which will store information such as the VIN for each vehicle from year to year and cost from $40 - $60. This is the best option if you need a stamped copy of Form 2290 Schedule 1 quickly, since it takes only 1 to 2 days to process. Please note that when you fill out Form 2290 electronically online, the name must **match exactly** with the name tied to your Employer Identification Number (EIN).

If you have any questions, feel free to call our office at 620-662-7868 and Louise or one of the economists will gladly assist you. **Greg Regier**

Simons Newest Economist for KFMA, SC

Clay Simons is the newest Farm Management Economist with KFMA, South Central. A 12 year veteran of KFMA, he previously served Farm Management Members in the central flint hills based out of Council Grove, KS. He will be serving many of the members served by Tim Stucky in Pratt and Reno counties. Additionally, he will serve as the Association's Executive Economist, providing administrative leadership for the Association.

Raised near Happy, Texas (yes there is such a place, south of Amarillo), Clay has worked in agriculture his entire career since moving to Kansas in 1986. Prior to joining KFMA, he served as an Extension Assistant in the K-State AgEcon department, a County Extension Agent in Southwest Kansas, and a grain merchandiser in Hutchinson and Wichita. He is a graduate of Texas A&M University.

Clay and his wife Sharon live in Lincolnville, KS and have three grown children. Carlye lives in southeast Washington State and is in the wine making business, Ty is a Junior at Emporia State, and Cacey is a Sophomore at Hutchinson Community College. He is looking forward to working with and getting to know his new members, as well as working with the team of Economists and Support Staff at the Hutchinson office. **Clay Simons**

Pictures From Tim Stucky's Retirement Reception

KFMA, SC Board of Directors

Carl Hildebrand (President)	Stafford County
Lee Scheufler (Vice President)	Rice County
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Matt Novotny (Executive Director)	Pratt County
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Tom Norris	Sumner County
Gary Seibert (KFMA State Advisory Board)	Stafford County
Kent Ott (K-MAR 105 Association Director)	Sedgwick County
Pat Fallon (Association Treasurer)	Hutchinson

Kansas Farm Management Assn, SC
16 W 4th Avenue, Suite B
Hutchinson, KS 67501

July 20, 2016

Dear KFMA, SC Members,

Enclosed please find the summer KFMA Newsletter. Your Association Economists have written articles that we hope you find timely, informative and educational.

Agriculture is entering a challenging time, and things seem to change faster than we would like. KFMA, is experiencing transition as well, with one new Economist and the hiring in the near future of a fifth Economist for the Association. One thing, however, will not change. And that is KFMA's commitment to its members. KFMA, SC has been serving farmers and ranchers in this area of Kansas for the past 85 years, and we hope to be able to do that for the next 85 years. We appreciate the trust you have placed in us and thank you for your continued support. Please don't hesitate to contact us at (620) 662-7868 if you need anything.

Sincerely,
Clay Simons, Bryan Manny, Camille Claassen and Greg Regier
KFMA, SC Association Economists