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Have Retirement Options Changed for Nebraska's Farmers and Ranchers?

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CORNHUSKER ECONOMICS

Have Retirement Options Changed for Nebraska’s Farmers and Ranchers?

Many of Nebraska’s farmers and ranchers have for decades chosen never to retire, instead to continue operating the business as long as they can until that last day when they cannot any longer. But there have also been many producers that have chosen to seek retirement. Many times this option involves a machinery or livestock sale, a land sale and investing the money in some type of safe long-term account that returns a modest rate of interest. If you are considering retirement, there are several important bits of information that should be gathered to help make an informed decision.

- Develop an estimate of your cash needs in retirement. Most financial advisors will suggest that you may not need quite as much in retirement as you have during your working life, however, that depends on how you want to retire. If you have always had special things that you and your spouse have longed to do such as travel the world, do charity work or R.V. around the USA, then you may in fact increase your cash needs in retirement. Another factor involves your age. Will you be old enough for Social Security and Medicare benefits?
- Many farm and ranch assets have experienced a large increase in value in recent years. It is important to get a net estimated value of your business assets, the land, machinery, livestock and crop inventory. Don’t forget to account for preparing assets for sale, selling costs, commissions and tax consequences.
- What are the sources of retirement income? Investigate investment options. If you liquidate your business, where will you invest the net funds from the sale? A

Market Report	Yr Ago	4 Wks Ago	10/19/12
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$120.99	\$125.85	\$126.72
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb....	156.82	165.15	162.21
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb....	145.07	148.25	146.00
Choice Boxed Beef, 600-750 lb. Carcass.....	184.81	194.11	195.65
Western Corn Belt Base Hog Price Carcass, Negotiated.....	90.75	70.01	81.99
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	99.30	77.00	88.24
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct.....	170.00	86.75	92.38
National Carcass Lamb Cutout, FOB.....	410.22	312.33	306.48
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.....	6.33	8.40	8.29
Corn, No. 2, Yellow Nebraska City, bu.....	6.46	7.36	7.56
Soybeans, No. 1, Yellow Nebraska City, bu.....	11.85	15.87	15.28
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	10.97	12.46	12.79
Oats, No. 2, Heavy Minneapolis, MN, bu.....	3.54	3.84	4.09
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	190.00	260.00	237.50
Alfalfa, Large Rounds, Good Platte Valley, ton.....	132.50	212.50	215.00
Grass Hay, Large Rounds, Good Nebraska, ton.....	92.50	185.00	190.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.....	222.50	281.00	280.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.....	72.50	110.12	103.50
*No Market			

CD is currently paying about .05 to .15 percent interest, depending on length of commitment. Some may want to consider stocks that pay dividends as a retirement funding tool.

What will your Social Security payments be? How about other investments, such as 401k, etc.? If you rent out the farm or ranch as opposed to selling, is that a better retirement income provider?

- If you are considering the sale of farm assets, be sure to check with your accountant to estimate the tax consequences. In general, the sale of land and long-term breeding stock is subject to Federal Capital Gains tax as well as State Tax. Maximum Federal Capital Gains tax is 15 percent. State of Nebraska tax is 6.84 percent, so combined, the total tax on the gain in value of real estate and long-term breeding stock is nearly 22 percent of the gain.

The sale of market livestock and grain is taxed as ordinary income subject to a maximum 35 percent federal tax rate, self-employment tax of 13.3 percent (comprised of 10.4 percent social security tax on the first \$106,800, plus 2.9 percent medicare tax unlimited), in addition to 6.84 percent state rate.

The sale of machinery is subject to recapture of depreciation and is subject to ordinary federal income tax, maximum 35 percent, plus state tax 6.84 percent, but not self-employment tax.

With the increase in farm and ranch assets, especially real estate, the sale of a farm or ranch can create a very large tax consequence. Another alternative that many are considering is a sale of some of the farm assets such as machinery and livestock, but continued ownership of the real estate. Rental rate increases have created a situation in which it may be a better option to continue to own the real estate.

Let's look at an example of retaining ownership in land:

▪ Land Value	\$8,000/acre
▪ Cost of Land (Basis)	\$1,000/acre
▪ Capital Gain (Land Value–Basis) =	\$7,000/acre
▪ Federal Capital Gain Tax @ 15%	\$1,050/acre
▪ State Tax 6.84%	\$ 479/acre
▪ Total Taxes	\$1,529/acre
▪ Net Land sale available to invest	\$6,471/acre

If you invest \$6,471 in a CD at one percent interest, each acre would earn \$64.71 annually.

If you retain ownership of the land, you can rent out the land. If you do not have the skills or time to find a renter, a farm management company can be hired; in addition, real estate taxes, insurance and maintenance also must be paid. Does cash rent, less expenses, provide a larger return than a land sale and a safe investment? In most cases the answer is yes. However, the choice of alternative investment will likely answer the question. To increase returns on the land rent, consider renting the land to a beginning farmer through the Nebraska Beginning Farmer Tax Credit program and get a ten percent rental bonus tax credit for the first three years.

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