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CORNHUSKER ECONOMICS

Using Nebraska's Beginning Farmer Tax Credit Program

| Market Report | Yr Ago | 4 Wks Ago | 1/30/09 |
|--|-----------|--------------|---------|
| <u>Livestock and Products,</u> | | | |
| <u>Weekly Average</u> | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight. | \$88.36 | \$85.17 | \$79.98 |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. | 121.27 | 102.44 | 112.95 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. | * | 97.62 | 93.90 |
| Choice Boxed Beef, 600-750 lb. Carcass. | 143.44 | 143.49 | 145.47 |
| Western Corn Belt Base Hog Price Carcass, Negotiated. | 54.29 | 51.37 | 60.86 |
| Feeder Pigs, National Direct 50 lbs, FOB. | 53.15 | 54.13 | 62.06 |
| Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean. | 59.32 | 55.13 | 57.49 |
| Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct. | 87.87 | * | 88.62 |
| National Carcass Lamb Cutout, FOB. | 258.14 | 259.15 | 252.62 |
| <u>Crops,</u> | | | |
| <u>Daily Spot Prices</u> | | | |
| Wheat, No. 1, H.W. Imperial, bu. | 9.20 | 5.53 | 5.21 |
| Corn, No. 2, Yellow Omaha, bu. | 4.78 | 4.00 | 3.65 |
| Soybeans, No. 1, Yellow Omaha, bu. | 11.92 | 9.56 | 9.57 |
| Grain Sorghum, No. 2, Yellow Dorchester, cwt. | 8.50 | 5.48 | 5.07 |
| Oats, No. 2, Heavy Minneapolis, MN , bu. | 3.22 | 2.10 | 2.08 |
| <u>Feed</u> | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. | 135.00 | 185.00 | * |
| Alfalfa, Large Rounds, Good Platte Valley, ton. | 85.00 | 77.50 | 77.50 |
| Grass Hay, Large Rounds, Premium Nebraska, ton. | * | 75.00 | 85.00 |
| Dried Distillers Grains, 10% Moisture, Nebraska Average. | 172.50 | 144.00 | 140.00 |
| Wet Distillers Grains, 65-70% Moisture, Nebraska Average. | 57.37 | 50.87 | 47.62 |
| *No Market | | | |

Many farm or ranch families that are attempting to bring a son or daughter back into their business experience a strain on the cash flow. After all, a business that has been providing enough income for one family to live on, must now not only generate adequate income for the parents living expenses, but also attempt to provide enough income for a second family, the successor. Recent changes to Nebraska's Beginning Farmer Tax Credit Program provide an attractive incentive that can be very beneficial for family farming/ranching operations that are trying to bring a family member back into their business. **Regulation changes made in 2008 now allow parents to rent agricultural assets to their own children.**

Consider a farming operation that is comprised of 1,000 acres of irrigated crop land, 640 acres of pasture, a full line of machinery and a cow herd of 200 cows and 6 bulls. Mom and Dad have been operating the farm while their daughter and son-in-law were working elsewhere. The work load has been too much for Dad and Mom the past few years, so they have needed to hire some part time help to get by. After much discussion, the parents decided to offer their daughter and son-in-law a full time job working with them, and eliminate the need for the part time help. They have just completed a trial period of about a year, in which each party was to decide if they are really committed to make this transition work. Not all families are capable of being in business together, but this family has decided that each party is committed to make the transition work and to keep the farm in the family.

The Beginning Farmer Tax Credit Program provides an income tax credit to an eligible owner of agricultural assets if they rent those assets to a qualified beginning farmer. The state income tax credit is equal to 10 percent of the cash rent, or 15 percent of the value of a share rental arrangement received each year for three years. This is a true tax credit, so if the owner does not pay state income tax they will receive a tax refund. **Regulation changes made in 2008 now allow parents to rent agricultural assets to their own children.** A strategy some families are considering is to simply make the



child the operator and to pay the parents rent, thus creating a three year income via the Beginning Farmer Tax Credit to help with the tight cash flow.

If the parents in the previous example farm would rent their agricultural assets to their children instead of paying them a wage, they could substantially improve the cash flow of the business. The successors would be the operators and the parents simply the landlords. Let's look at a cash rental arrangement for the previous farm. In this example the cropping assets are rented from the parents to the successors for a total of \$351,250. The livestock assets are rented for \$74,050, for a total of \$425,300. A Beginning Farmer Tax Credit equal to \$42,530 would be available each year for three years, for a three year total of \$127,590.

| Cash Rental Rates | | | |
|--|-------------|------------|------------------|
| Land | 1,000 acres | \$250/acre | \$250,000 |
| Machinery | 1,000 acres | \$75/acre | \$75,000 |
| Grain Bins | 175,000 bu | \$.15/bu | \$26,250 |
| Crop Cash Rent Total | | | \$351,250 |
| Cows | 200 head | \$175/hd | \$35,000 |
| Bulls | 6 head | \$500/hd | \$3,000 |
| Pasture | 206 head | \$175/hd | \$36,050 |
| Livestock Cash Rent Total | | | \$74,050 |
| Total Cash Rent | | | \$425,300 |
| 10% Beginning Farmer Tax Credit | | | \$42,530 |

A share rent agreement would result in a 15 percent tax credit. One method of calculating the share amounts is simply to determine the percentage value of the cash rent. In the crop share example below, 1,000 acres yielding 200 bushels per acre produces 200,000 bushels of corn. If sold at \$4.00/bu the crop would generate \$800,000. Additional income may be included from sources such as government payments to provide a total crop income of \$820,000. To calculate the share percentage divide \$820,000 into the crop cash rent \$351,250. The resulting crop share rental rates would be 42.84 percent for the parents and 57.16 percent for the successors.

| Share Rental Rates | |
|---|--|
| Acres | 1,000 |
| Yield | 200 bu/ac |
| Price | \$4.00/bu |
| Crop Income | \$800,000 |
| Government Payments | \$20,000 |
| Total Crop Income | \$820,000 |
| Crop Cash Rent Total | \$351,250 divided by \$820,000=42.84% |
| Parent's Share | 42.84% of crop |
| Successor's Share | 57.16% of crop |
| 15 % Beginning Farmer Tax Credit | \$52,687 |

Calculations for the livestock share rental arrangement are as follows: 200 cows would produce 190 calves at a 95 percent calving rate. Keeping 20 head for replacements would produce 170 calves for market. If sold at \$600/calf, income from calf sales would equal \$102,000. Adding \$8,000 of annual cull income would produce \$110,000 of annual livestock income. To calculate the share percentage divide \$110,000 into the livestock cash rent \$74,050. The resulting livestock share rental rates would be 67.32 percent for the parents and 32.68 percent for the successors.

| Livestock Share Rent Calculation | |
|--|---|
| Calf Sales | 170 head |
| Selling Price | \$600/hd |
| Cull Income | \$8,000 |
| Livestock Income \$110,000 | |
| Livestock Cash Rent Total | \$74,050 divided by \$110,000=67.32% |
| Parent's Share | 67.32% of livestock |
| Successor's Share | 32.68% of livestock |
| 15% Beginning Farmer Tax Credit | \$11,107 |
| Total 15% Beginning Farmer Tax Credit | \$63,794 |

If a share rental arrangement was used, the total 15 percent Beginning Farmer Tax Credit of \$63,794 would be available each year for three years for a three year total of \$191,382.

The concept is relatively straight forward. Parents rent agricultural assets to their children and receive a state income tax credit. There are however some further considerations to evaluate. **Parents:** Will the rental income plus the tax credits produce enough income to pay all obligations such as: 1) family living costs, 2) debt payments on land, machinery, livestock, etc., 3) tax obligations, and 4) other income needs? **Successors:** 1) Will you be able to finance the operation, 2) will the cash flow be feasible, 3) are you willing to accept the responsibility and obligations of being the operator, and 4) after three years the tax credits end. Will the operation still cash flow?

The Beginning Farmer Tax Credit Program, along with other beginning farmer programs, are available to help get the younger generation started. To get more information regarding the Beginning Farmer Tax Credit Program, contact the Nebraska Department of Agriculture at (800) 753-9396 or go to the Website: www.agr.ne.gov, click on "Choose a Division" and "Beginning Farmer Program".

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