



WILL CONGRESS ACT?

With most of the “Bush Tax Cuts” of 2001 and 2003 set to expire at the end of 2010, what will income tax rates look like in 2011? There **will** be changes to income tax rates and brackets for 2011. How will they change? No one knows for sure at this point, but we do know the Obama administration has indicated that they desire income tax rates for the lower brackets to remain the same. However, it is expected that the 33% bracket will become 36% and that the 35% bracket will move to 39.6%. It is also expected that maximum capital gains rates will increase to 20%.

Currently, work is being done in Congress to address this issue but no legislation has been passed. Until that happens, we have to assume that tax rates will revert back to pre-2001 levels.

In order to estimate tax brackets for 2011, I’m going to make several assumptions:

1. Marriage penalty relief would be eliminated if tax rates are allowed to revert to pre-2001 rates, where the upper limit of the lowest two tax brackets for a couple filing jointly was about 1.67 times that of an individual. The upper limit for the next two married filing joint brackets was approximately 1.21 times that of an individual. The standard deduction for couples filing jointly was

also about 1.67 times the standard deduction of an individual prior to 2001. I’ll assume that we would revert back to these relationships if the current tax rates are allowed to expire.

2. The inflationary change in individual brackets from 2010 to 2011 will be at the same rate as the change from 2009 to 2010. The upper limits of brackets for single filers increased by an average of 0.2% from 2009 to 2010.
3. Personal exemptions will increase by 3%. The personal exemption amount did not change from 2009 to 2010.
4. The 10% bracket will be eliminated.

Using these assumptions, 2011 tax brackets **MIGHT** look something like Table 1 and Table 2 below. How much does this impact a tax return? Sample computations are contained in Table 3. A hypothetical family of 4 with 2 children under the age of 17 and total income of \$90,000 would see taxable income increase by \$1,200 and would pay \$2,994 more in 2011 than 2010 with no change in income or expense. Notice that the child tax credit drops from \$2,000 in 2010 to \$1,000 in 2011. I’ve assumed that no action will be taken and the maximum credit amount will revert back to \$500 per child.

Keep in mind that this scenario would only occur if **nothing** is done in Congress before the end of the year and the Bush tax cuts are allowed to expire. This is intended as an illustration of what **MIGHT** happen if Congress

Also in this newsletter:

- There’s More to Estate Planning than Getting a Will or Trust Pg 3
- Excel Tips I Pg 5
- Recommendations for Further Reading Pg 7

does not act-one way or the other-on this, and is an estimate based on the assumptions previously stated.

*Mark Dikeman
Extension Agricultural Economist
Kansas Farm Management Association NE*

Table 1. Brackets for Singles

2010			2011		
Ordinary	Capital Gain	Upper Limit	Ordinary	Capital Gain	Upper Limit
10%	0%	8,375	-	10%	-
15%	0%	34,000	15%	10%	34,100
25%	15%	82,400	28%	20%	82,600
28%	15%	171,850	31%	20%	172,200
33%	15%	373,650	36%	20%	374,400
35%	15%	-	39.6%	20%	-

Table 2. Brackets for Married Filing Jointly

2010			2011		
Ordinary	Capital Gain	Upper Limit	Ordinary	Capital Gain	Upper Limit
10%	0%	16,750	-	10%	-
15%	0%	68,000	15%	10%	56,900
25%	15%	137,300	28%	20%	137,900
28%	15%	209,250	31%	20%	208,350
33%	15%	373,650	36%	20%	374,400
35%	15%	-	39.6%	20%	-

Table 3. Computation of Tax for 2010 and 2011.

	2010	2011
W2 Income	\$30,000	\$30,000
Capital Gain	5,000	5,000
Ordinary Gain	5,000	5,000
Farm Income	50,000	50,000
Less ½ SE Tax	(3,532)	(3,532)
Adjusted Gross Income	86,468	86,468
Standard Deduction	11,400	9,800
Exemptions	14,600	15,000
Taxable Income	60,468	61,668
Income Tax	7,483	9,477
Child Tax Credit	(2,000)	(1,000)
SE Tax	7,065	7,065
Total Tax Due	12,548	15,542
Difference	\$2,994	

THERE'S MORE TO ESTATE PLANNING THAN GETTING A WILL OR TRUST

In the August 2009 issue of this newsletter, Craig Althausser wrote an excellent overview of the use of wills and trusts in estate planning. While an understanding of how these instruments work is important when developing an effective estate plan, there are several issues that need to be considered before the plan can be put to paper.

You first need to realize that everyone in Kansas has an estate plan, and that plan is what the state provides for you. State law governs what will happen to your assets if you have not provided any other instructions. If you don't want the State's cookie cutter plan, then you need to create a plan of your own.

The next step, while tedious, is probably the easiest step to complete in the estate planning process. It is to take a complete inventory of your assets. This includes land, machinery and equipment, grain and livestock, investments, bank accounts, retirement accounts, life

insurance contracts and all personal property, both titled and untitled. The list of personal property should include family heirlooms and items of sentimental value. Taking this inventory serves two purposes. First, the inventory process lets you know the asset base with which you are working, and second, it gives you the opportunity to make sure that all titled assets are titled in the manner you wish. Often, as people go through the inventory process, they find an asset such as a tract of land that they thought was titled jointly in both spouses' names, but was instead only in one spouse's name.

Now the hard work can begin. Just what do you and your spouse want to happen to your assets? Most couples first want to make sure that the surviving spouse is taken care of, and so generally most estate plans have provisions to use the assets to provide an income for the surviving spouse.

But what occurs after the surviving spouse passes away? The comment I hear more often than not is, "We just want to be fair." But one person's idea of fair is different from another's, so I try to get people past the idea of being just "fair." I usually tell couples early on in the process that the things they have accumulated over their lifetimes belong to them and they can do with it what they wish. They can split it equally among their children, or they can give it all to their church or a charity. They could even spend their money on things most of us would deem foolish and leave nothing behind for anyone or anything because again, it is their "stuff" and they can do what they want with it.

While the last example is extreme, I find that it gives couples the freedom to really think about the goals they want to accomplish with their estate plan and what they want their legacy to be. It also gives couples the opportunity to really talk about what each of them wants in an estate plan because often times they have different ideas about what they would like to see happen. And there are so many things to consider that this is really the hard part of the process.

Generally speaking, couples do want the bulk of their assets to go to their children. If this is the case, then how should it be divided? One common way is to divide things evenly. But in certain cases this might not be the most equitable way to proceed. We are all familiar with the scenario of a son or daughter having stayed on the farm and worked for "below market" wages on the "someday this will all be yours" plan. However, upon the death of the parents, instead of inheriting a substantial share of the operation, an equal share was inherited with the siblings that did not stay on the farm and contribute sweat equity, and the one that stayed was not strong enough financially to buy out the non-farm heirs. In a case such as this, it might be more appropriate to leave a larger share of the assets to the child that stayed on the farm, in recognition of the contributions made to the operation by that child. Of course there

could be other reasons for giving differing shares of an estate to different children, and there is nothing wrong with doing that.

Life insurance policies and beneficiaries should be reviewed. Life insurance can be an important part of the estate plan, as it can provide cash for a variety of purposes ranging from the continuation of a business to providing an income stream to survivors.

People going through the estate planning process might also have individuals outside of the family or groups such as a church, school, or charity that they wish to remember through their estate plan. These groups depend on such gifts to continue and bequests to such groups are a good way to remember those causes that have played a significant role in their lives. If there are people outside of family members such as valued employees or good friends that you feel should be remembered in your estate plan, then there is nothing wrong with that.

What about personal property? While in some cases there is personal property that is valuable, often times there is mainly sentimental value to such property, and that value is often specific to one relative. Whether it is Grandpa's coin collection, Mom's roasting pan, or Dad's pocket knife, thought needs to go into how personal property is handled in an estate plan.

One final consideration for the estate plan depends on the stage of life you are in. If you are a couple with minor children, then your needs are different than a couple with grown children or someone with no children. For parents with minor children, the estate plan should include provisions for their care and support if one or both parents should pass away. Guardians should be named, and any assets remaining in the estate could be used towards their support until they reach a certain age. As children grow up and become more self-sufficient, your estate planning goals can progress to the other issues that were previously discussed.

After you have thought through these issues and written them down, you can then go to the lawyer and formalize the plan and its structure. And once that is done and you receive copies of the plan, there are more things to consider.

One thing to consider is whether or not to let family members know about the plan. At one time, it was common to keep the plan a secret until the death of one of the parties. However, I find it is a good practice to hold a family meeting to let everyone involved know what is in the estate plan. That way, you can explain your purposes and goals for your estate plan. Also, there are no surprises and there are fewer chances for hurt feelings among family members when the provisions of the estate plan are out in the open.

Another consideration is to review the estate plan. I recommend that this be done at least every five years or more frequently if life changes warrant a review. This allows you to review the plan on a regular basis and update it as your life and goals change.

These are several issues that I feel should be considered when thinking about your estate plan. As always, you should seek advice on these matters from qualified professionals, including your KFMA Economist and lawyer.

Clay Simons
Extension Agricultural Economist
Kansas Farm Management Association, NE

EXCEL TIPS I

Microsoft Excel is a powerful spreadsheet tool that is extremely useful in data management and analysis. It can be used for a variety of tasks, from totaling scale tickets by field to estimating returns for an enterprise under different scenarios.

In the next few issues of the KFMA newsletter, I'm going to provide a few handy shortcuts and tips as well as explain some of the more useful functions that are built into Excel. For this series of articles, I'm going to assume that you have a basic understanding of spreadsheets.

Shortcuts

As with most programs, you can often use the mouse and menus, the mouse and icons, or the keyboard and shortcuts to accomplish the same task. Using the keyboard and shortcuts can be a big time saver if you are working with a lot of data. The following shortcuts function the same in Excel as they do in other Microsoft Office programs:

Ctrl+S
saves the current workbook

Ctrl+C
copies the current selection

Ctrl+X
cuts the current selection

Ctrl+V
pastes what has been most recently cut or copied into the current selection

Ctrl+Z
will undo the last command

Ctrl+Y
repeats the last command

Ctrl+I
applies or removes italic formatting within a cell

Ctrl+B
applies or removes bold formatting within a cell

The shortcuts below make it easier to navigate within Excel.

Ctrl+Page Up
moves to the next worksheet to the left

- Ctrl+Page Down
moves to the next worksheet to the right
- Ctrl+Tab
switches between open workbooks
- Ctrl+Up Arrow
moves to the top edge of the current region
- Ctrl+Dn Arrow
moves to the bottom edge of the current region
- Ctrl+L Arrow
moves to the left edge of the current region
- Ctrl+R Arrow
moves to the right edge of the current region
- Ctrl+Spacebar
selects the current column
- Shift+Spacebar
selects the current row
- F2
enables editing in the current cell and highlights cells that are used in the current cell's formula

Order of Operation

When you are building a formula that contains complex comparisons and calculations it is important to understand the order Excel uses to calculate the formulas. Excel always multiplies and divides before adding or subtracting unless you add parentheses. For example, =A1+2*3 does not return the same result as =(A1+2)*3. The first formula multiplies 2 by 3 then adds the result to cell A1. By adding parentheses as shown in the second formula, you are forcing Excel to add 2 to the value in cell A1 and multiplying that result by 3.

IF Function

Using an IF function is simply a way of evaluating a condition and performing different calculations based on the results of that evaluation. Before we get to an example, let's look at the syntax of the IF function.

=IF (*evaluation* , *true calculation* , *false calculation*)

The *evaluation* is the comparison you want to

make. The *true calculation* is the calculation that is completed if the evaluation result is true. This can be a number, text or a formula. The *false calculation* is the calculation that is completed if the evaluation result is false. This can be a number, text, or a formula. No matter how complicated the evaluation or calculations are, IF functions are always structured in the same way. That is, the function call, the parentheses, and the commas must always be included and in the same location within the formula.

Let's look at an example:

=IF (A1=1 , B1 , B1 + C1)

The evaluation in this example is A1=1. If the value of cell A1 is equal to 1, the evaluation is true so the function uses the true calculation (B1) to return the value of cell B1. If the value of cell A1 is anything other than 1, the evaluation is false so the function will return the result of the false calculation (B1+C1). In this case the false calculation adds the values of cells B1 and C1. In this example, I'm using a simple evaluation to look at the value of only one cell. However, the evaluation and calculations can contain other functions and very complex formulas. I've used "=" as the comparison in the evaluation but you can also use <, <=, >, >=, or <>. By adding an AND() function you can make multiple evaluations at once. For more information, search for "comparison operators" or "AND()" in Excel Help.

One other powerful component of IF functions is that they can be "nested." That is, one IF function can be a component of another. Here is an example of that:

=IF (A1=1 , B1 , IF (A1>1 , C1 , D1))

This formula first evaluates A1 so see if it is equal to 1. If it is, it returns B1. If A1 is not equal to 1, it begins to work through the second IF function. The second IF function checks to see if A1 is greater than 1. If it is, it returns the value of cell C1. If its not, it returns the value of cell D1.

With nested IF functions, it's very important

that you pay attention to the syntax of each IF function. If you were to insert a comma or parenthesis in the wrong spot, the formula may return an unpredictable result or may not work at all.

CHOOSE Function

The CHOOSE function is similar to the IF function in the way it works. The difference is, instead of determining if the evaluation is true or false, the CHOOSE function uses an index to determine which calculation to perform. In essence, CHOOSE picks a value or formula from a list.

The syntax is as follows:

```
=CHOOSE (index , calculation1 ,  
calculation2 , calculation3 , ... ,  
calculationX )
```

The *index* is how the function determines which calculation to perform. It can be a reference to a cell or a formula, but the cell or formula must always result in an integer. *Calculation1*, *calculation2*, etc. is the list of numbers, text, or

formulas that will be returned.

For example:

```
=CHOOSE ( A1 , "Monday", "Tuesday",  
"Wednesday", "Thursday", "Friday" )
```

If the value of cell A1 is 1 the CHOOSE function will return the text "Monday." If cell A1 is 2 the function will return "Tuesday," etc. In this example the value of A1 must be an integer from 1-5. If the value A1 is less than 1 or more than 5, the CHOOSE function returns an error message.

Adding functions like IF and CHOOSE can add power and flexibility to spreadsheets. Getting started with them can be confusing and frustrating. The best way to learn to use these functions is to practice. Open a blank spreadsheet and try them out.

Mark Dikeman

Extension Agricultural Economist

Kansas Farm Management Association NE

RECOMMENDATIONS FOR FURTHER READING

The purpose of this section of the newsletter is to briefly discuss articles and web sites that may be of interest to readers. In general, the articles discussed will not report on original research. Rather, the articles will contain citations to web sites and articles that discuss topics of general interest.

A recent issue of the *Animal Science Monitor* (Issue 106), written by Dan Simmons, briefly discusses the importance of knowing your company's 30-second story. It is difficult to recruit qualified job candidates and create goodwill in your local community without this story. The 30-second story should relate to what differentiates your business from others, should stress the benefits of becoming an

employee in your firm, and should stress your reputation as an employer. The goal should be to become the employer of choice. Knowing your 30-second story is important to achieving this goal.

An article by Mathews and Johnson in the USDA-ERS June issue of *Livestock, Dairy, and Poultry Outlook* discusses grain and grass beef production systems. The article notes that alternatives to grain-finished beef (e.g., natural, organic, and grass-fed or finished) make up approximately 3 percent of the U.S. beef market. However, due to increasing demand, interest in these systems has grown rapidly in recent years. The authors also note that beef production in the United States has always been

heavily dependent on forages. Even feeders that are placed in the feedlot at 750 to 800 pounds and fed a predominantly grain-based diet until finished, are typically fed predominantly forage-based diets or utilize pasture systems for a large portion of their lives. Cattle marketed as grass-finished are grazed, utilize pasture systems, and/or fed forages their entire lives and are fattened solely on grass or forages prior to slaughter. The authors cite a study which indicated that grass finished steers had carcasses that were 19 percent smaller, took 24 percent longer to reach finished weight, and had a marbling score that was 15 percent lower than conventionally fed steers. Producers interested in an alternative production system should carefully compare the benefits, which include a potentially higher price, to the costs, which include higher animal ownership costs due to the longer feeding time. Of course, availability and relative cost of forages in your area is also an extremely important consideration. For those wanting additional information, the June issue of *Livestock, Dairy, and Poultry Outlook* is posted to my contributor site on Ag Manager.

Paul Ellinger from the University of Illinois has recently written an article pertaining to the impact of financial crisis on agricultural credit markets. The author notes that in general agriculture has weathered the financial crisis. The recession had an impact on rural labor markets, demand for agricultural commodities, and increased the delinquency rate at financial institutions. The author further noted that agricultural related financial institutions fared better than other financial institutions, and for the most part did not participate in the high risk house lending procedures. The key stress sectors have been the dairy, pork, poultry, ethanol, and timber sectors. Further information can be obtained from the article which is posted to my contributor site on Ag Manager.

For those wanting more information on the impact of the stimulus and government debt, the March 2010 issue of *The Free Market* contains two relevant articles. The Austrian business

cycle theory, discussed in the May 2009 and June 2009 KFMA newsletters, stresses the importance of intertemporal resource misallocation. A related term that is often used in this literature is “malinvestments”. Malinvestment refers to investments that were made in the wrong industries or sectors that lead to capital losses. Malinvestment results from the inability of investors to foresee correctly, at the time of the investment, either the future pattern of consumer demand or the future availability of efficient means to produce consumer items. According to Antony Mueller, the author of the first article, monetary and fiscal stimuli are often provided to sectors to launch projects that have limited economic viability in the long-run. Of course, short-run benefits often accrue to these projects. The second article focuses on public debt and refers to a book written by Garet Garrett in the 1930s. As noted, by the author, large increases in the public debt also occurred in the 1930s and 1940s. Given the fact that the U.S. is increasing public debt very rapidly, the book by Garrett, though written decades ago, is of interest. Garrett described the economic bubble that occurred in the 1920s as a product of three factors: the idea that the panacea for debt is additional credit, a social and political doctrine that people are entitled to certain betterments of life, and the argument that prosperity is a product of credit. Garrett argued that government expenditures funded through debt and credit expansion creates an addiction to credit. Thus, it is important for governments to not grow beyond the fiscal means of the people. Garrett is really easy to read so if this topic interests you, I encourage you to also check out some of his writings, which are available on the web site noted below.

The Ludwig von Mises Institute (www.mises.org) is a research and educational center that investigates classical liberalism, libertarian political theory, and the Austrian School of Economics. In addition to sponsoring workshops for students and others, the Ludwig von Mises Institute publishes daily articles, a

monthly newsletter (*The Free Market*), working papers, and professional journals.

*Michael Langemeier, Professor
Department of Agricultural Economics
Kansas State University*

The Kansas Farm Management Association (KFMA) Newsletter is distributed monthly to provide farm management information to farm decision makers. Further farm management information can be found on the KFMA program website: www.agmanager.info/kfma; and, on the Extension Agricultural Economics website: www.agmanager.info. The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



Kansas State University Agricultural Experiment Station and Cooperative Extension Service.
K-State Research and Extension is an equal opportunity provider and employer. Issued in furtherance of Cooperative Extension Work, Acts of May 8 and June 30, 1914, as amended. Kansas State University, County Extension Councils, Extension Districts and United States Department of Agriculture Cooperating, Gary Pierzynski, Interim Dean and Director.
