

<COUNTY NAME>  
2017 Annual Summary  
Meeting



<DATE>  
<LOCATION>  
<CITY>, KS

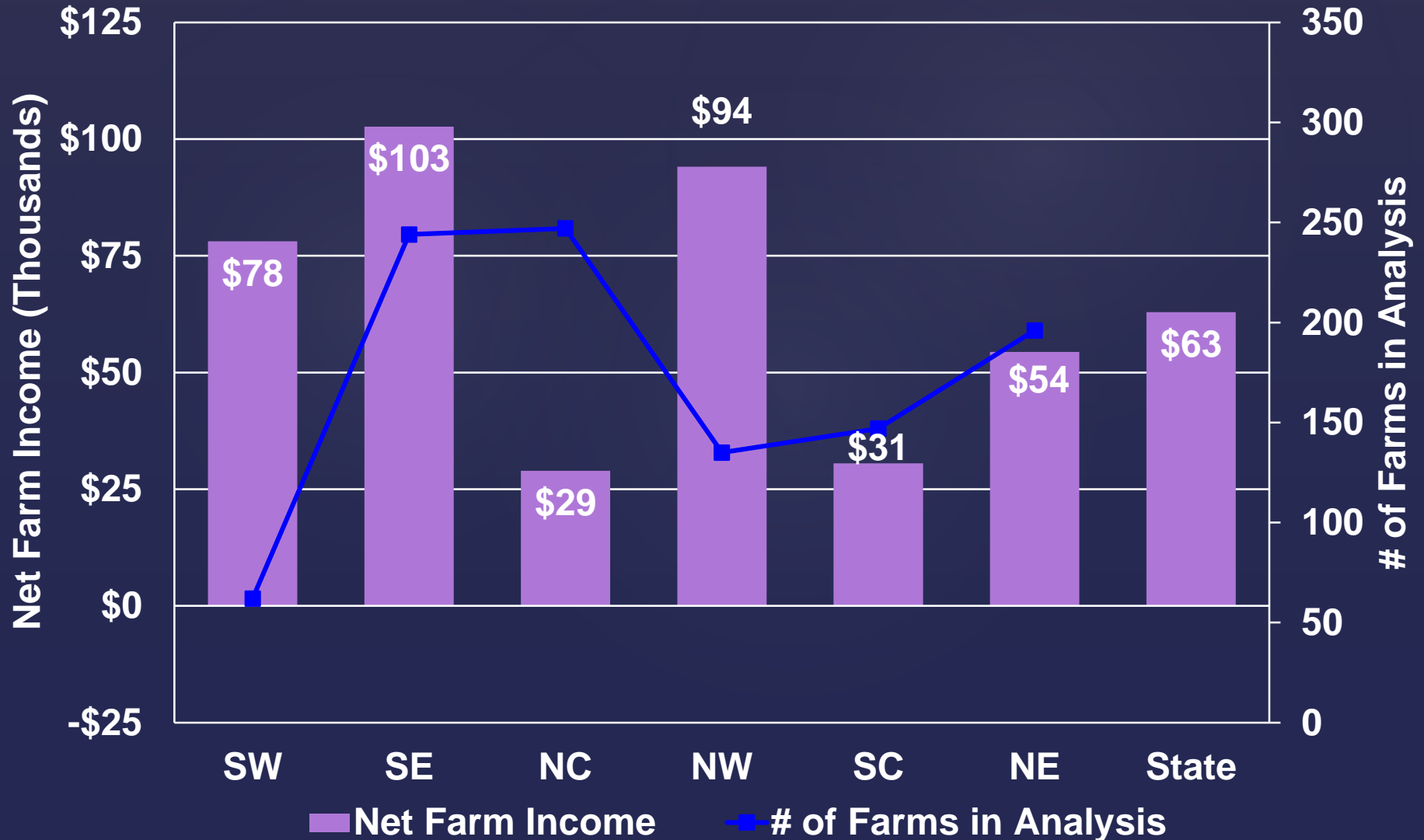


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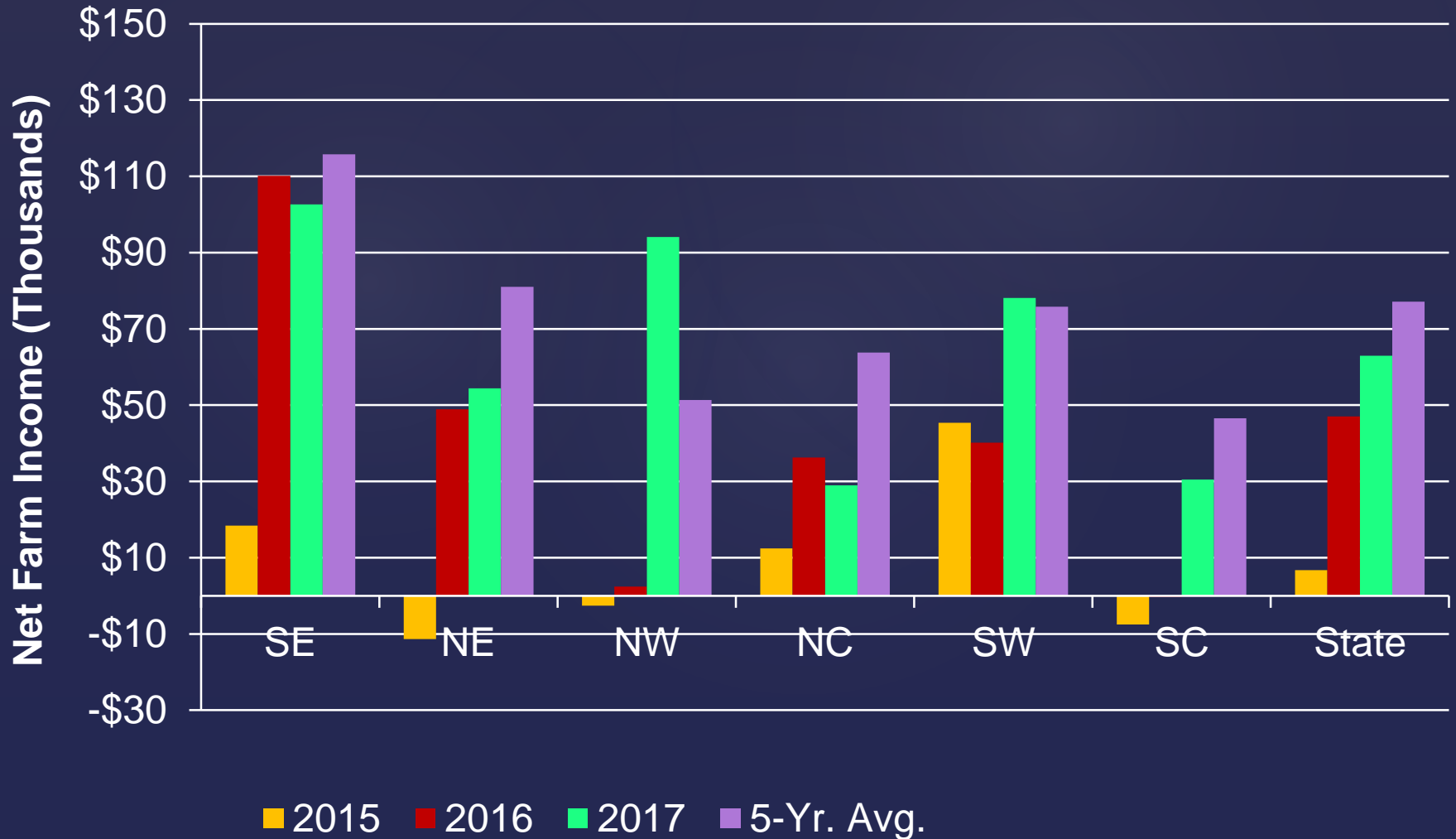




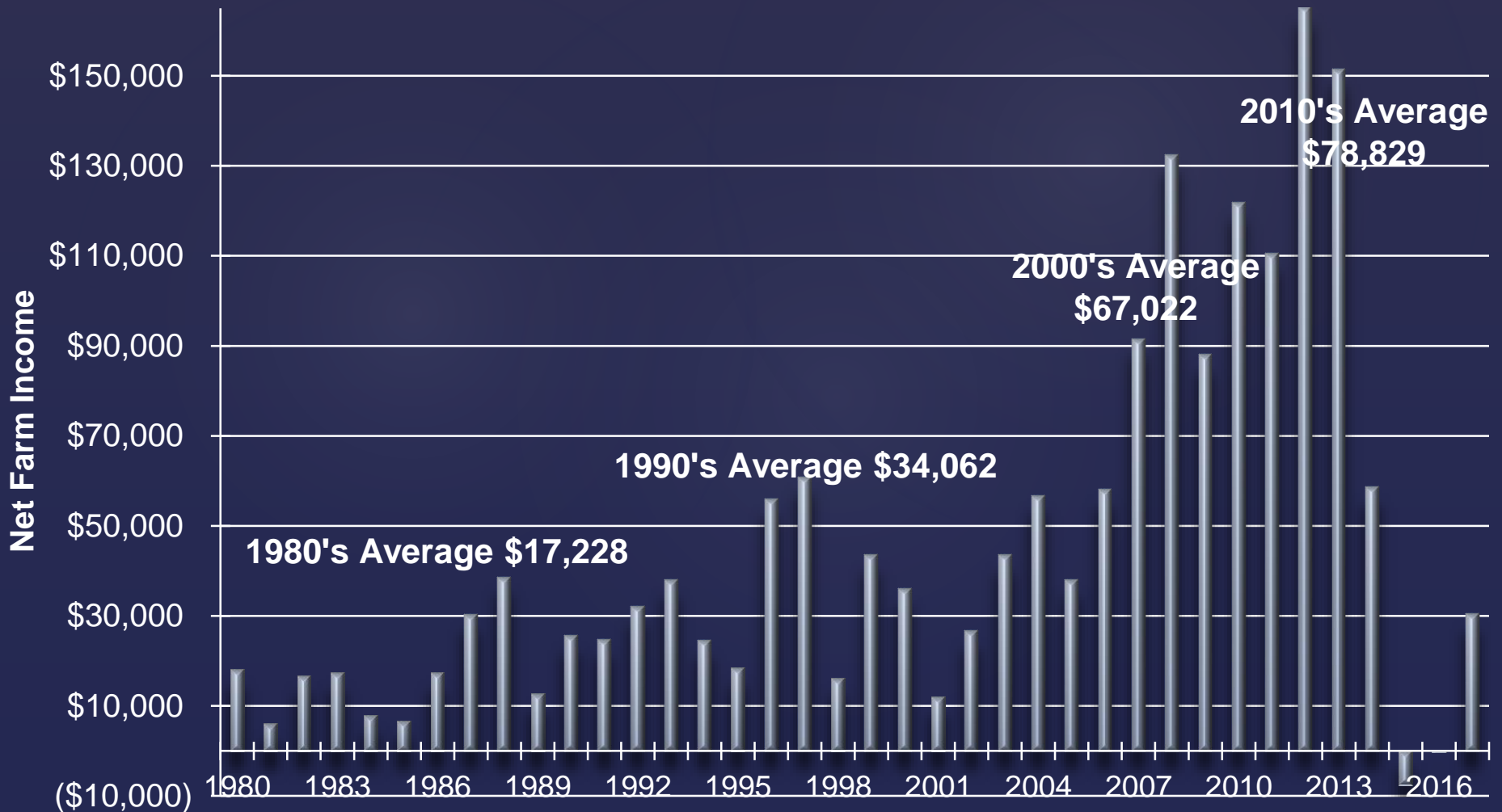
# 2017 State-wide Net Farm Income



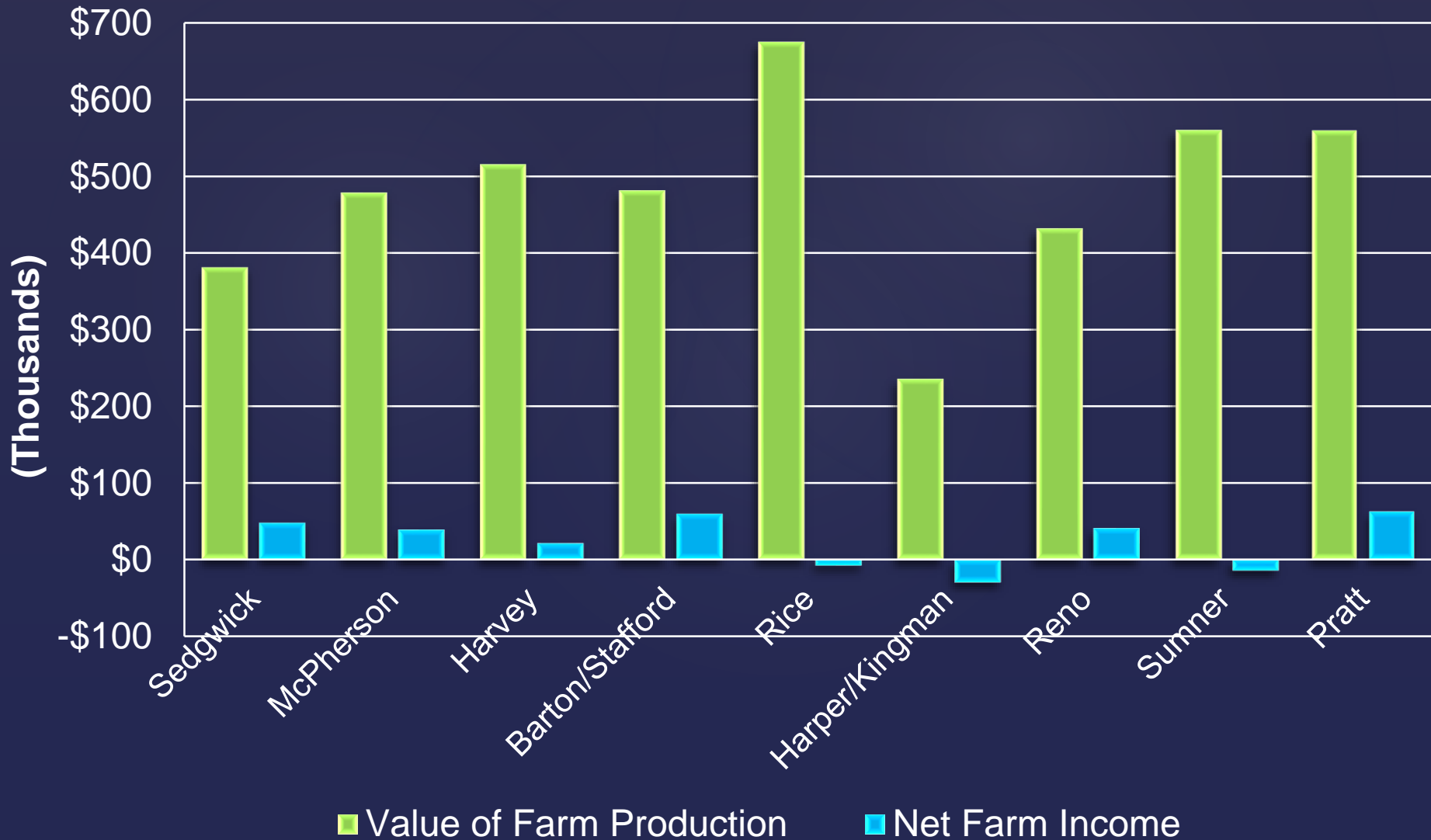
# Comparison of Net Farm Income Across Associations & Years



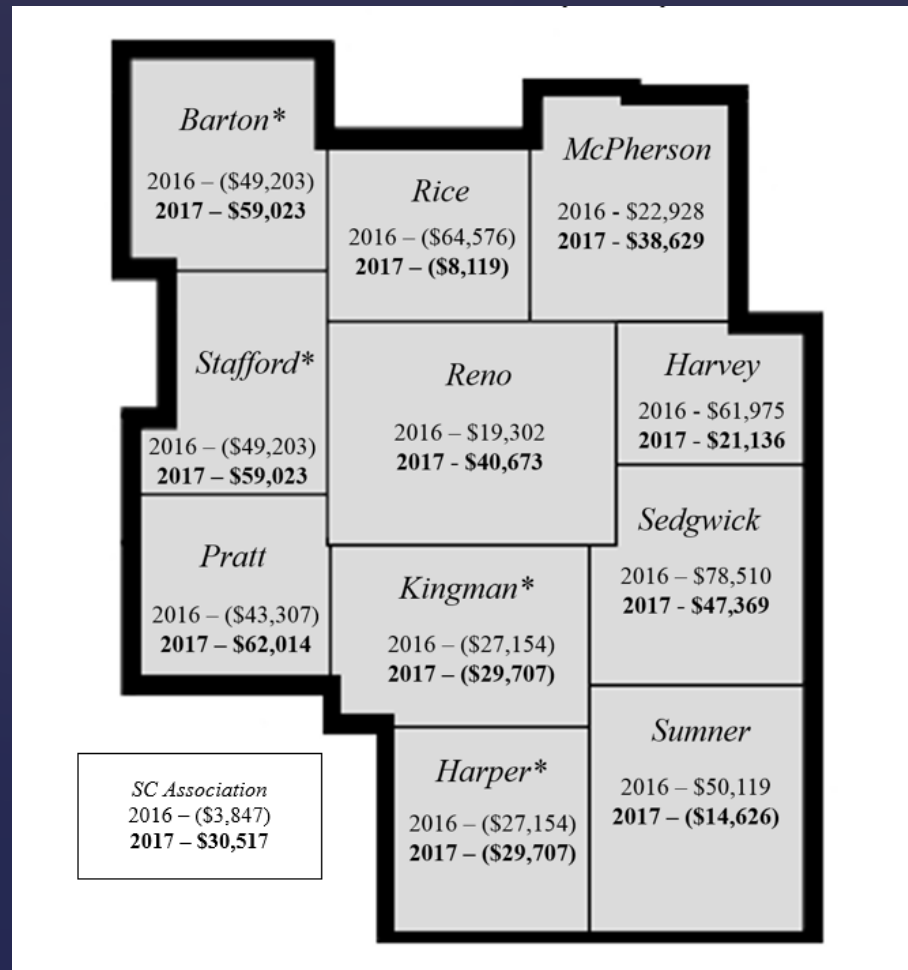
# SC Association Net Farm Income 1980 - 2017



# Value of Farm Production & Net Farm Income by County - 2017



# Net Farm Incomes by County



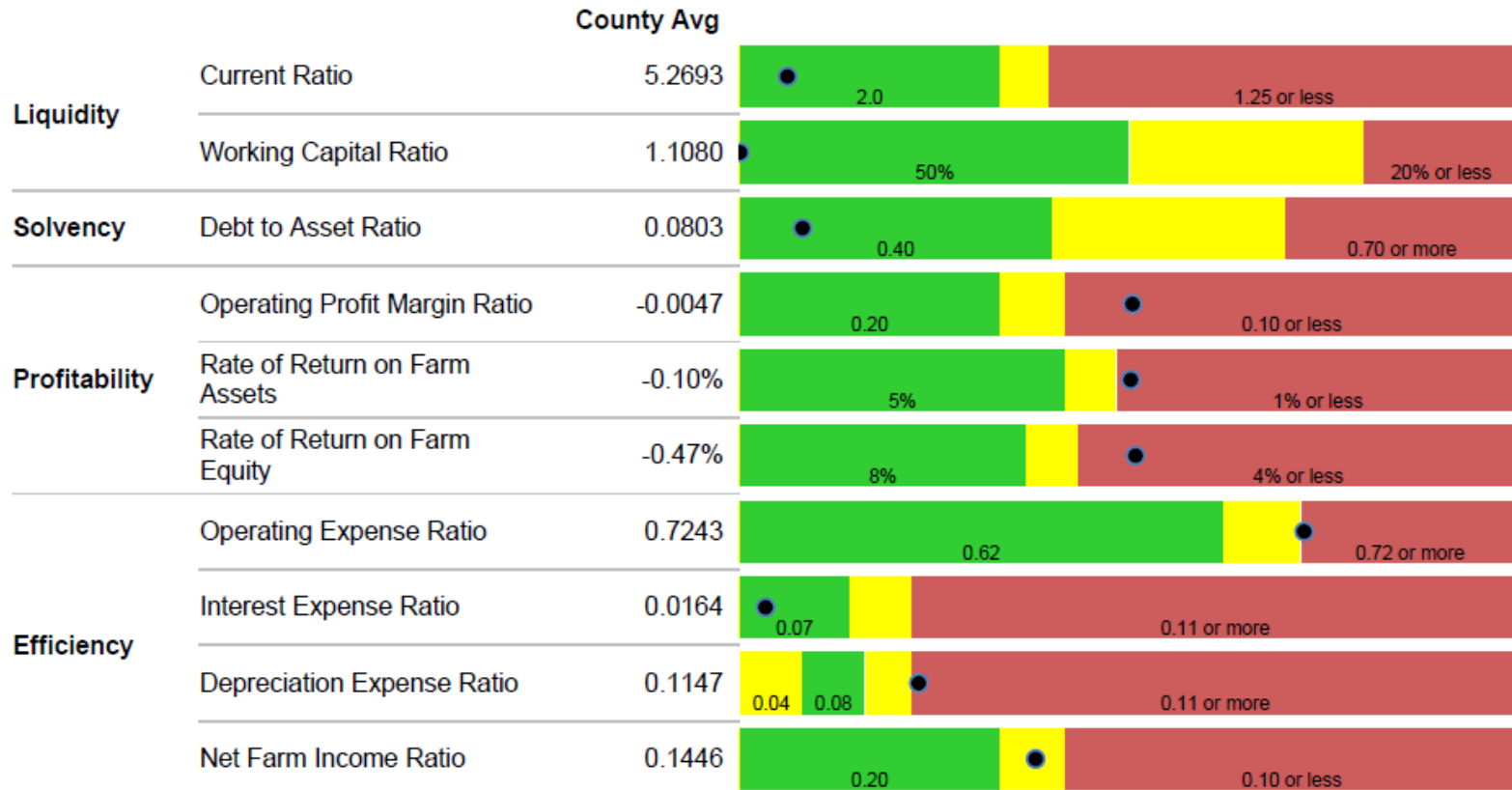
*\*Due to the small sample size of farms in the analysis in Barton, Stafford, Kingman, and Harper counties, the Barton and Stafford county data was combined and the Kingman and Harper county data was combined.*



# Summary Statistics Comparison

	SC Association	Barton/Stafford County
# Farms	147	<b>20</b>
Net Farm Income	\$30,517	<b>\$59,023</b>
Return to Labor & Management	\$-91,910	<b>\$-64,739</b>
Livestock Value Produced	\$49,552	<b>\$26,600</b>
Value of Farm Production	\$492,699	<b>\$481,034</b>
Cash Operating Expense	\$386,880	<b>\$357,872</b>
Total Farm Expense	\$462,182	<b>\$422,012</b>
Total Expense Ratio	0.9381	<b>0.8773</b>
Average Debt to Asset Ratio	0.1812	<b>0.0905</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$2,076,905</b>
Total Crop Acres	1,723	<b>1,861</b>
Percent of Crop Acres Irrigated	13.24%	<b>13.3%</b>
Total Pasture Acres	629	<b>755</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$272.27</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$79.58</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$216.12</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$38.34</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$13.09</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$18.46</b>

# Barton County Benchmark Ratios

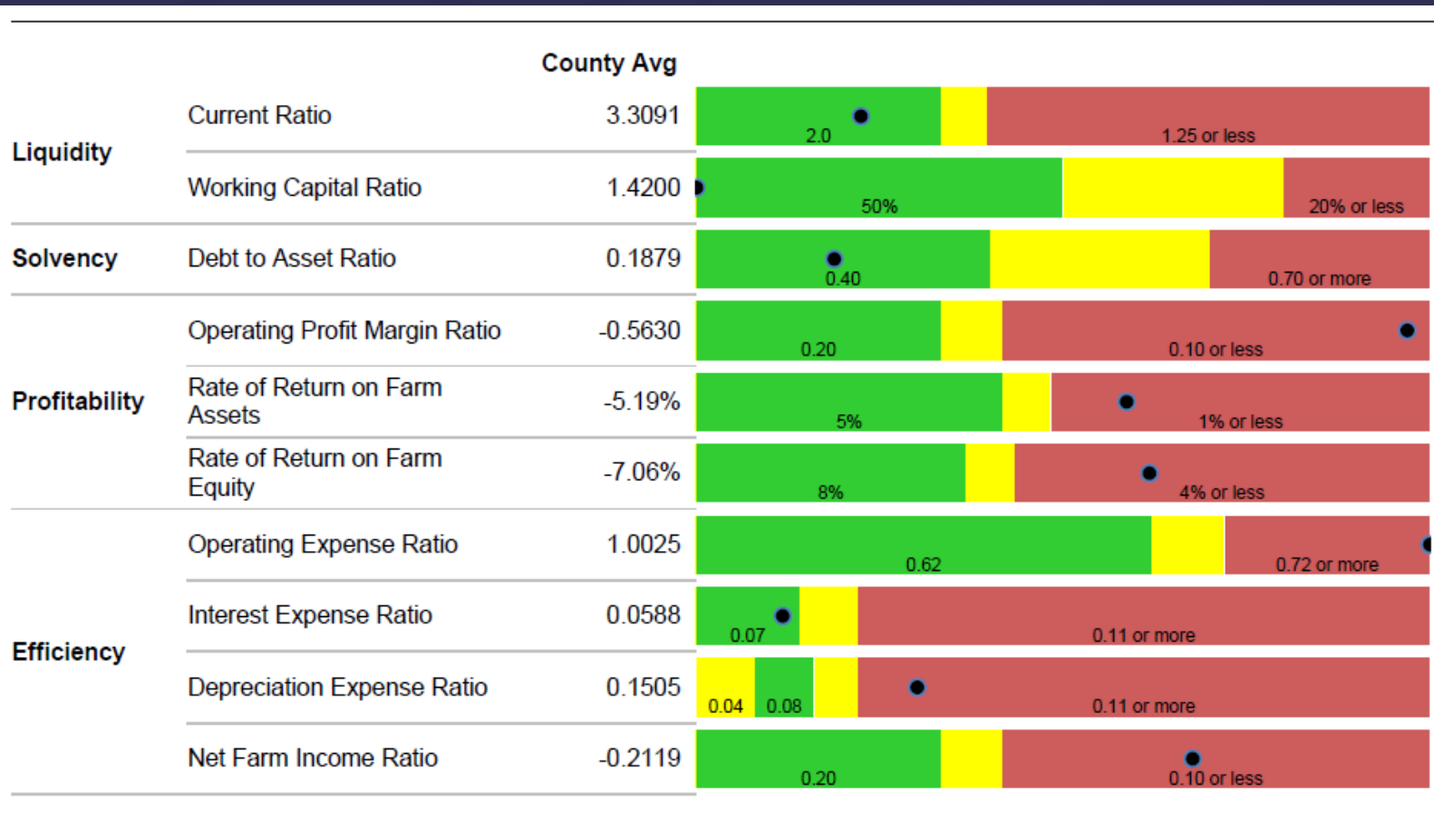


● County Avg

# Summary Statistics Comparison

	SC Association	Harper/Kingman County
# Farms	147	7
Net Farm Income	\$30,517	<b>(\$29,707)</b>
Return to Labor & Management	\$-91,910	<b>\$-120,080</b>
Livestock Value Produced	\$49,552	<b>\$38,060</b>
Value of Farm Production	\$492,699	<b>\$235,063</b>
Cash Operating Expense	\$386,880	<b>\$224,067</b>
Total Farm Expense	\$462,182	<b>\$264,771</b>
Total Expense Ratio	0.9381	<b>1.1264</b>
Average Debt to Asset Ratio	0.1812	<b>0.1761</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$1,583,259</b>
Total Crop Acres	1,723	<b>1,247</b>
Percent of Crop Acres Irrigated	13.24%	<b>2.97%</b>
Total Pasture Acres	629	<b>934</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$177.48</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$68.59</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$167.14</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$36.28</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$16.35</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$22.71</b>

# Harper County Benchmark Ratios

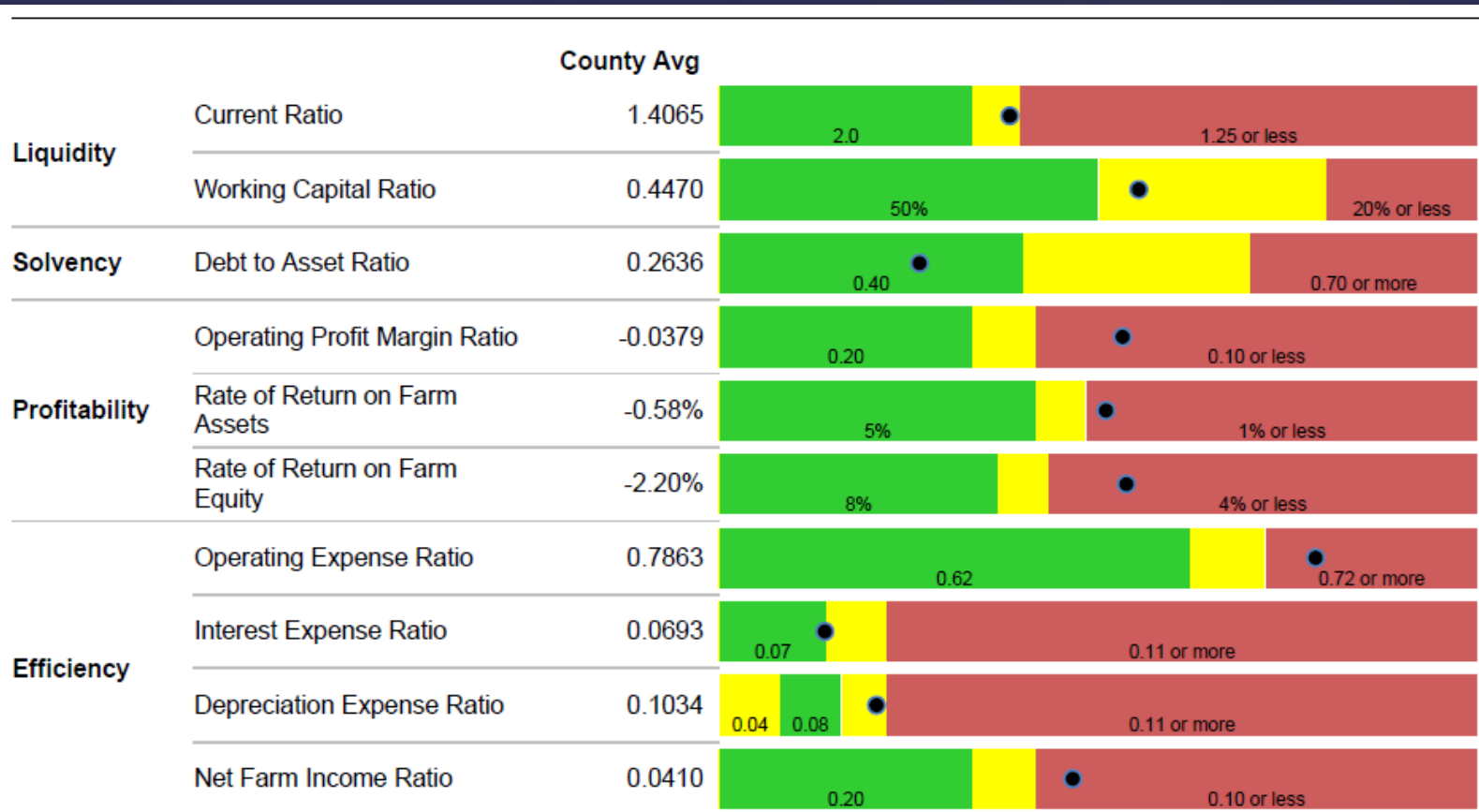


● County Avg

# Summary Statistics Comparison

	SC Association	Harvey
# Farms	147	11
Net Farm Income	\$30,517	<b>\$21,136</b>
Return to Labor & Management	\$-91,910	<b>\$-122,938</b>
Livestock Value Produced	\$49,552	<b>\$168,562</b>
Value of Farm Production	\$492,699	<b>\$515,109</b>
Cash Operating Expense	\$386,880	<b>\$405,011</b>
Total Farm Expense	\$462,182	<b>\$493,972</b>
Total Expense Ratio	0.9381	<b>0.9590</b>
Average Debt to Asset Ratio	0.1812	<b>0.2619</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$2,504,061</b>
Total Crop Acres	1,723	<b>1,593</b>
Percent of Crop Acres Irrigated	13.24%	<b>2.96%</b>
Total Pasture Acres	629	<b>1599</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$215.62</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$78.22</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$228.19</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$31.98</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$13.80</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$23.23</b>

# Harvey County Benchmark Ratios

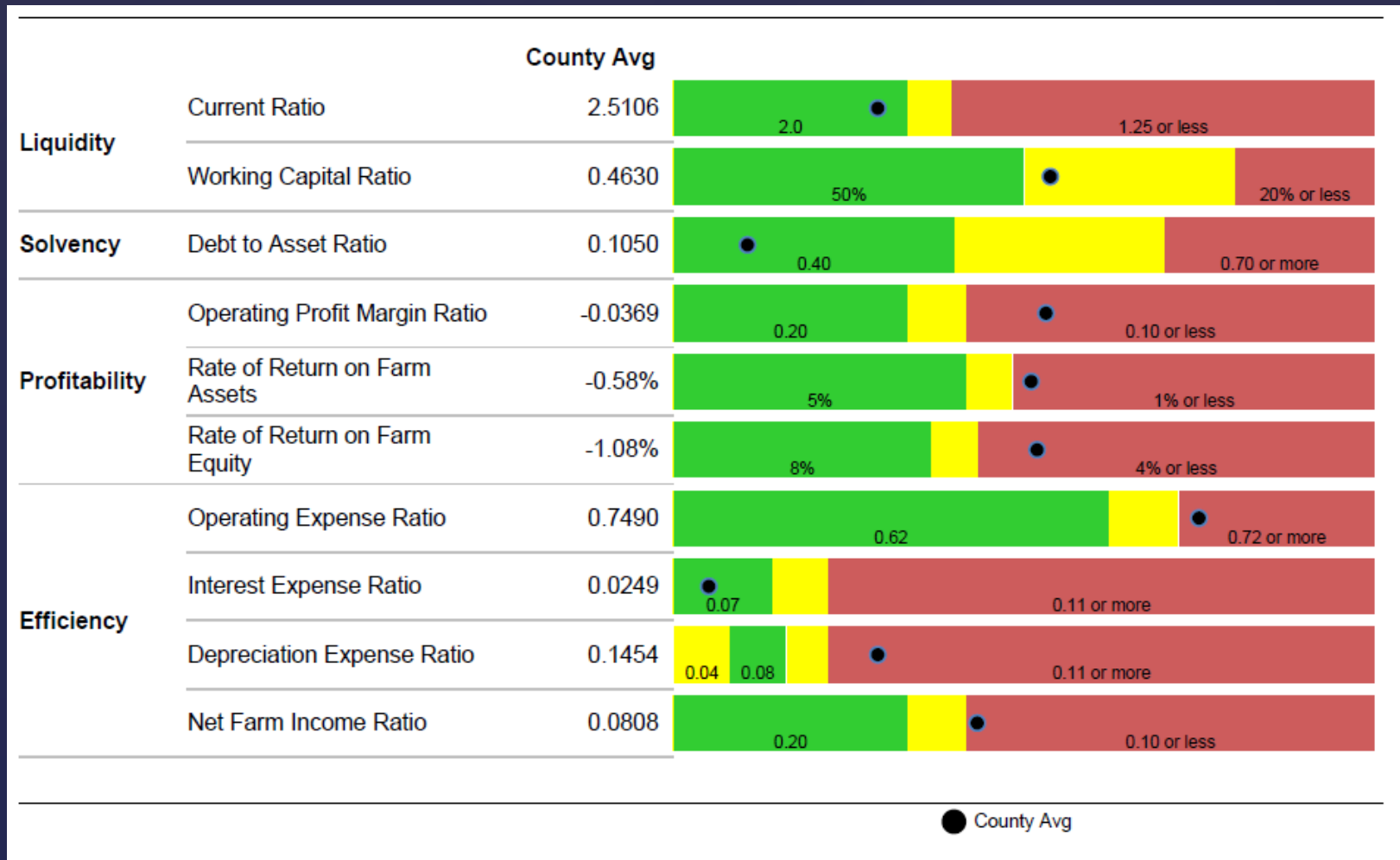


● County Avg

# Summary Statistics Comparison

	SC Association	McPherson
# Farms	147	<b>11</b>
Net Farm Income	\$30,517	<b>\$38,629</b>
Return to Labor & Management	\$-91,910	<b>\$-114,017</b>
Livestock Value Produced	\$49,552	<b>\$77,857</b>
Value of Farm Production	\$492,699	<b>\$478,293</b>
Cash Operating Expense	\$386,880	<b>\$358,238</b>
Total Farm Expense	\$462,182	<b>\$439,664</b>
Total Expense Ratio	0.9381	<b>0.9192</b>
Average Debt to Asset Ratio	0.1812	<b>0.11</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$2,753,782</b>
Total Crop Acres	1,723	<b>1,341</b>
Percent of Crop Acres Irrigated	13.24%	<b>14.48%</b>
Total Pasture Acres	629	<b>679</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$396.85</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$114.12</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$292.71</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$44.30</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$12.89</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$19.26</b>

# McPherson County Benchmark Ratios





# Summary Statistics Comparison

	SC Association	Pratt
# Farms	147	17
Net Farm Income	\$30,517	<b>\$62,014</b>
Return to Labor & Management	\$-91,910	<b>\$-82,946</b>
Livestock Value Produced	\$49,552	<b>\$14,919</b>
Value of Farm Production	\$492,699	<b>\$559,014</b>
Cash Operating Expense	\$386,880	<b>\$401,699</b>
Total Farm Expense	\$462,182	<b>\$497,000</b>
Total Expense Ratio	0.9381	<b>0.8891</b>
Average Debt to Asset Ratio	0.1812	<b>0.2003</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$2,526,550</b>
Total Crop Acres	1,723	<b>1,802</b>
Percent of Crop Acres Irrigated	13.24%	<b>31.97%</b>
Total Pasture Acres	629	<b>357</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$276.43</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$103.98</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$259.11</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$44.57</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$15.25</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$22.06</b>

# Pratt County Benchmark Ratios



# Summary Statistics Comparison

	SC Association	Reno
# Farms	147	<b>30</b>
Net Farm Income	\$30,517	<b>\$40,673</b>
Return to Labor & Management	\$-91,910	<b>\$-58,841</b>
Livestock Value Produced	\$49,552	<b>\$58,786</b>
Value of Farm Production	\$492,699	<b>\$431,445</b>
Cash Operating Expense	\$386,880	<b>\$334,160</b>
Total Farm Expense	\$462,182	<b>\$390,772</b>
Total Expense Ratio	0.9381	<b>0.9057</b>
Average Debt to Asset Ratio	0.1812	<b>0.1864</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$1,665,640</b>
Total Crop Acres	1,723	<b>1,456</b>
Percent of Crop Acres Irrigated	13.24%	<b>10.59%</b>
Total Pasture Acres	629	<b>531</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$238.21</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$78.16</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$242.33</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$44.67</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$10.61</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$22.34</b>

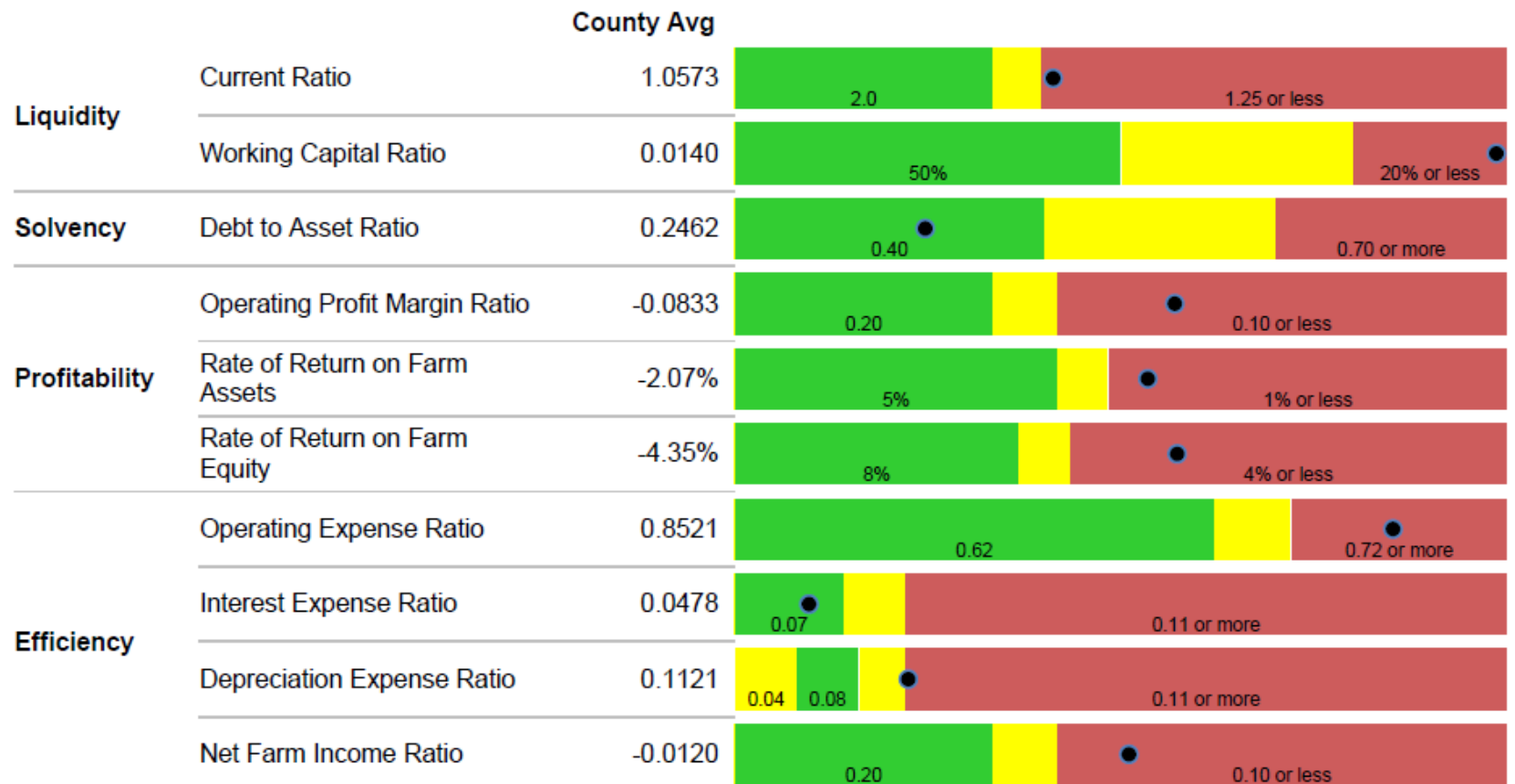
# Reno County Benchmark Ratios



# Summary Statistics Comparison

	SC Association	Rice
# Farms	147	<b>23</b>
Net Farm Income	\$30,517	<b>(\$8,119)</b>
Return to Labor & Management	\$-91,910	<b>\$-129,750</b>
Livestock Value Produced	\$49,552	<b>\$31,209</b>
Value of Farm Production	\$492,699	<b>\$674,712</b>
Cash Operating Expense	\$386,880	<b>\$574,946</b>
Total Farm Expense	\$462,182	<b>\$682,831</b>
Total Expense Ratio	0.9381	<b>1.012</b>
Average Debt to Asset Ratio	0.1812	<b>0.2522</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$2,038,801</b>
Total Crop Acres	1,723	<b>2,427</b>
Percent of Crop Acres Irrigated	13.24%	<b>10.62%</b>
Total Pasture Acres	629	<b>438</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$227.95</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$92.60</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$262.56</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$42.54</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$12.27</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$24.19</b>

# Rice County Benchmark Ratios



● County Avg

# Summary Statistics Comparison

	SC Association	Sedgwick
# Farms	147	19
Net Farm Income	\$30,517	<b>\$47,369</b>
Return to Labor & Management	\$-91,910	<b>\$-88,336</b>
Livestock Value Produced	\$49,552	<b>\$39,617</b>
Value of Farm Production	\$492,699	<b>\$380,528</b>
Cash Operating Expense	\$386,880	<b>\$278,522</b>
Total Farm Expense	\$462,182	<b>\$333,159</b>
Total Expense Ratio	0.9381	<b>0.8755</b>
Average Debt to Asset Ratio	0.1812	<b>0.1138</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$2,370,858</b>
Total Crop Acres	1,723	<b>1,168</b>
Percent of Crop Acres Irrigated	13.24%	<b>23.21%</b>
Total Pasture Acres	629	<b>290</b>
Machinery Investment/Crop Acre	\$251.51	<b>\$295.69</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$98.31</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$260.32</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$40.90</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$12.92</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$26.85</b>

# Sedgwick County Benchmark Ratios





# Summary Statistics Comparison

	SC Association	Sumner
# Farms	147	9
Net Farm Income	\$30,517	<b>(\$14,626)</b>
Return to Labor & Management	\$-91,910	<b>\$-103,447</b>
Livestock Value Produced	\$49,552	<b>\$7,432</b>
Value of Farm Production	\$492,699	<b>\$559,799</b>
Cash Operating Expense	\$386,880	<b>\$486,702</b>
Total Farm Expense	\$462,182	<b>\$574,425</b>
Total Expense Ratio	0.9381	<b>1.0261</b>
Average Debt to Asset Ratio	0.1812	<b>0.2461</b>
Net Worth (12-31-17)	\$2,104,980	<b>\$1,568,390</b>
Total Crop Acres	1,723	<b>2,496</b>
Percent of Crop Acres Irrigated	13.24%	<b>0.49%</b>
Total Pasture Acres	629	
Machinery Investment/Crop Acre	\$251.51	<b>\$188.26</b>
Machinery Cost/Crop Acre	\$87.67	<b>\$73.06</b>
Crop Production Cost/Crop Acre	\$243.67	<b>\$219.97</b>
Fertilizer Cost/Crop Acre	\$40.72	<b>\$33.69</b>
Fuel Cost/Crop Acre	\$12.51	<b>\$9.12</b>
Machinery Repairs/Crop Acre	\$21.87	<b>\$16.28</b>

# Sumner County Benchmark Ratios



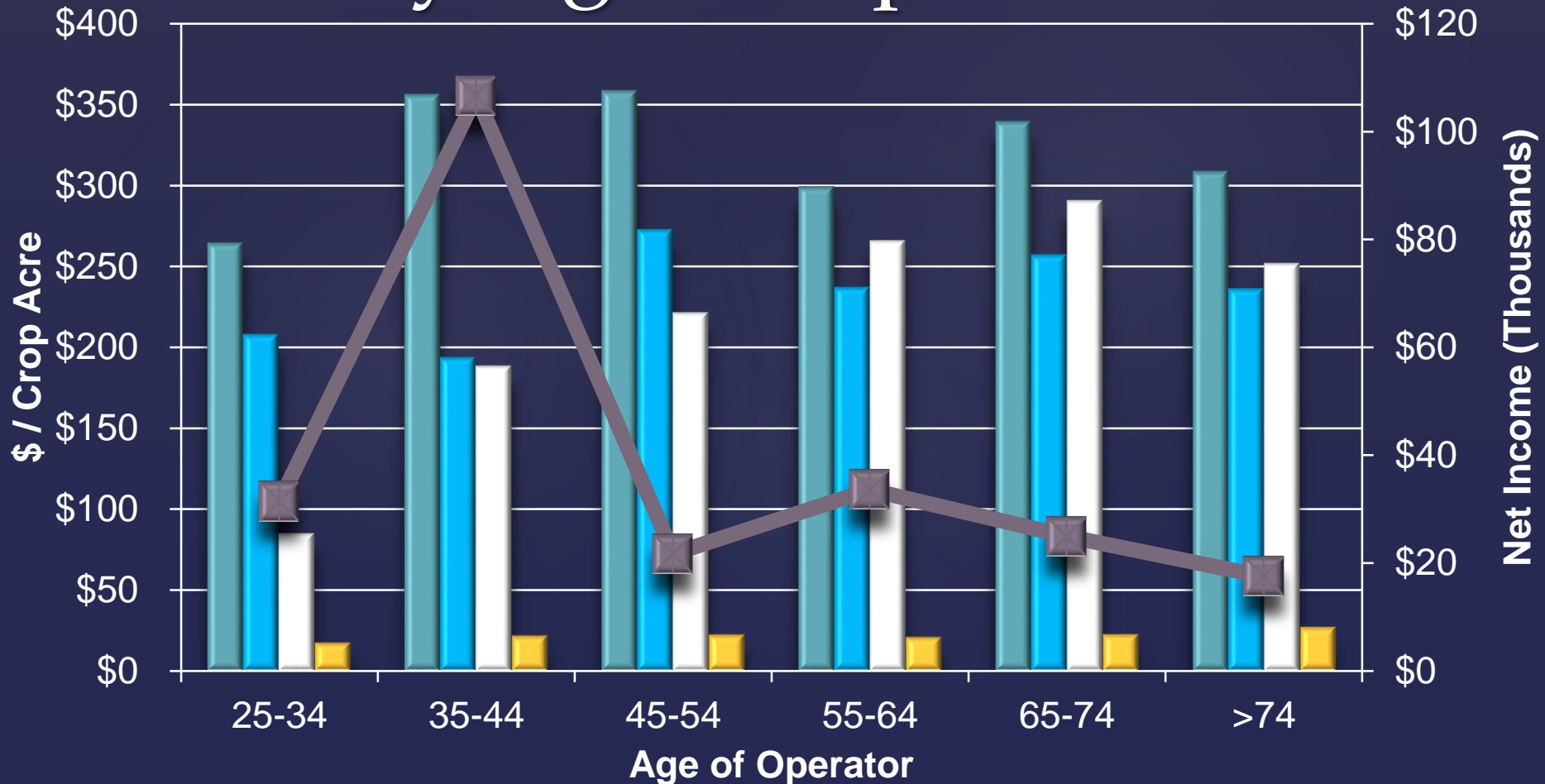
● County Avg



# Analysis Factors



# 2017 Analysis Factors by Age of Operator



■ Gross Crop Value/Crop Acre

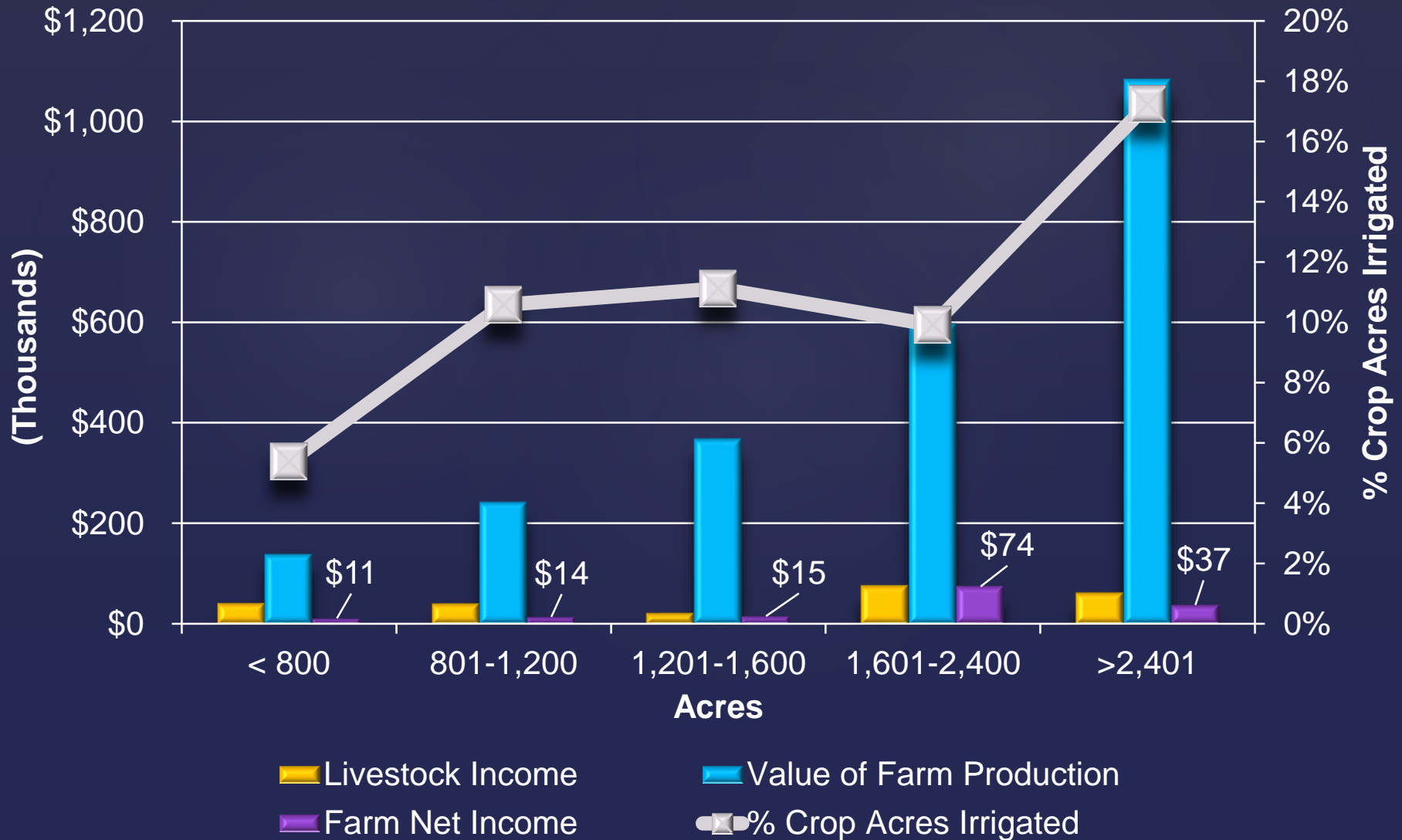
■ Crop Production Cost/Crop Acre

■ Machinery Investment/Crop Acre

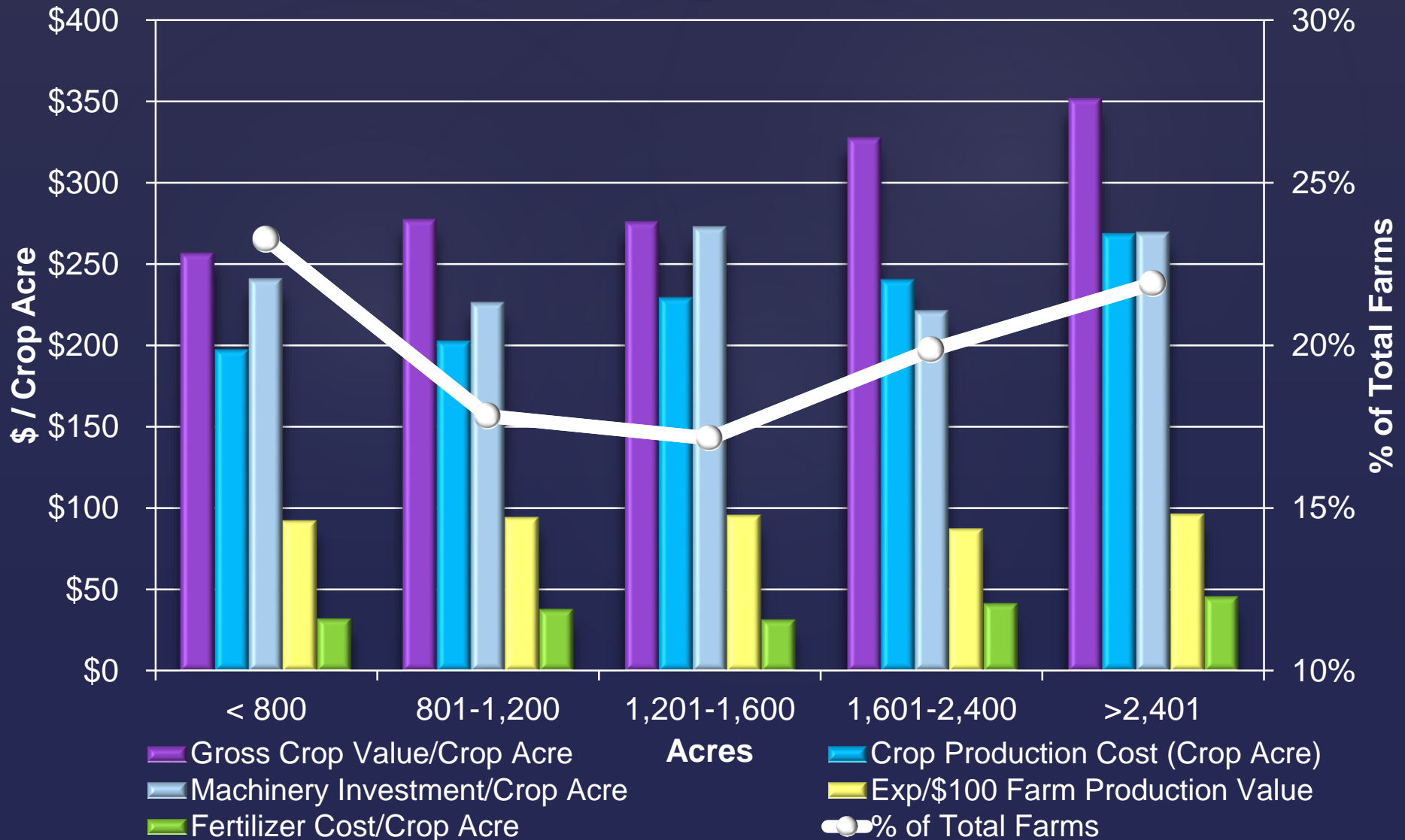
■ Government Payments/Crop Acre

■ Farm Net Income

# 2017 Analysis Factors by Crop Acres



# 2017 Analysis Factors by Crop Acres

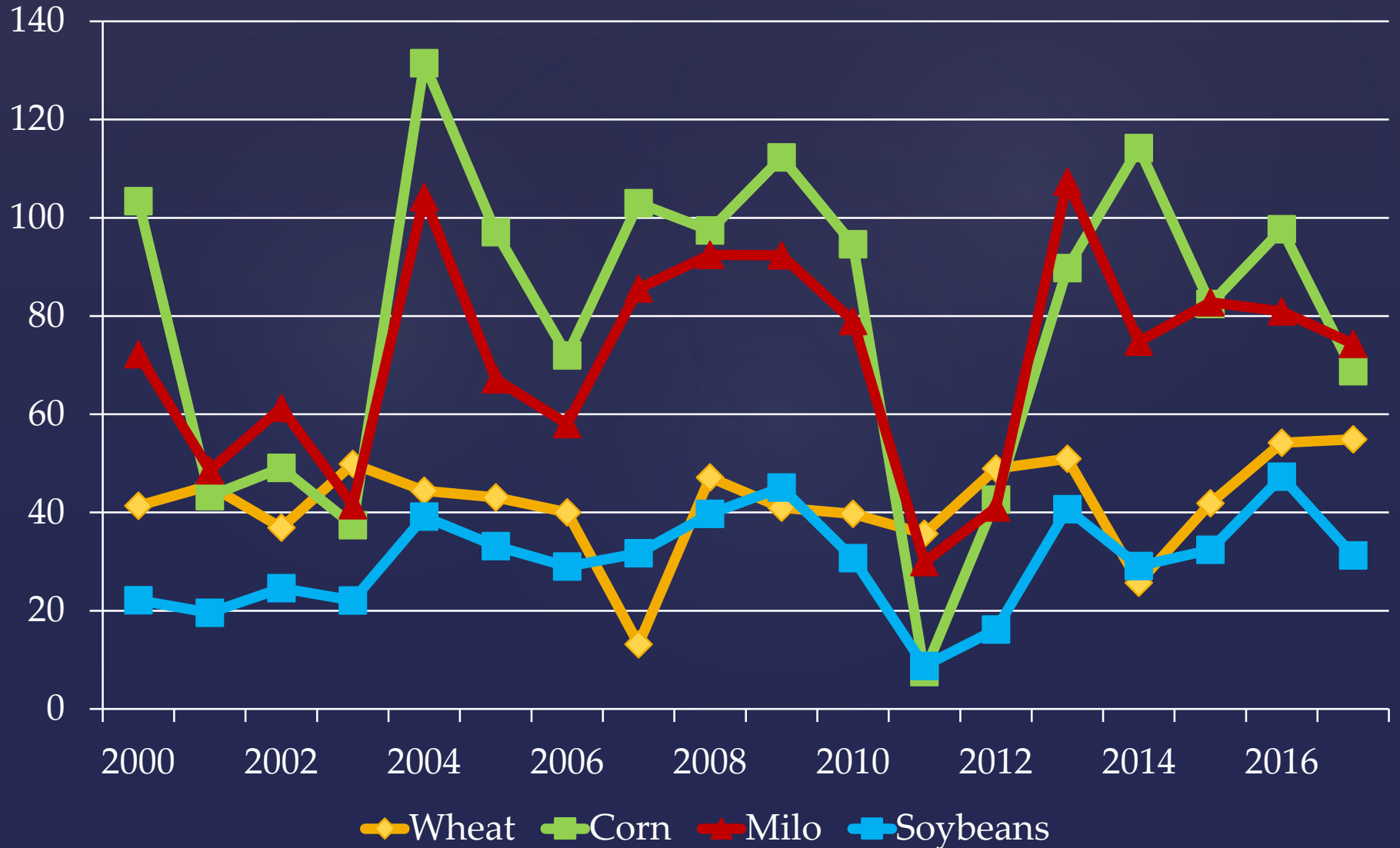




# Crop Yields



# S.C. Kansas Farm Management Association Non-Irrigated Crop Yields, 2000-2017





# Non-Irrigated County Yields

	WHEAT	CORN	SOYBEANS	MILO
	Yield (bu)			
Barton/Stafford	59.5	72.2	32.6	85.7
Harper/Kingman	38.4	--	--	--
Harvey	52.0	69.8	29.6	--
McPherson	53.4	79.6	31.4	73.5
Pratt	56.7	56.2	--	70.6
Reno	59.5	68.9	29.8	71.3
Rice	55.3	68.5	34.3	78.1
Sedgwick	55.4	69.4	33.3	--
Sumner	48.8	--	30.9	--
SC Association	55.3	68.6	31.2	74.3

# Irrigated County Yields

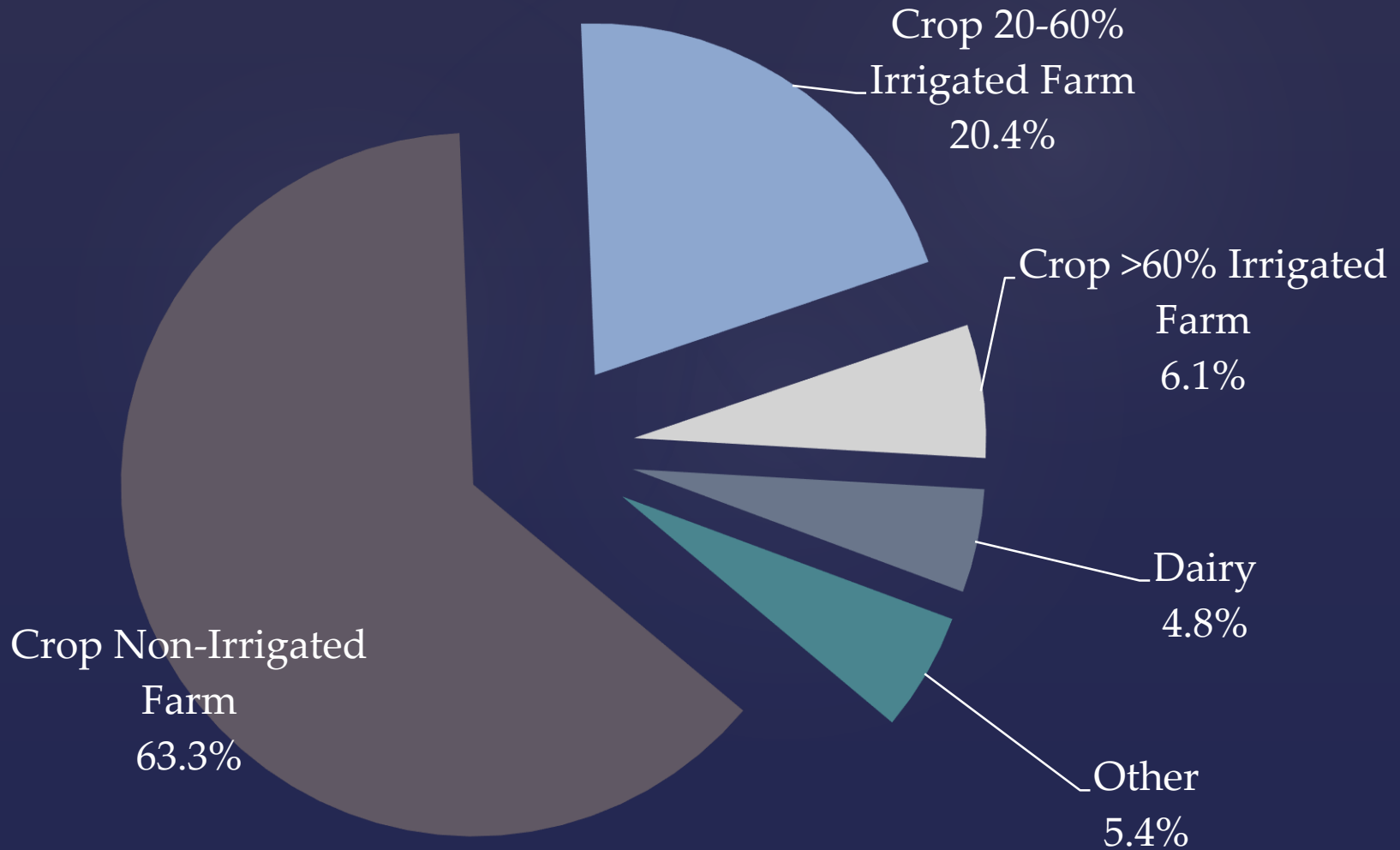
	WHEAT	CORN	SOYBEANS	MILO
	Yield (bu)			
Barton/Stafford	--	189.8	58.8	--
Pratt	--	214.5	66.1	--
Reno	--	210.2	59.3	--
Rice	--	187.2	62.6	--
Sedgwick	--	200.14	63.0	--
SC Association	66.6	199.4	62.1	--



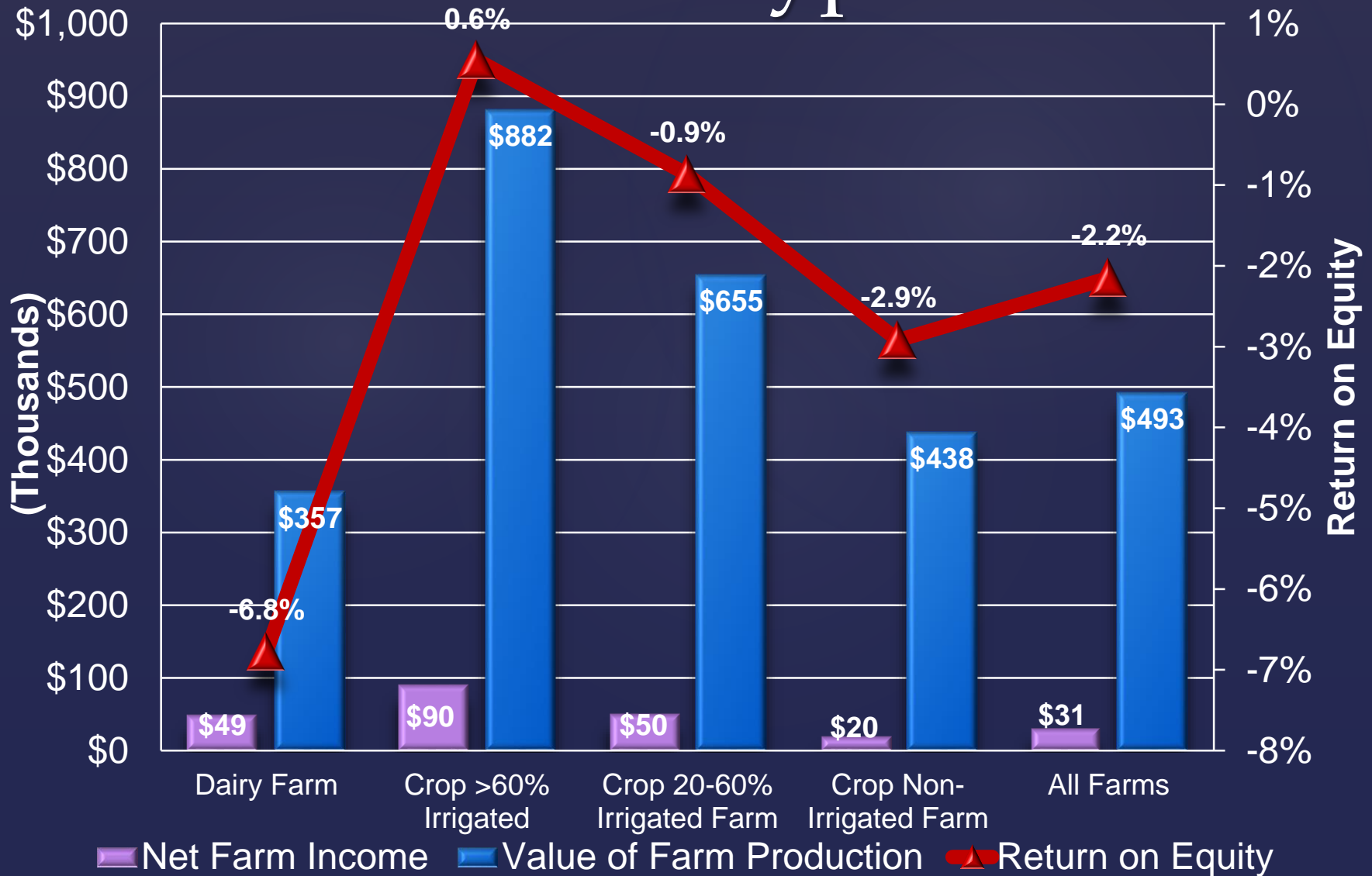
# Farm Typing



# 2017 Farm Type for South Central Kansas



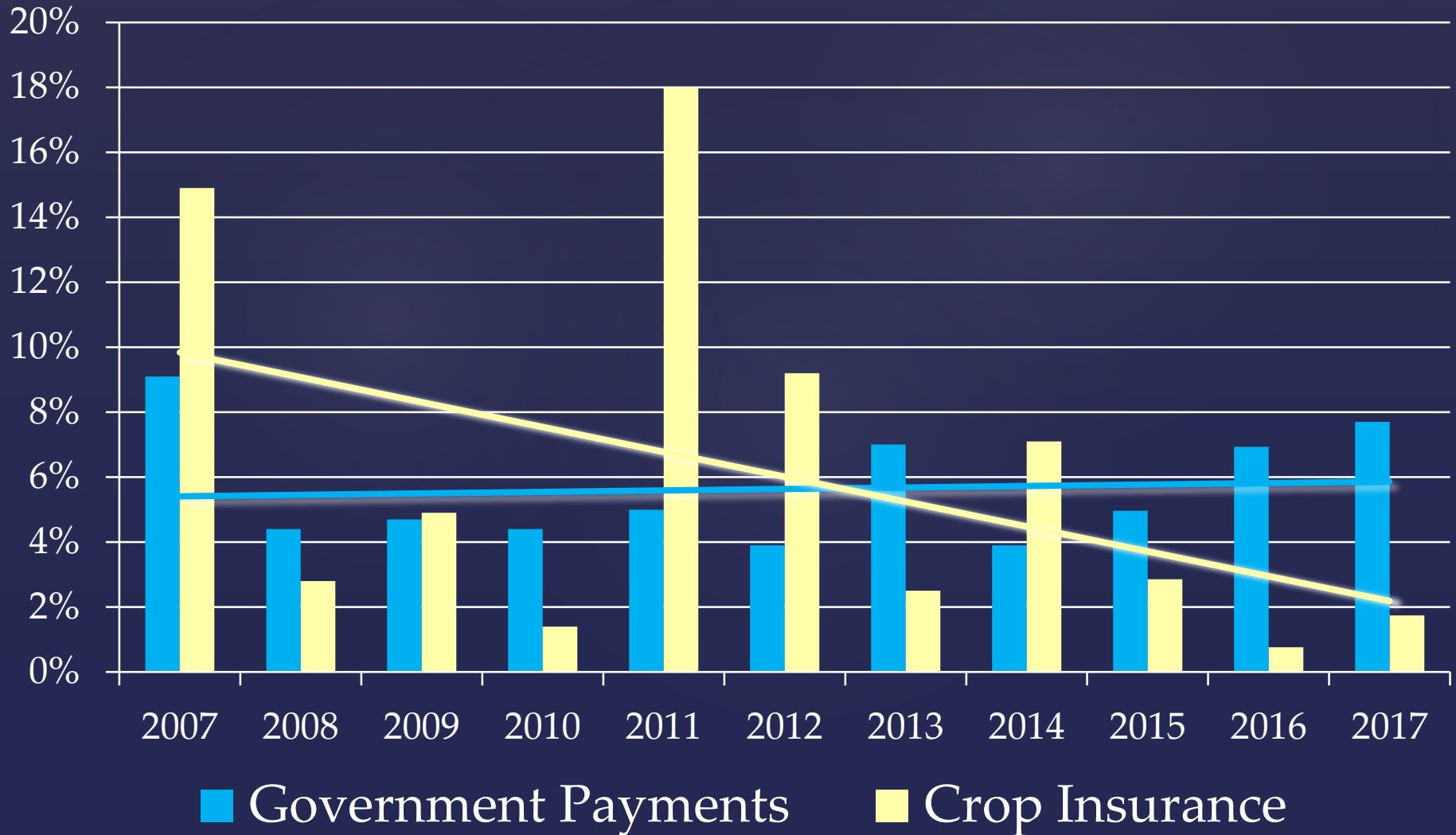
# Comparison by 2017 Farm Type



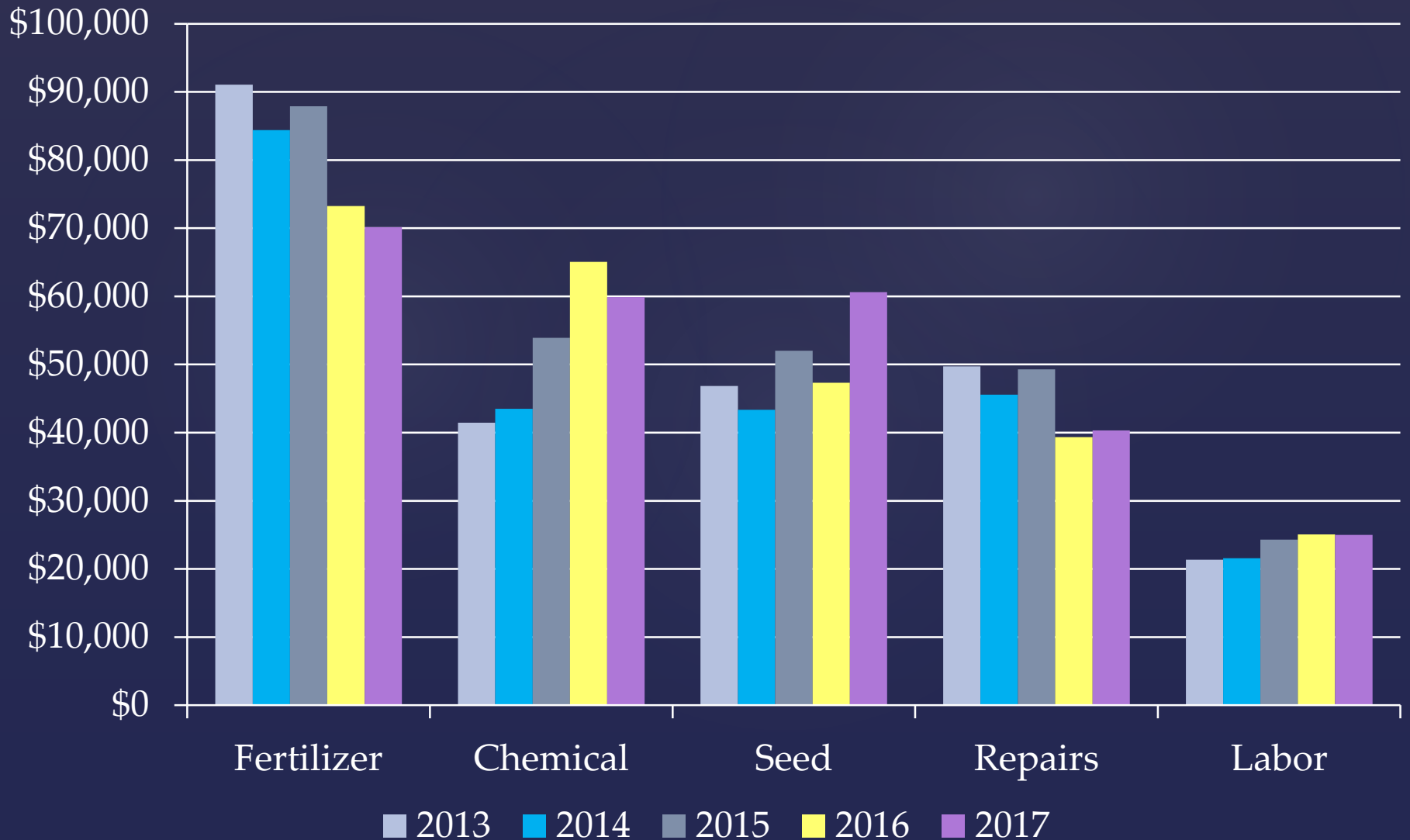
# Farm Revenue and Cost Comparisons



# Government Payments vs. Crop Insurance (As a percentage of Value of Farm Production)

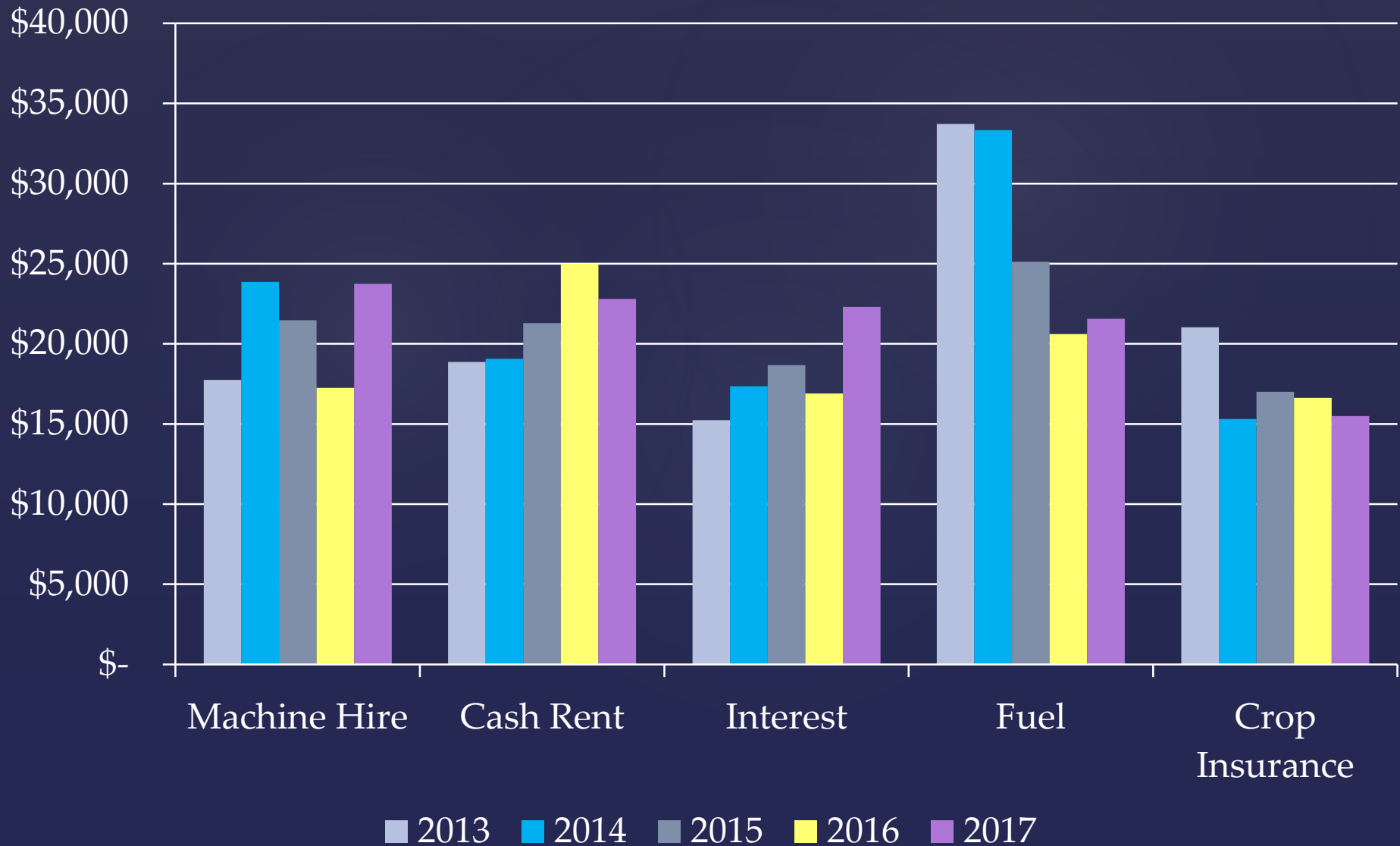


# Top 5 Farm Expenses, 2011-2017

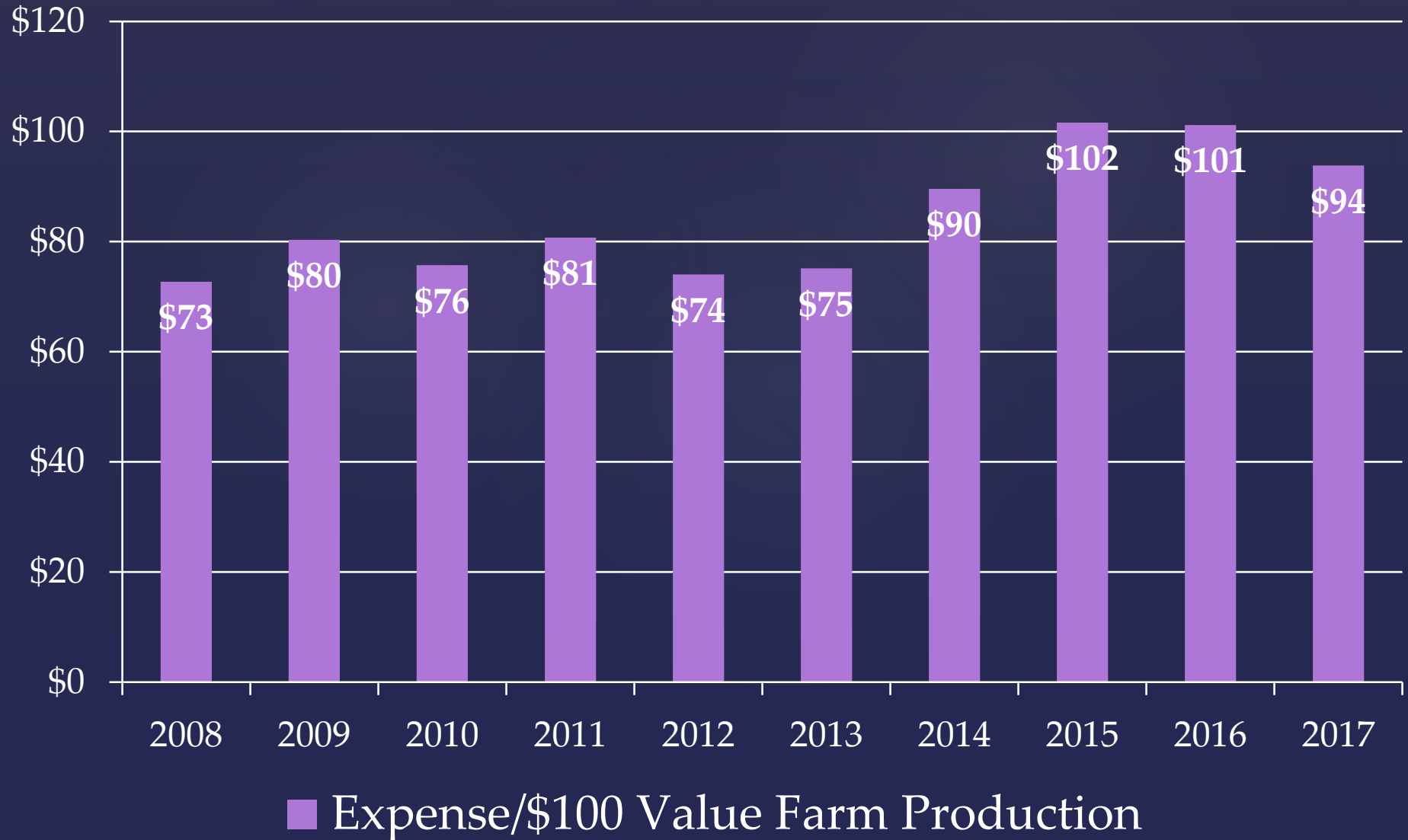




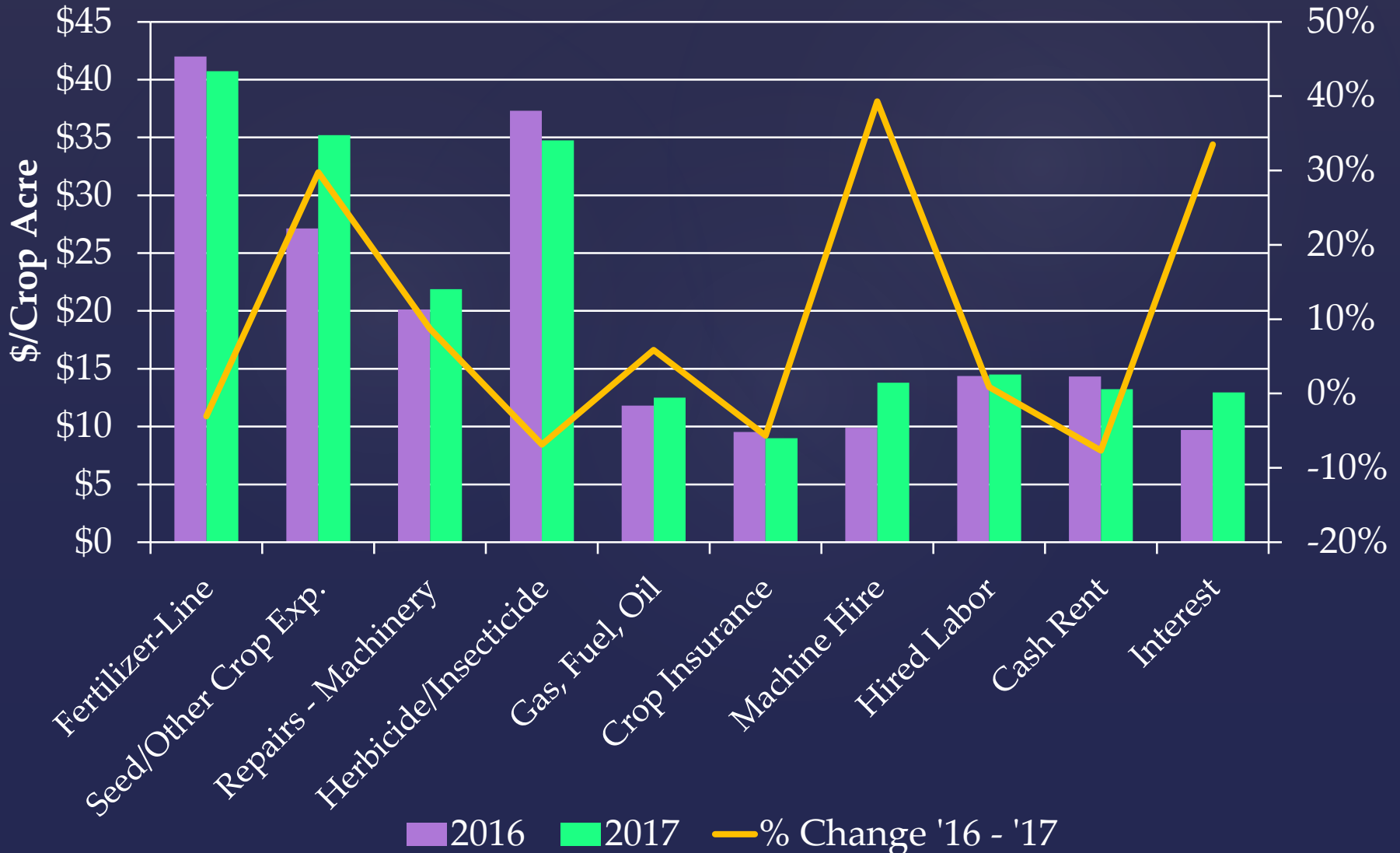
# Top 10 Farm Expenses, 2011-2017



# Expense & Value of Farm Production



# Expense per Crop Acre



# What If...?

In 1984, interest was the #1 ranking farm expense.

1985

Total Debt (12/31/85) = \$163,652

Interest Paid = \$17,362

Effective Interest Rate of 10.61%

2017

Total Debt (12/31/17) = \$411,494

Interest Paid = \$22,300

Effective Interest Rate of 5.42%

What if average interest rates  
increased to values realized in 1985?

Interest paid per farm in South Central Kansas  
would increase to \$43,656 with  
current debt levels, moving it from #8 to #4 in terms  
of highest ranking farm expenses.

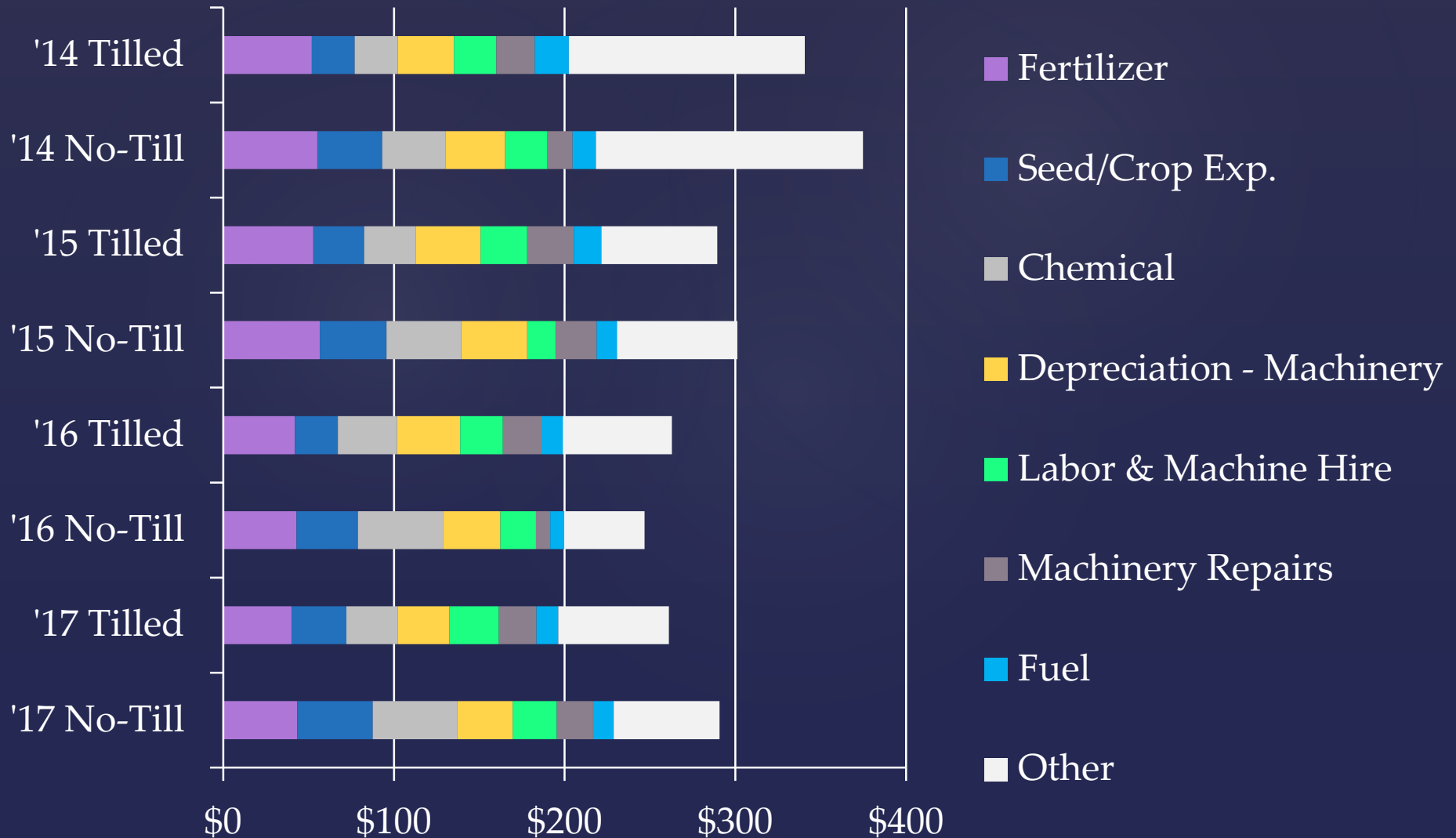


# Tillage Practice Comparisons

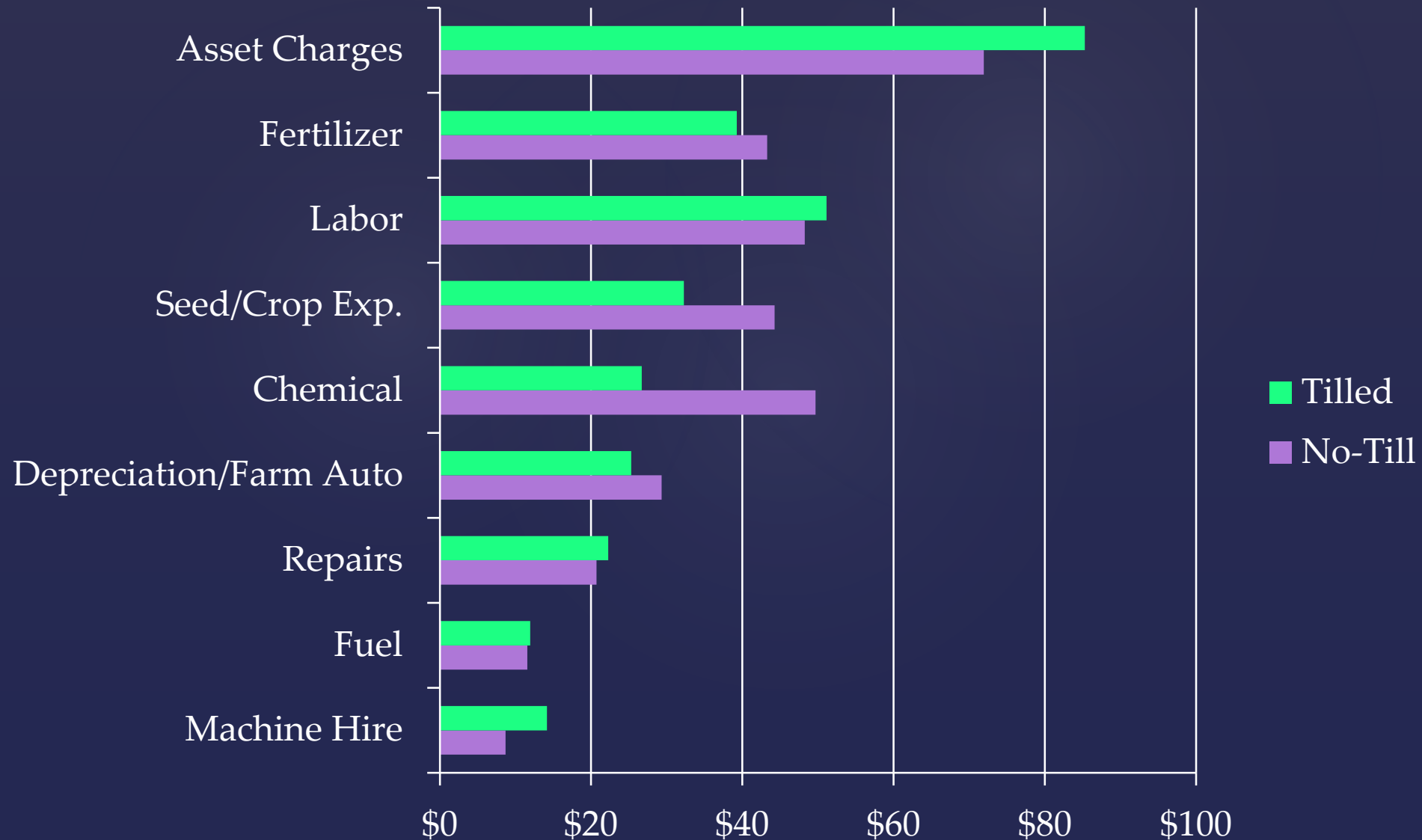


# No-Till versus Tilled Farms

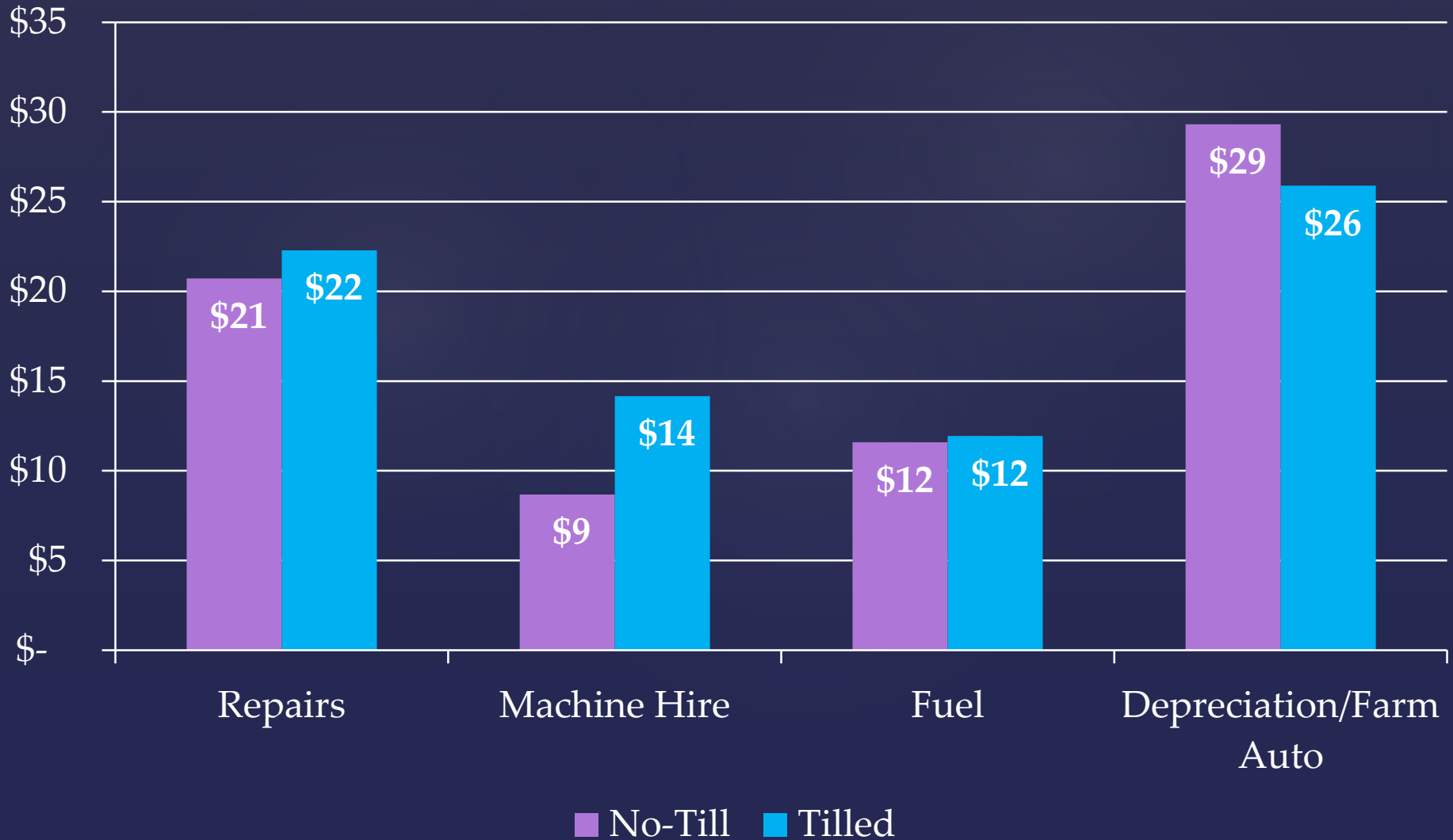
## Total Cost Comparison per Crop Acre, 2014-2017



# Total Cost Comparison Per Crop Acre, 2017



# Machinery Cost Comparison Per Crop Acre, 2017





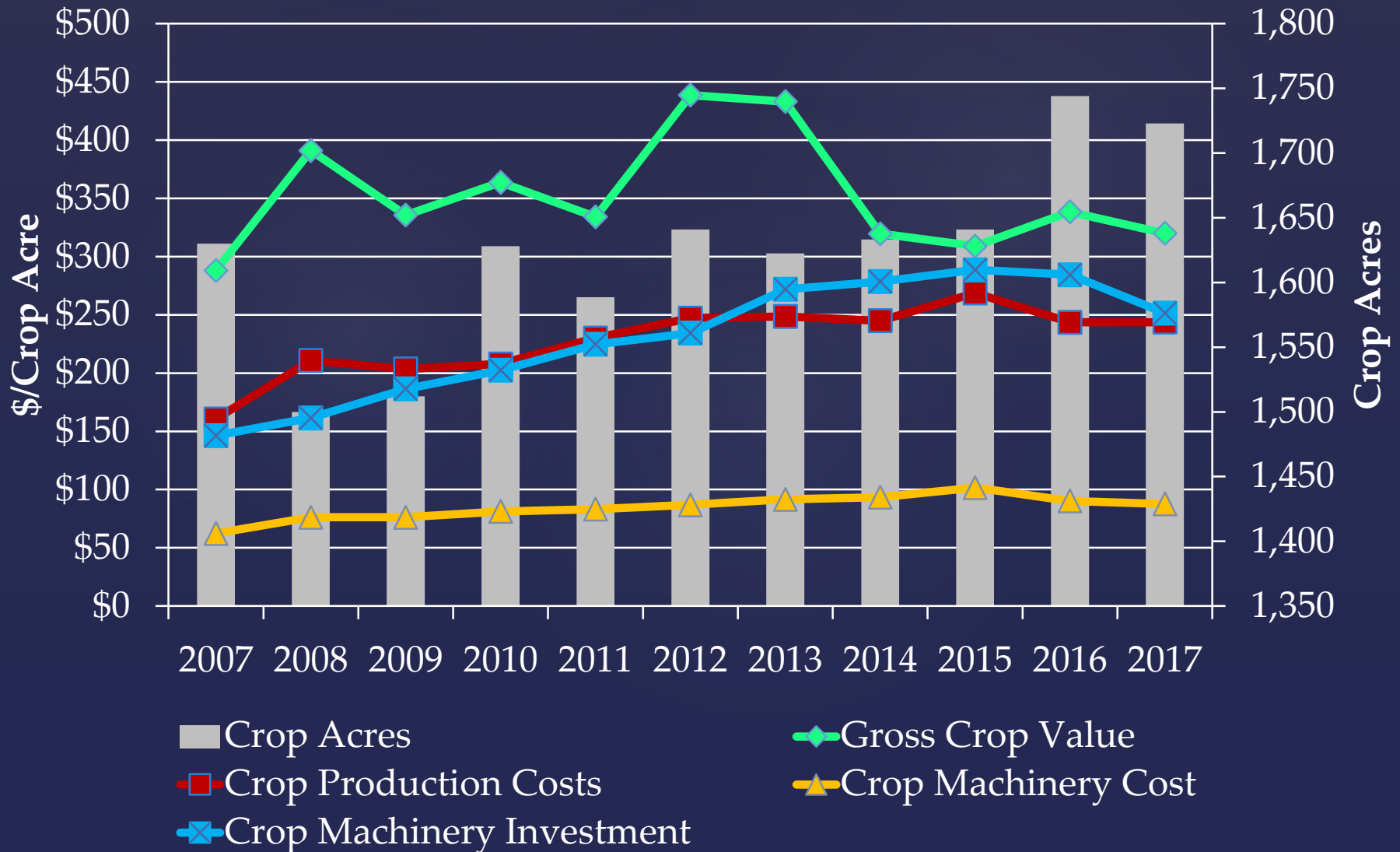
# Input Cost Comparison Per Crop Acre, 2017



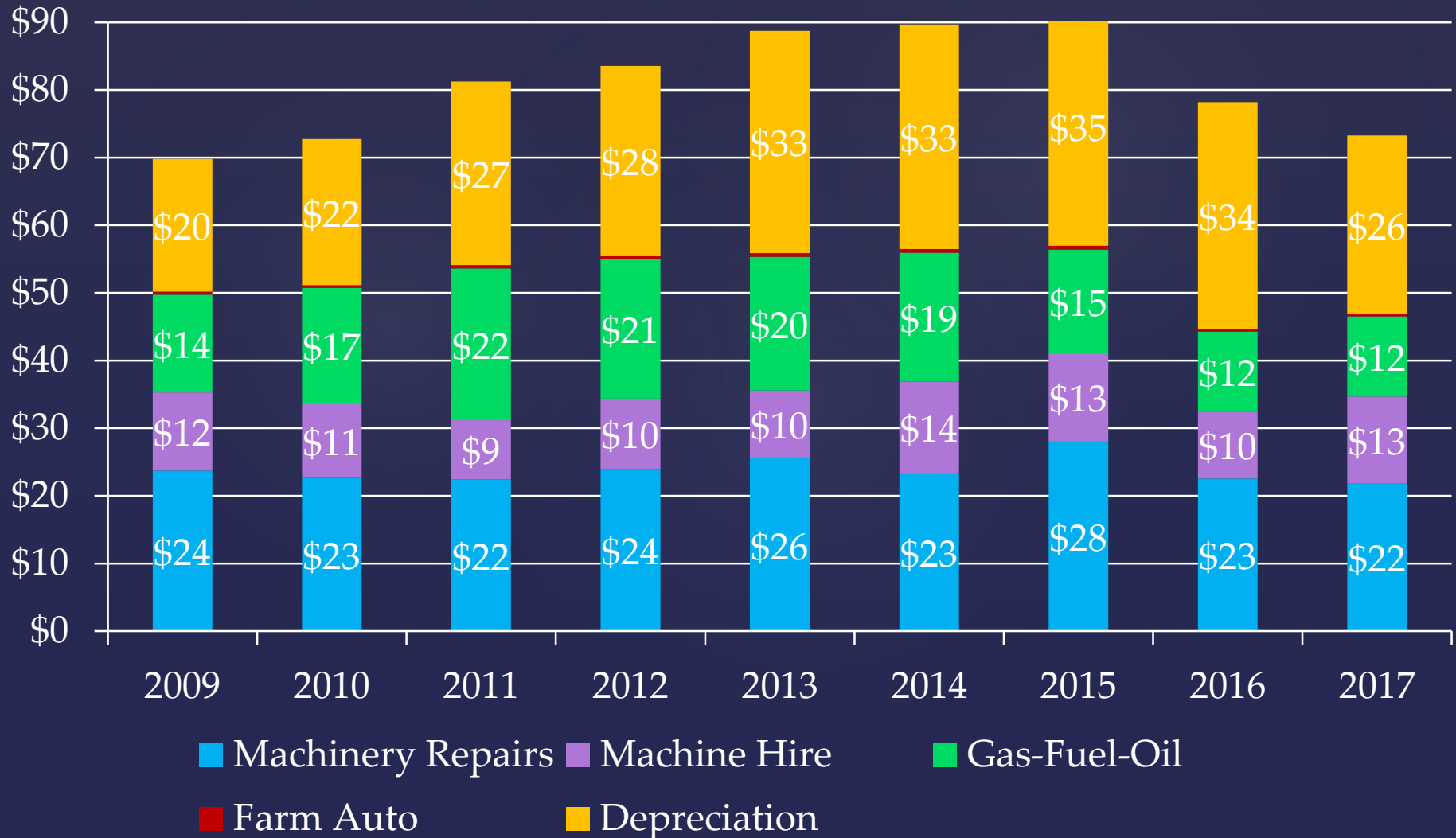


# Machinery Cost Analysis

# Crop Value & Cost Trends per Crop Acre, 2007-2017



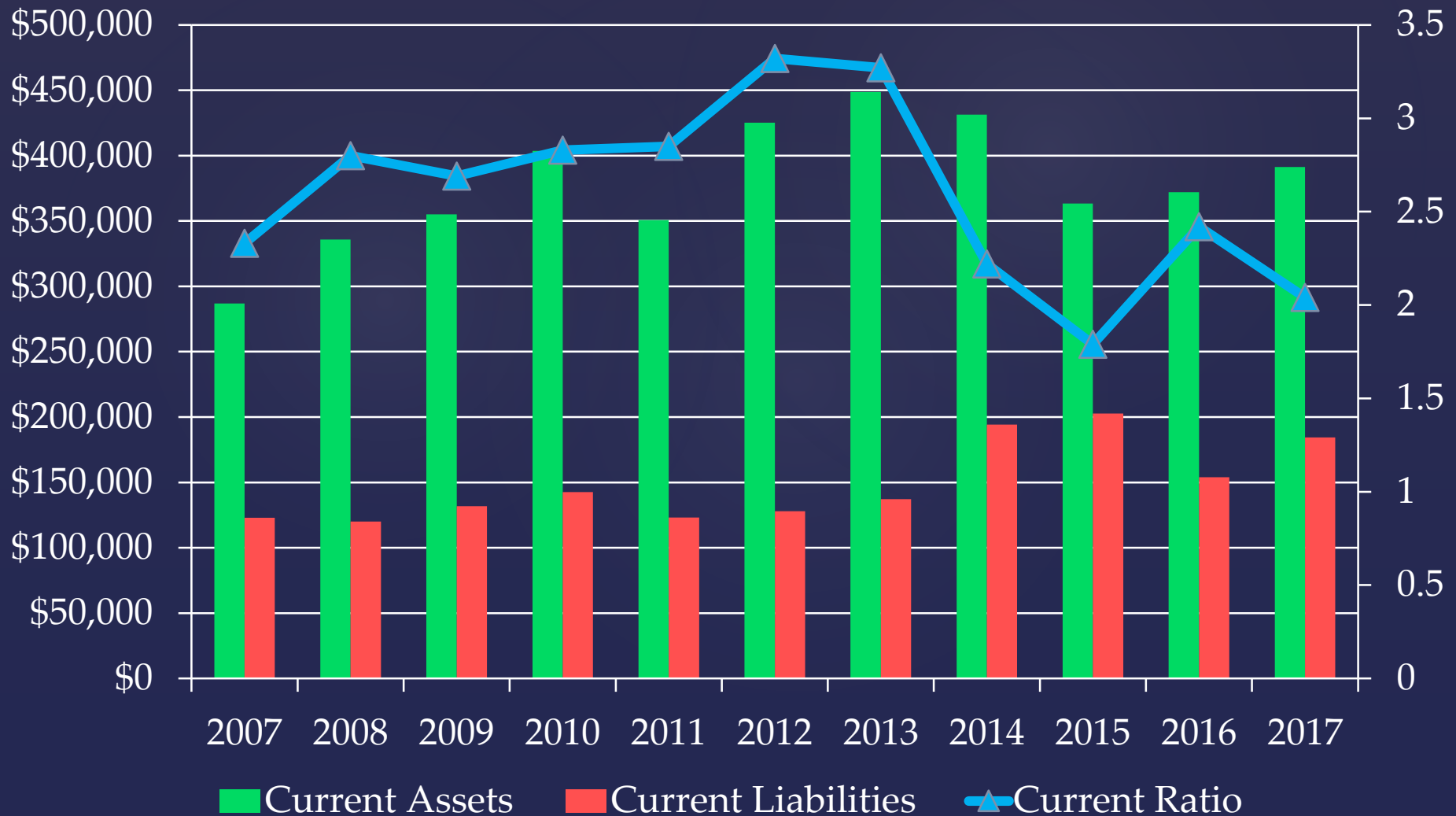
# Machinery Cost Composition Per Acre, 2009-2017



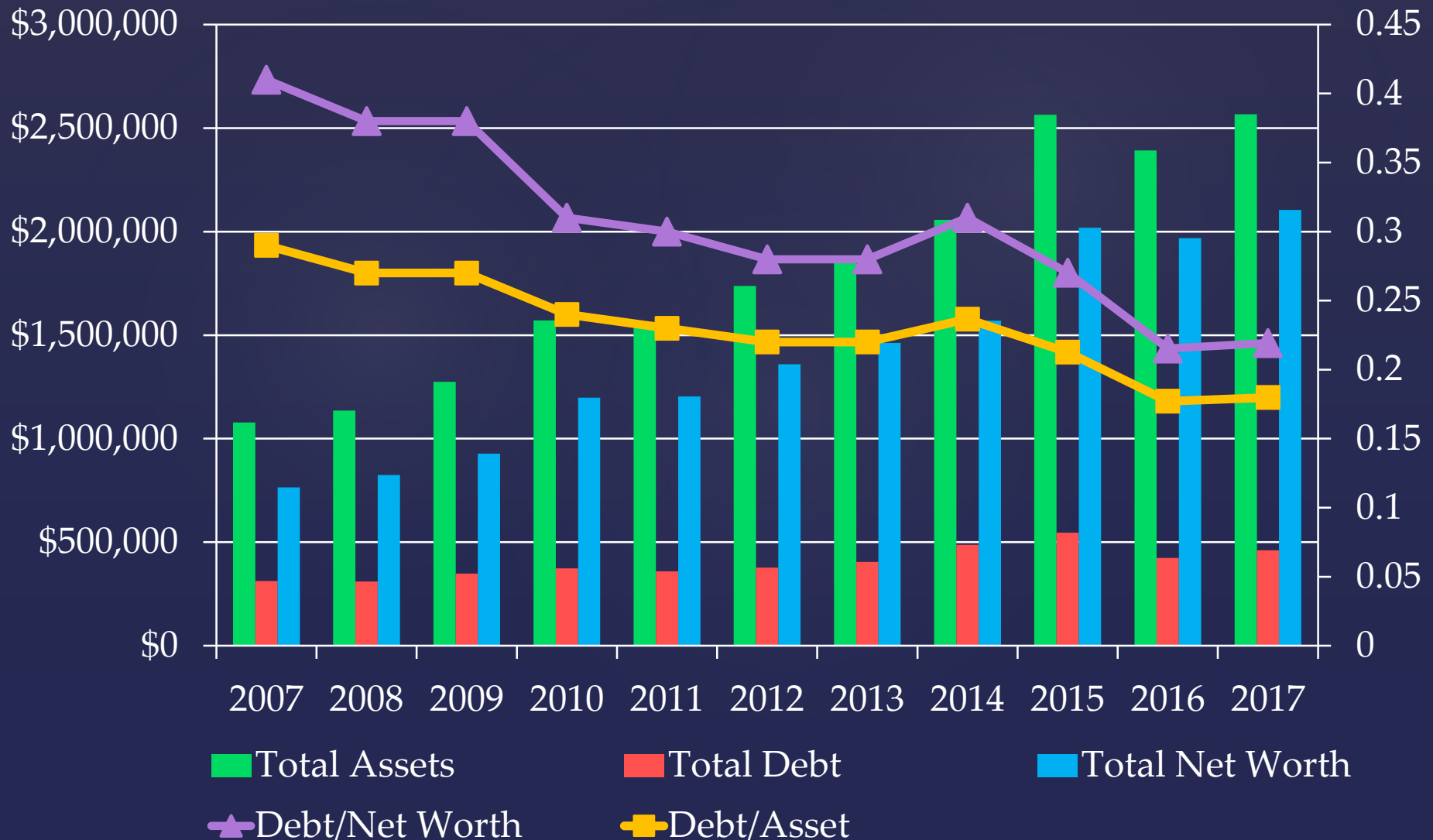
# Financial Efficiency Measures



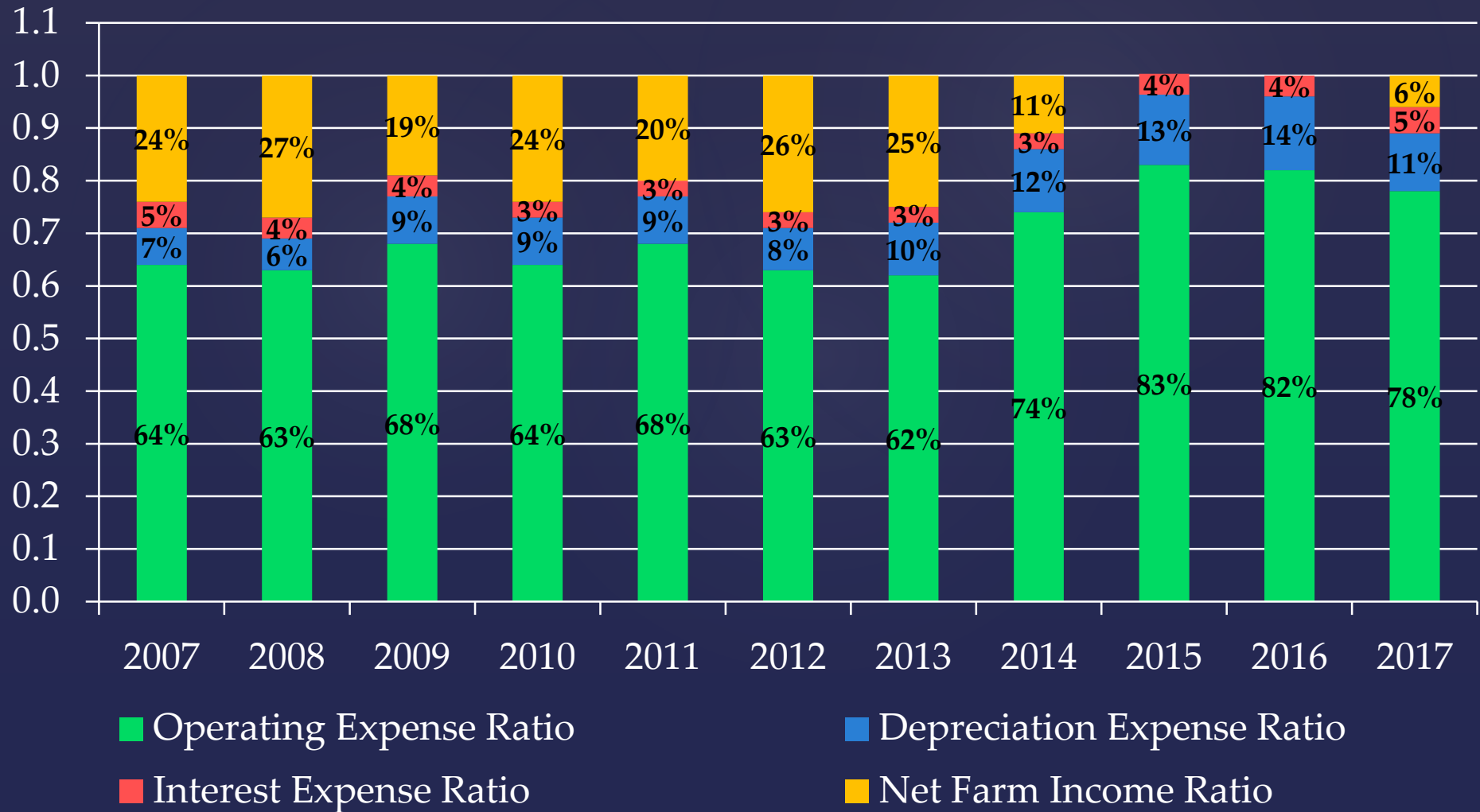
# Liquidity Trends, 2007-2017



# Solvency Trends, 2007-2017



# Historical Income and Expense Ratio Breakdown, 2007-2017



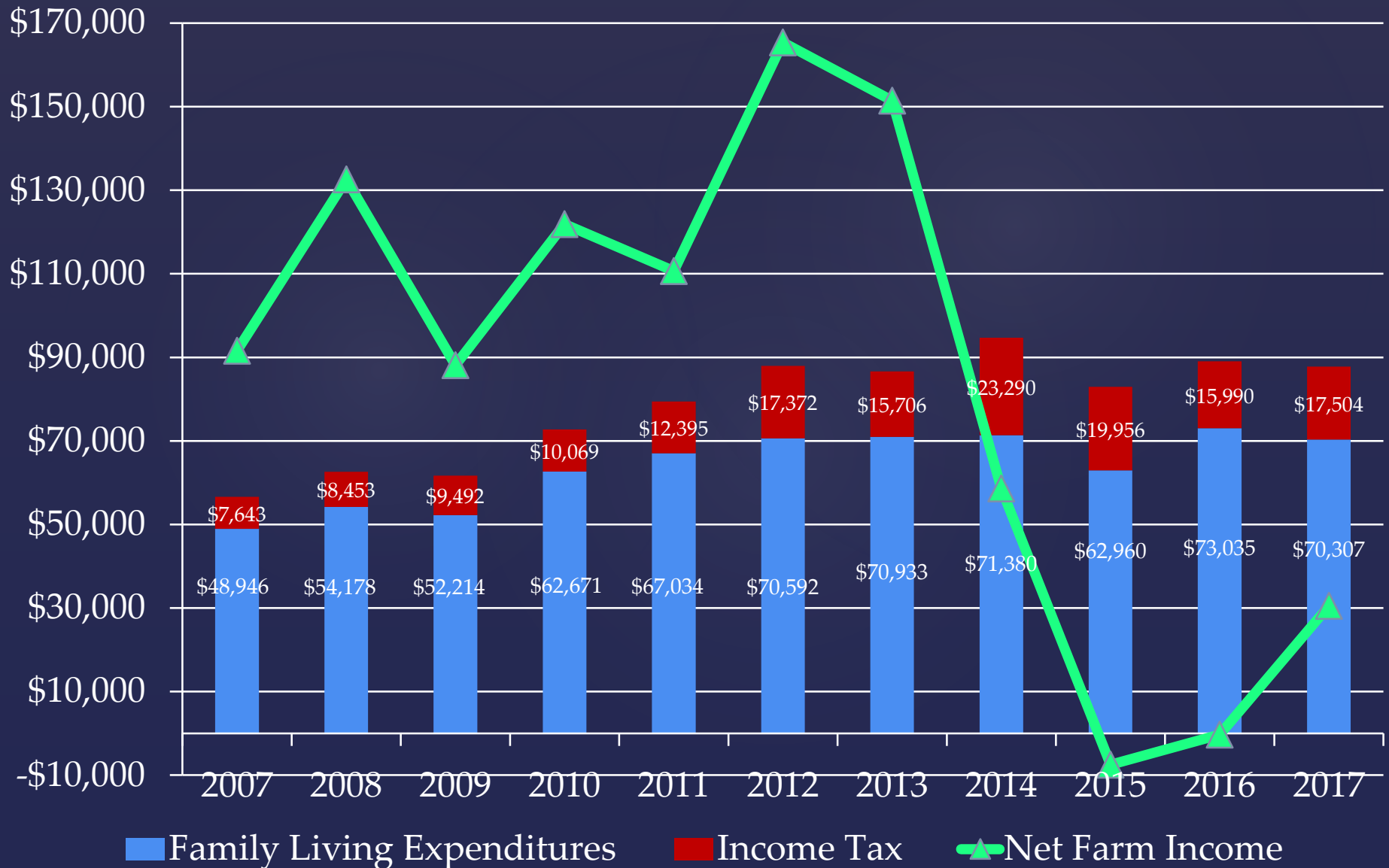




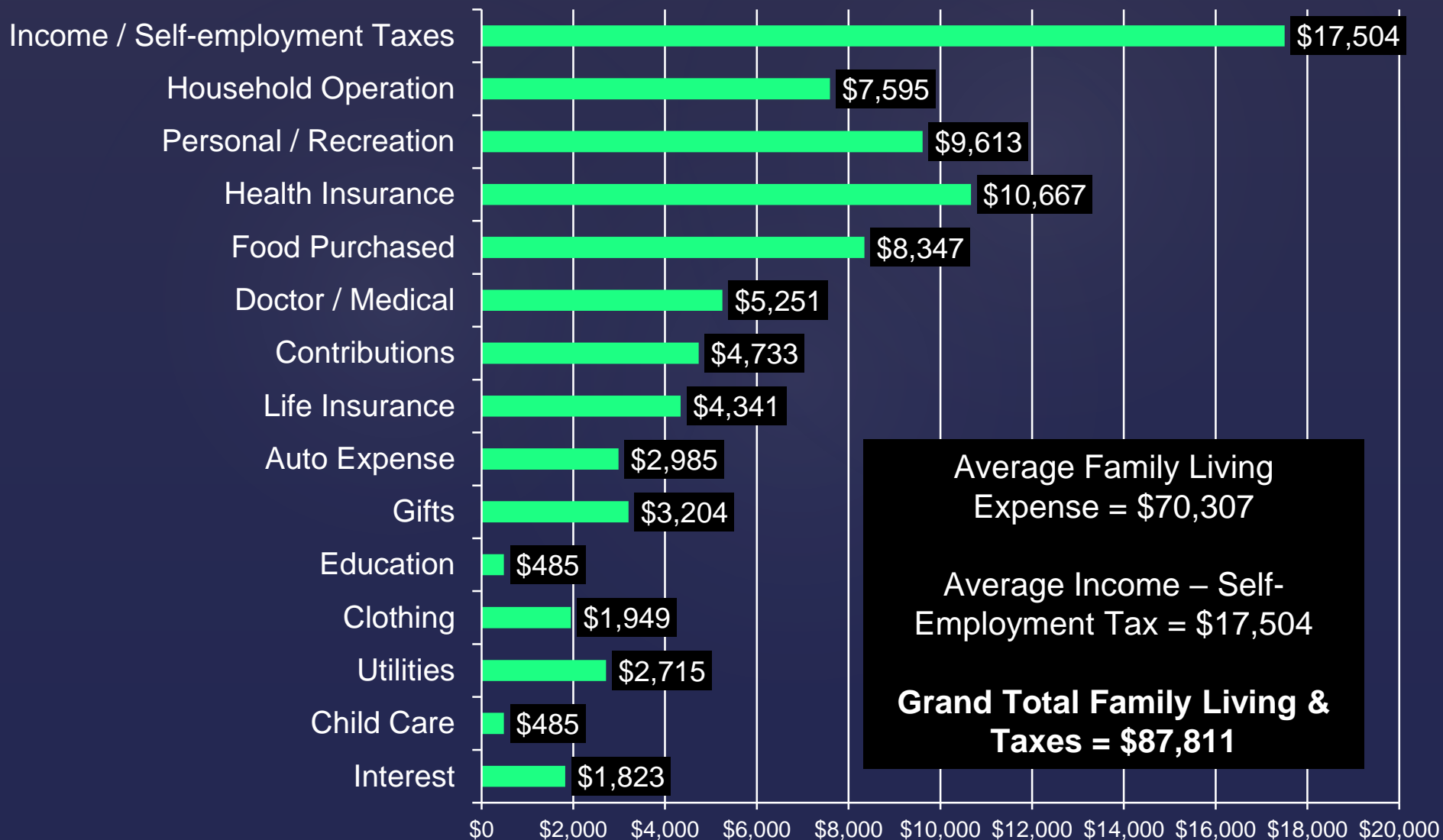
# Family Living



# Family Living Analysis, 2007 - 2017



# Average Family Living Expenses, S.C. Association 2017



# Will it Cash Flow?

## 2017 S.C. Association

Net Farm Income	\$30,517	
Management Depreciation	<u>\$53,003</u>	
TOTAL FARM CASH AVAILABLE		\$83,520

### LESS:

* Current Liabilities	\$ 61,447	
* Non-Current Liabilities	<u>18,477</u>	
TOTAL PRINCIPAL PAYMENTS		<u>-79,924</u>

Net Farm Cash Flow Before Family Living		\$3,596
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### LESS:

Family Living		<u>70,307</u>
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NET CASH FLOW BEFORE INCOME TAX		<u>(\$66,711)</u>
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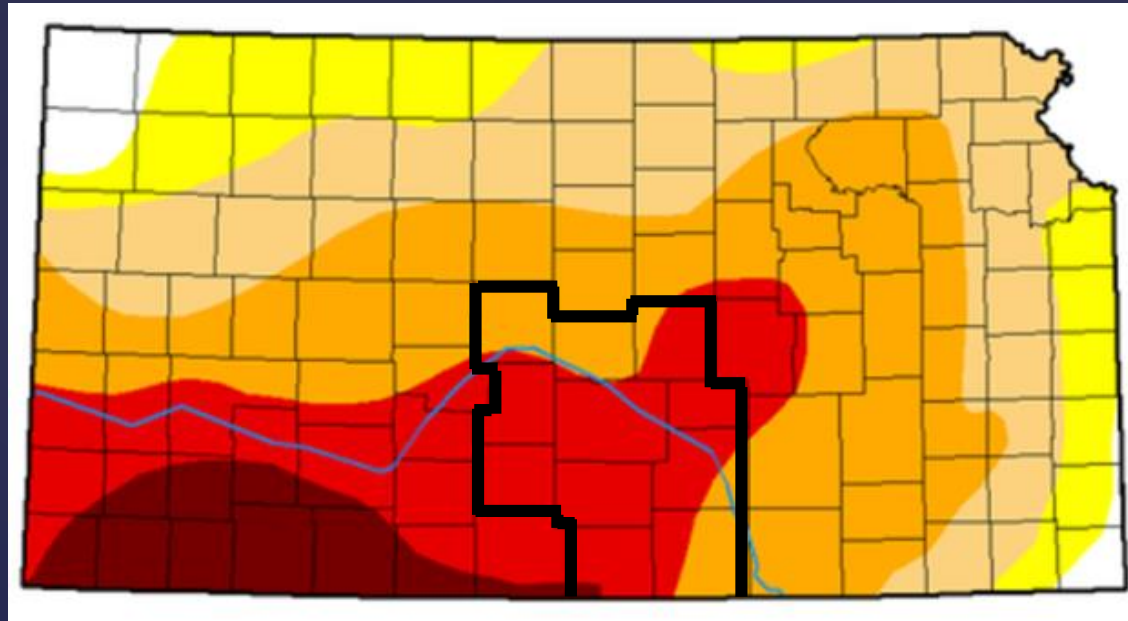
\*Principal payments were computed by dividing non-current liabilities by fifteen years, and current liabilities by three years.  
Debt considerations are made as of 12-31-16.

# A look ahead...



# Drought Monitor

May 1, 2018



Intensity:



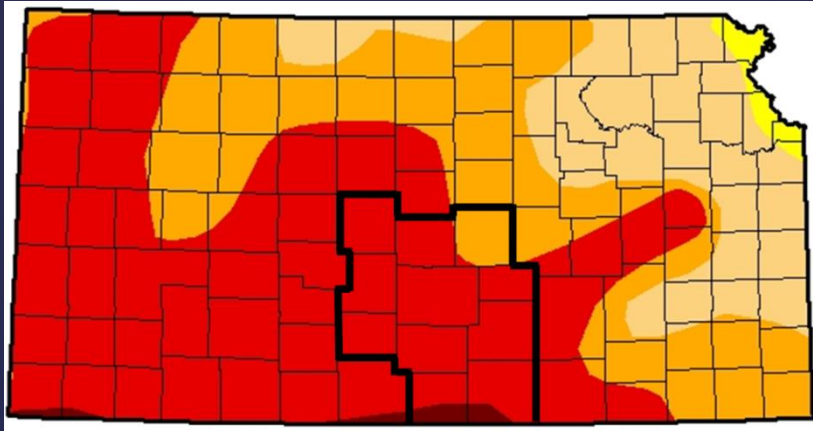
<http://droughtmonitor.unl.edu/>

# Drought Monitor Comparison

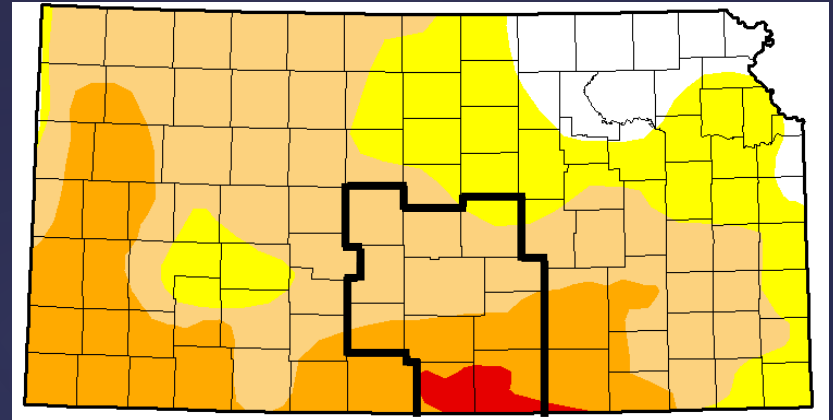
## Intensity:



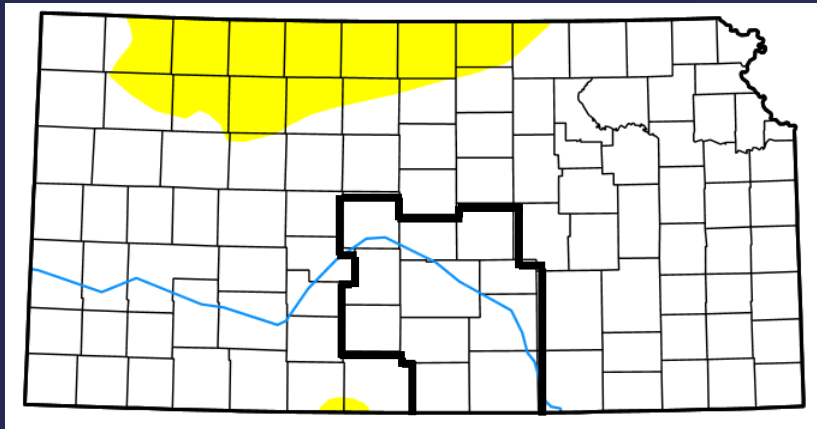
May 6, 2014



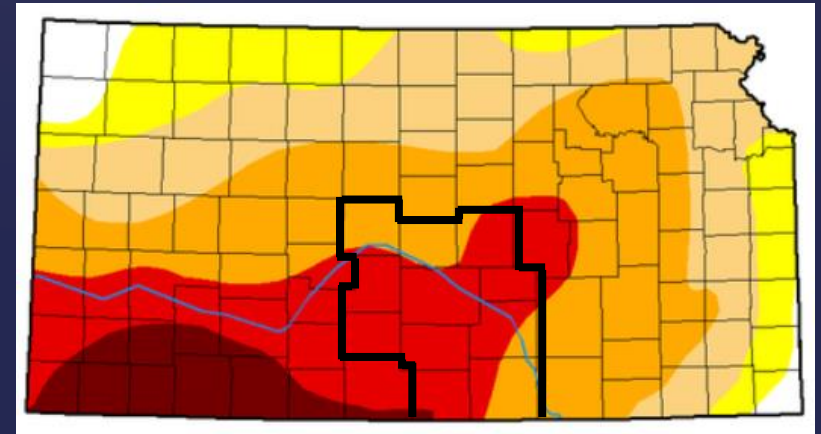
May 5, 2015



April 25, 2017



May 1, 2018



# Tax Cuts and Jobs Act of 2017



\*This handout is based for education purposes only and every taxpayer needs to consult with their tax advisor on facts and circumstances

\*\*Part of this information presented was given by permission from Roger McEowen Professor of Ag Law Washburn University

\*\*\*Information is based as of May 15, 2018



# Single Taxpayers

For Tax Year 2017		For Tax Year 2018	
Income Range	Tax Rate	Income Range	Tax Rate
\$0 to \$9,325	10%	\$0 to \$9,525	10%
\$9,326 to \$37,950	15%	\$9,526 to \$38,700	12%
\$37,951 to \$91,900	25%	\$38,701 to \$82,500	22%
\$91,901 to \$191,650	28%	\$82,501 to \$157,500	24%
\$191,651 to \$416,700	33%	\$157,501 to \$200,000	32%
\$416,701 to \$418,400	35%	\$200,001 to \$500,000	35%
\$418,401 or more	39.6%	\$500,001 or more	37%

# Married Filing Joint Returns and Surviving Spouse

For Tax Year 2017		For Tax Year 2018	
Income Range	Tax Rate	Income Range	Tax Rate
\$0 to \$18,650	10%	\$0 to \$19,050	10%
\$18,651 to \$75,900	15%	\$19,051 to \$77,400	12%
\$75,901 to \$153,100	25%	\$77,401 to \$165,000	22%
\$153,101 to \$233,350	28%	\$165,001 to \$315,000	24%
\$233,351 to \$416,700	33%	\$315,501 to \$400,000	32%
\$416,701 to \$470,700	35%	\$400,001 to \$600,000	35%
\$470,701 or more	39.6%	\$600,001 or more	37%

# Married Filing Separately

For Tax Year 2017		For Tax Year 2018	
Income Range	Tax Rate	Income Range	Tax Rate
\$0 to \$9,325	10%	\$0 to \$9,525	10%
\$9,326 to \$37,950	15%	\$9,526 to \$38,700	12%
\$37,951 to \$76,550	25%	\$38,701 to \$82,500	22%
\$76,551 to \$116,675	28%	\$82,501 to \$157,500	24%
\$116,676 to \$208,350	33%	\$157,501 to \$200,000	32%
\$208,351 to \$235,350	35%	\$200,001 to \$300,000	35%
\$235,351 or more	39.6%	\$300,001 or more	37%

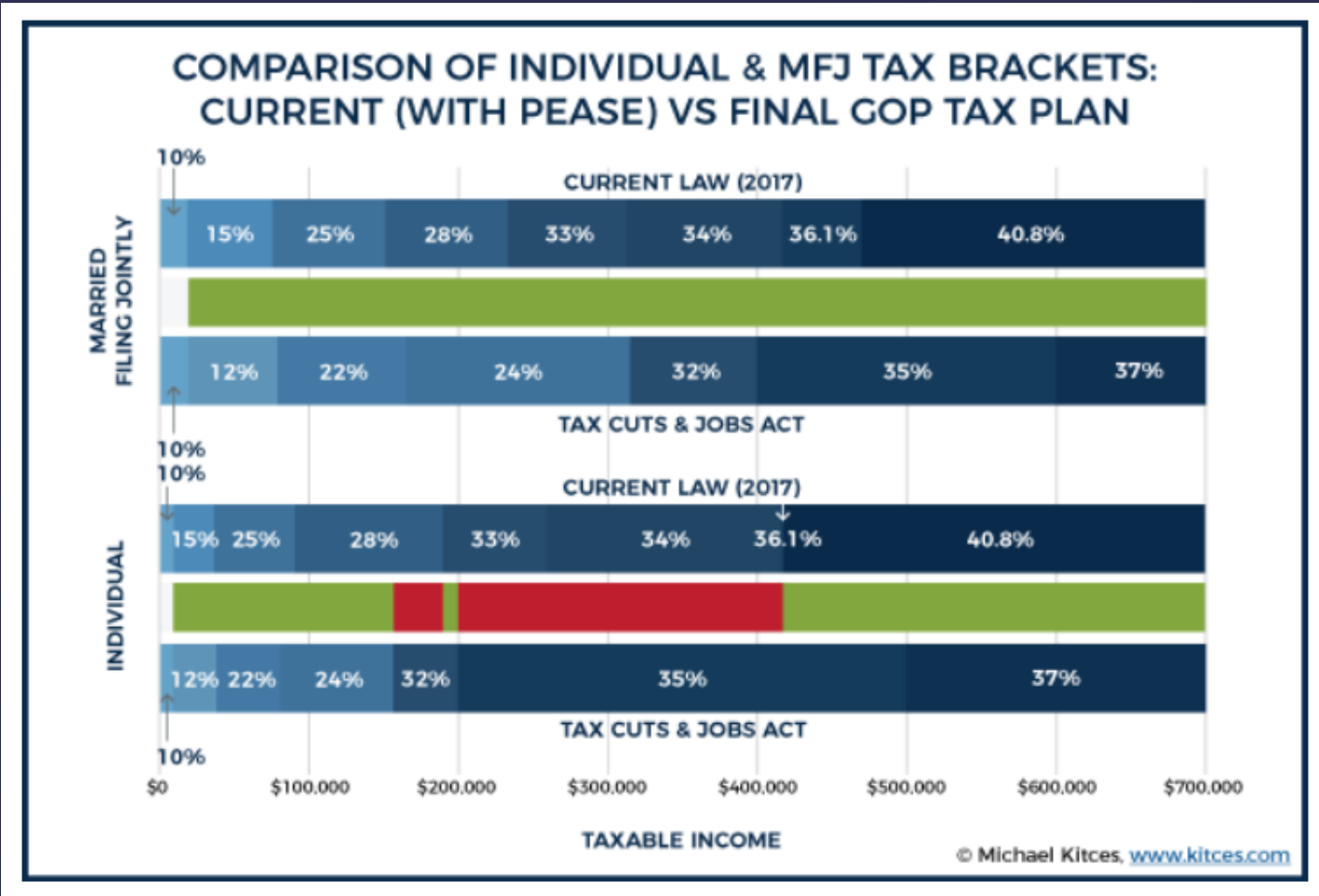
# Heads of Household

For Tax Year 2017		For Tax Year 2018	
Income Range	Tax Rate	Income Range	Tax Rate
\$0 to \$13,350	10%	\$0 to \$13,600	10%
\$13,351 to \$50,800	15%	\$13,601 to \$51,800	12%
\$50,801 to \$131,200	25%	\$51,801 to \$82,500	22%
\$131,201 to \$212,500	28%	\$82,501 to \$157,500	24%
\$212,501 to \$416,700	33%	\$157,501 to \$200,000	32%
\$416,701 to \$444,550	35%	\$200,001 to \$500,000	35%
\$444,551 or more	39.6%	\$500,000 or more	37%

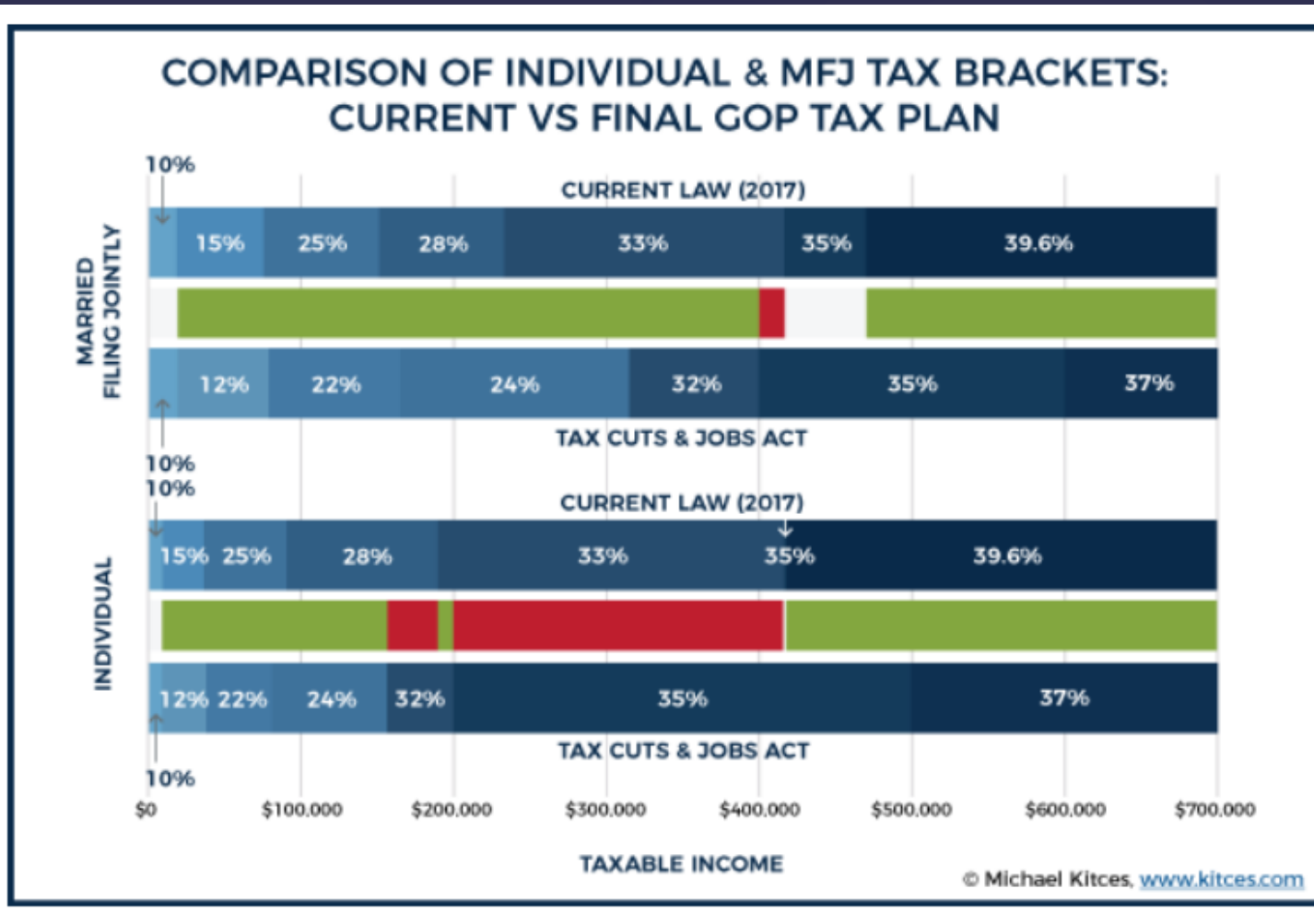
# Estates and Trusts

For Tax Year 2017		For Tax Year 2018	
Income Range	Tax Rate	Income Range	Tax Rate
\$0 to \$2,550	15%	\$0 to \$2,550	10%
\$2,550 to \$6,000	25%	\$2,550 to \$9,150	24%
\$6,000 to \$9,150	28%	\$9,150 to \$12,500	35%
\$9,150 to \$12,500	33%	Over \$12,500	37%
Over \$12,500	39.6%		

# The Tax Cuts and Jobs Act of 2017



# The Tax Cuts and Jobs Act of 2017



# Capital Gains Rates

## Old Law - 2017

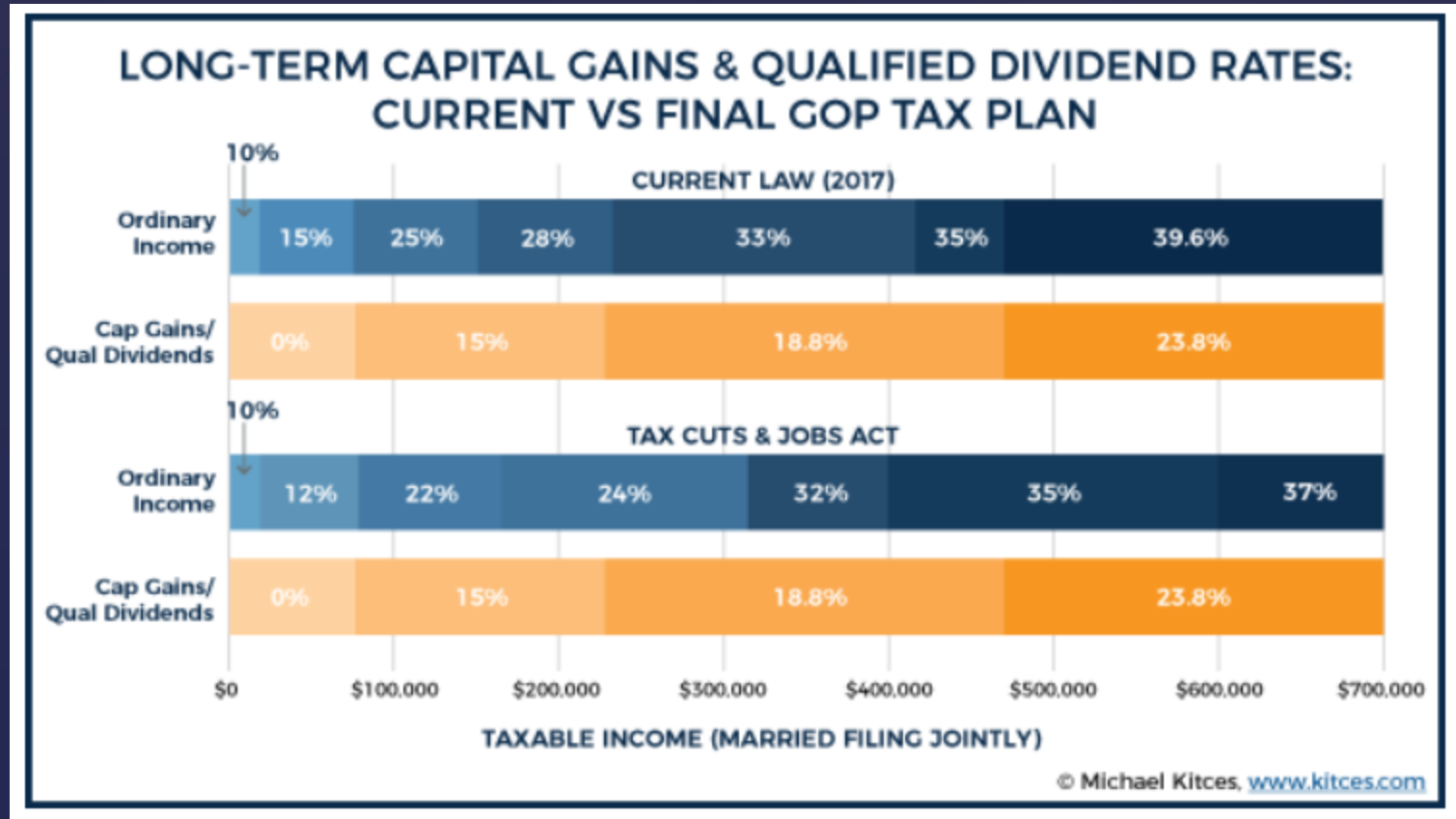
Taxpayer's Regular Income Tax Rate	Capital Gain Rate
10% or 15%	0%
25%, 28%, 33%, or 35%	15%
39.6%	20%

## New Law - 2018

Filing Status	0% Tax Rate Maximum Taxable Income Amount	15% Tax Rate Maximum Taxable Income Amount
Married Filing Jointly or surviving spouse	\$77,200	\$479,000
Head of Household	\$51,700	\$452,400
Married Filing Separately	\$38,600	\$239,500
All other Individuals	\$38,600	\$425,800
Estates and Trusts	\$2,600	\$12,700



# Capital Gains Rate



# C - Corporations

## Old Law - 2017

Corporate Taxable Income	Rate
\$0 - \$50,000	15%
\$50,000 - \$75,000	25%
\$75,000 - \$100,000	34%
\$100,000 - \$335,000	39%
\$335,000 - \$10,000,000	34%
\$10,000,000 - \$15,000,000	35%
\$15,000,000 - \$18,333,333	38%
Over \$18,333,333	35%

## New Law - 2018

- Corporate Tax is a Flat Rate of 21%

# Standard Deduction/Personal Exemptions

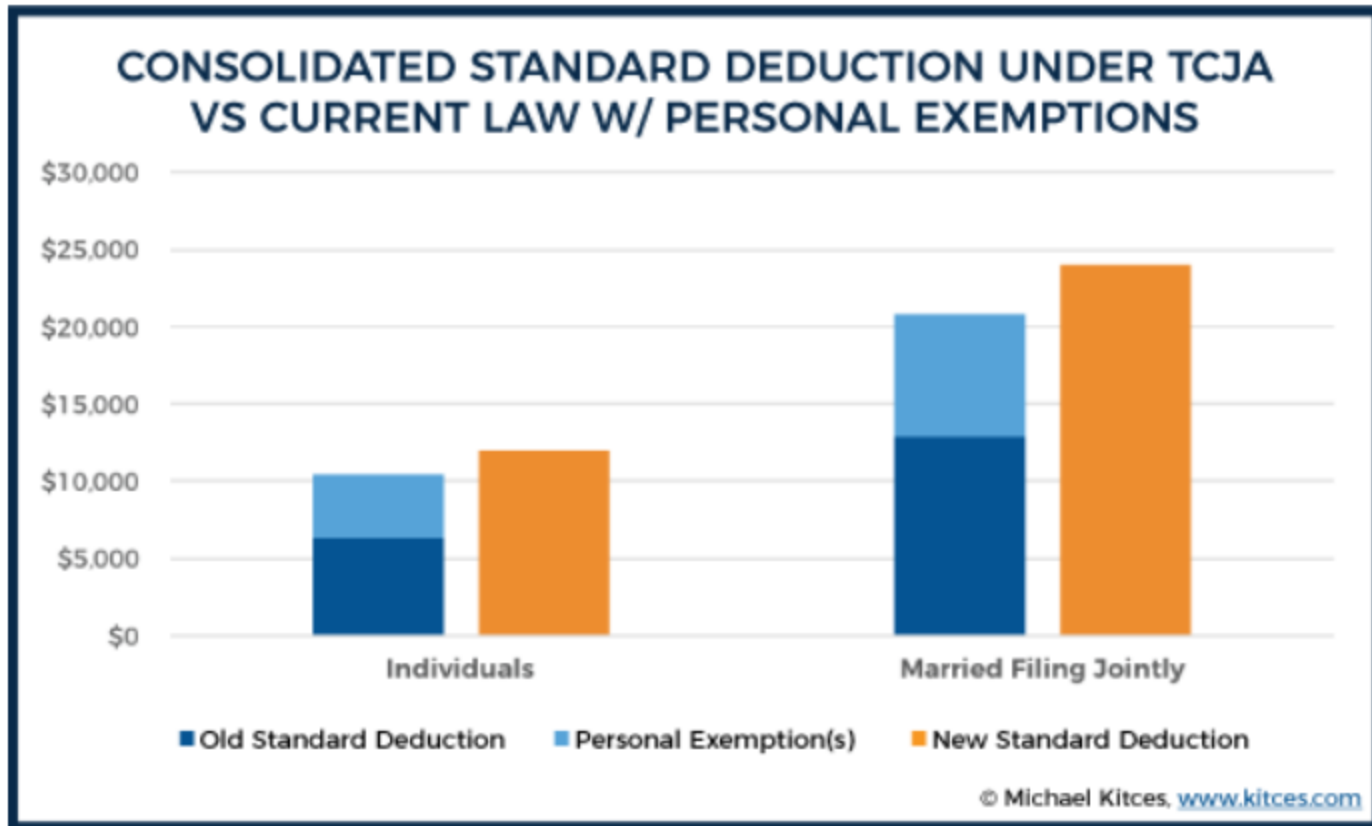
Filing Status	Standard Deduction - 2017	Standard Deduction - 2018
Married Filing Joint and QW	\$12,700	\$24,000
Head of Household	\$9,350	\$18,000
All Other Individuals	\$6,350	\$12,000

\*The additional deduction for the elderly and the blind remains unchanged

	Personal Exemptions - 2017	Personal Exemptions - 2018
Amount Per Person	\$4,050	N/A

\*\*Before new tax law was enacted, personal exemptions would have been \$4,150 for 2018

# Standard Deduction/Personal Exemptions



# Miscellaneous Changes

## Child Tax Credit

### **Old law:**

- Taxpayer can claim nonrefundable child tax credit up to \$1,000 per qualifying child

### **New law:**

- The child tax credit increases to \$2,000 per qualifying child

## State Income and Personal Property Taxes

### **Old law:**

- Taxpayer could claim an itemized deduction for amounts paid

### **New law:**

- Taxpayer can claim an itemized deduction for amounts up to \$10,000

*\*Business taxes are still 100% deductible*

# Misc. Changes Continued

## ACA Individual Mandate

### Old law:

- Penalty for individuals not covered by health insurance that provide minimum essential coverage.
- *Still in effect for 2018 tax year*

### New law:

- Effective **January 1, 2019** the tax imposed on individuals is reduced to zero

\*\* Many of these tax changes are effective for tax year beginning after December 31, 2017 and before January 1, 2026 (In other words these are not permanent changes)

# Tax Cuts and Jobs Act: Business-Related Provisions

## Net Operating Losses

### Old Law:

- Net operating losses had two options, carry back or carry forward
  - ❑ Carryback had 5 year or 2 year election
  - ❑ Carryforward 20 year election

### New Law:

- Carryback is only 2 year election
- Carryforward remains 20 year election
- Only allowing an offset against 80% of taxable income

## Business-provided Meals

### Old Law:

- Provision of food and beverages associated with the operation of a business were:
  - ❑ 100% deductible if provided on business premises
  - ❑ 50% deductible if provided off business premises

### New Law:

- 50% deduction for food and beverages associated with a business operations whether on or off premises
- Zero is deductible after 2025

# Tax Cuts and Jobs Act: Business-Related Provisions Cont'd

## Cost-Recovery Depreciation Provisions

### **Old Law:**

- Depreciable recovery period was 7 years for new or used machinery/equipment
- For *Expense Method Depreciation* (Sect. 179) deduction limit was \$510,000 up to \$2,030,000 of purchases

### **New Law:**

- Depreciable recovery period is 5 years for new equipment and 7 years for used equipment
- Deduction limit is \$1,000,000 up to \$2,500,000 of purchases

## Bonus Depreciation

### **Old Law:**

- Was 50% Special Depreciation allowance for new property and farm buildings

### **New Law:**

- Is 100% Special Depreciation for new or used property and farm buildings



# Tax Cuts and Jobs Act: Business-Related Provisions Cont'd

## Like-kind Exchanges

### **Old Law:**

- For machinery exchanges only trade difference was accounted

### **New Law:**

- The machine that is trade is now treated as a sale for income tax purposes
- The machine that was replaced is now subject to full depreciation

### *Example:*

- ❑ *Traded Tractor X for Tractor Y*
- ❑ *Trade Allowance for Tractor X \$40,000*
- ❑ *Gross Purchase price for Tractor Y is \$100,000*

### **Old Law:**

- *Trade difference is reported ( $\$100,000 - \$40,000 = \$60,000$ )*
- *Results in no gain to Tractor X*
- *Tractor Y is allowed \$60,000 basis for depreciation*

### **New Law:**

- *Tractor X reports \$40,000 gain if no remaining basis*
- *Tractor Y reports \$100,000 subject for depreciation*

# Payroll

- Withholding tables have changed in 2018 due to provisions that are no longer allowed.
- Therefore it will be prudent for employers and employees to review their withholdings.
- The overall tax liability might not be much different from previous years due to the fact that the standard deduction has doubled

# Crop Insurance

- Due to the current crop conditions, Farmers will have a greater chance for qualifying for crop insurance proceeds for the 2018 wheat crop
  - ❑ Due to tax reporting requirements the IRS will report crop insurance on the gross proceeds method
  - ❑ Many farmers will actually receive net proceeds after the premium has been deducted from the crop insurance companies
  - ❑ Due to the fact that the premiums are deducted it is important that you keep the paperwork that shows the gross proceeds and the premiums that are deducted

# Qualified Business Income Deduction (QBI)(Ag-Related)

- Individual business owners (Sch. F) as well as owners with interest in a pass through entity (Partnerships, LLC's, S-Corp.) are entitled to a 20% deduction of qualified business income
  - Beginning with 2018 tax year and running through the end of 2025 year
  - Allowed only for income tax purposes
  - Not allowed for purposes of self-employment tax
  - Reduces taxable income but not adjusted gross income
  - Does not include capital gains, dividends, interest, or any other non-business items
  - There is a difference in arriving at the QBI between the selling of grain at a coop and a non-coop
    - The overall calculation has several different steps at deriving QBI
    - The following examples will illustrate net calculation of QBI
    - Every Farmer has a different set of facts thus whether a farmer should sell to a coop or a non-coop depends on their specific situation (Price per Bushel, amount of Patronage Dividends, etc.)
  - *Individuals with income more than \$157,500 (\$315,000 MFJ) are subject to other limitations*

\*Does not include C-Corporations

\*\*The deduction is computed by virtue of a complex formula (Final guidance from IRS is still needed)

# QBI Example #1

- Married Couple with cow/calf operation
  - Sell \$300,000 of raised breeding stock
  - Held for more than 2 yrs.
  - Ordinary income is \$0
  - Taxable income is \$300,000
  - No W-2 wages

*\*Individuals with income more than \$157,500 (\$315,000 MFJ)) are subject to other limitations*

# Example #1

	No W-2 Wages
1. Capital gains	\$300,000
2. Ordinary Income	\$0
3. Qualified Business Income (Net Farm Income)	\$0
4. Taxable income	\$300,000
5. QBI Deduction (20% X of Net Farm Income)	\$60,000
6. Net Farm Income Less Capital Gains (3) – (1)	\$0
7. Lesser of (5) or (6)	\$0
8. 50% of W-2 Wages	N/A
9. 9% of Qualified Business Income	N/A
10. Lesser of (8) or (9)	N/A
11. Subtract (7) less (10) if below threshold (\$157,500 S)(\$315,000 MFJ)	\$0
12. Add Section 199A pass-through from cooperative	\$0
13. Total Qualified Business Farm Income Deduction (11) + (12)	\$0
14. Taxable Income after QBI (4) – (13)	\$300,000

# QBI Example #2

- Married couple with grain operation
  - Ordinary net farm income of \$50,000
  - Taxable income is \$75,000  
(Farm/Nonfarm income)
  - No W-2 wages
  - Section 199A pass-through from cooperative of \$2,500

*\*Individuals with income more than \$157,500 (\$315,000 MFJ) are subject to other limitations*

# Example #2

	No W-2 Wages
1. Capital gains	\$0
2. Ordinary Income	\$50,000
3. Qualified Business Income (Net Farm Income)	\$50,000
4. Taxable income	\$75,000
5. QBI Deduction (20% X of Net Farm Income)	\$10,000
6. Net Farm Income Less Capital Gains (3) – (1)	\$50,000
7. Lesser of (5) or (6)	\$10,000
8. 50% of W-2 Wages	N/A
9. 9% of Qualified Business Income	N/A
10. Lesser of (8) or (9)	N/A
11. Subtract (7) less (10) if below threshold (\$157,500 S)(\$315,000 MFJ)	\$10,000
12. Add Section 199A pass-through from cooperative	\$2,500
13. Total Qualified Business Farm Income Deduction (11) + (12)	\$12,500
14. Taxable Income after QBI (4) – (13)	\$62,500



# QBI Example #3

- Married couple with grain operation
  - Ordinary net farm income of \$50,000
  - Taxable income is \$75,000 (Farm/Nonfarm income)
  - \$25,000 W-2 wages
  - Section 199A pass-through from cooperative of \$2,500

*\*Individuals with income more than \$157,500 (\$315,000 MFJ) are subject to other limitations*

# Example #3

	With W-2 Wages
1. Capital gains	\$0
2. Ordinary Income	\$50,000
3. Qualified Business Income (Net Farm Income)	\$50,000
4. Taxable income	\$75,000
5. QBI Deduction (20% X of Net Farm Income)	\$10,000
6. Net Farm Income Less Capital Gains (3) – (1)	\$50,000
7. Lesser of (5) or (6)	\$10,000
8. 50% of W-2 Wages	\$12,500
9. 9% of Qualified Business Income	\$4,500
10. Lesser of (8) or (9)	\$4,500
11. Subtract (7) less (10) if below threshold (\$157,500 S)(\$315,000 MFJ)	\$5,500
12. Add Section 199A pass-through from cooperative	\$2,500
13. Total Qualified Business Farm Income Deduction (11) + (12)	\$8,000
14. Taxable Income after QBI (4) – (13)	\$67,000

# QBI Example #4

- Married Couple with cow/calf operation
  - ❑ Sell \$300,000 of raised breeding stock
  - ❑ Held for more than 2 yrs.
  - ❑ Ordinary income is \$0
  - ❑ Taxable income is \$300,000
  - ❑ No W-2 wages
  - ❑ Section 199A pass-through from cooperative of \$300,000

*\*Individuals with income more than \$157,500 (\$315,000 MFJ) are subject to other limitations*

# Example #4

	No W-2 Wages
1. Capital gains	\$300,000
2. Ordinary Income	\$0
3. Qualified Business Income (Net Farm Income)	\$0
4. Taxable income	\$300,000
5. QBI Deduction (20% X of Net Farm Income)	\$60,000
6. Net Farm Income Less Capital Gains (3) – (1)	\$0
7. Lesser of (5) or (6)	\$0
8. 50% of W-2 Wages	N/A
9. 9% of Qualified Business Income	N/A
10. Lesser of (8) or (9)	N/A
11. Subtract (7) less (10) if below threshold (\$157,500 S)(\$315,000 MFJ)	\$0
12. Add Section 199A pass-through from cooperative	\$300,000
13. Total Qualified Business Farm Income Deduction (11) + (12)	\$300,000
14. Taxable Income after QBI (4) – (13)	\$0

# QBI Example #5

- Married Couple with crop share rental
  - Net Rental Crop Income of \$200,000
  - Ordinary income is \$200,000
  - Taxable income is \$200,000
  - No W-2 wages
  - Section 199A pass-through from cooperative of \$10,000

*\*Individuals with income more than \$157,500 (\$315,000 MFJ) are subject to other limitations*

# Example #5

	No W-2 Wages
1. Capital gains	\$0
2. Ordinary Income	\$200,000
3. Qualified Business Income (Net Farm Income)	\$200,000
4. Taxable income	\$200,000
5. QBI Deduction (20% X of Net Farm Income)	\$40,000
6. Net Farm Income Less Capital Gains (3) – (1)	\$200,000
7. Lesser of (5) or (6)	\$40,000
8. 50% of W-2 Wages	\$0
9. 9% of Qualified Business Income	\$18,000
10. Lesser of (8) or (9)	\$0
11. Subtract (7) less (10) if below threshold (\$157,500 S)(\$315,000 MFJ)	\$40,000
12. Add Section 199A pass-through from cooperative	\$10,000
13. Total Qualified Business Farm Income Deduction (11) + (12)	\$50,000
14. Taxable Income after QBI (4) – (13)	\$150,000

# QBI Example #6

- Married Couple with crop share rental
  - Net Rental Crop Income of \$420,000
  - Ordinary income is \$420,000
  - Taxable income is \$420,000
  - No W-2 wages
  - Section 199A pass-through from cooperative of \$10,000

*\*Individuals with income more than \$157,500 (\$315,000 MFJ) are subject to other limitations*

# Example #6

	No W-2 Wages
1. Capital gains	\$0
2. Ordinary Income	\$420,000
3. Qualified Business Income (Net Farm Income)	\$420,000
4. Taxable income	\$420,000
5. QBI Deduction (20% X of Net Farm Income)	\$84,000
6. Net Farm Income Less Capital Gains (3) – (1)	\$420,000
7. Lesser of (5) or (6)	\$84,000
8. 50% of W-2 Wages	\$0
9. 9% of Qualified Business Income	\$7,560
10. Lesser of (8) or (9)	\$0
11. Subtract (7) less (10) if below threshold (\$157,500 S)(315,000 MFJ)	\$0
12. Add Section 199A pass-through from cooperative	\$10,000
13. Total Qualified Business Farm Income Deduction (11) + (12)	\$10,000
14. Taxable Income after QBI (4) – (13)	\$410,000



# QBI (Special Complex)

## Example #7

- Single with grain operation
  - Ordinary net farm income of \$160,000 (before Sect. 179)
  - Section 179 \$150,000
  - Taxable income is \$250,000 (Farm/Nonfarm income)
  - No W-2 wages

*\*Individuals with income more than \$157,500 (\$315,000 MFJ) are subject to other limitations*

*\*\*There is a special calculation if over the threshold of taxable income (based on W-2 wages and/or machinery purchases)*

# (Special Complex) Example #7

	No W-2 Wages
1. Capital gains	\$0
2. Ordinary Income	\$160,000
3. Qualified Business Income (Net Farm Income)	\$10,000
4. Taxable income	\$250,000
5. QBI Deduction (20% X of Net Farm Income)	\$2,000
6. Net Farm Income Less Capital Gains (3) – (1)	\$10,000
7. Lesser of (5) or (6)	\$2,000
8. Lesser 50% of W-2 Wages or 25% W-2 Wages and 2.5% of machinery purchases (\$150,000 Example)	\$3,750
9. 9% of Qualified Business Income (Only if Coop Patronage)	N/A
10. Lesser of (8) or (9)	\$0
11. Subtract (7) less (10) if below threshold (\$157,500 S)(\$315,000 MFJ) (if above use (8))	\$2,000
12. Add Section 199A pass-through from cooperative	\$0
13. Total Qualified Business Farm Income Deduction (11) + (12)	\$2,000
14. Taxable Income after QBI (4) – (13)	\$248,000

# Thank you for coming & for participating!

## Economists

Clay Simons  
Bryan Manny  
Camille Claassen  
Jonie James  
Aaron Meisenheimer

County	Agent	Director
Barton	Alicia Boor	John DeWerff
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Harvey	Ryan Flaming	Dale Friesen
Kingman	Jake Renner	Allen Young
McPherson	Shad Marston	Cindy Baldwin
Pratt	Mark Ploger	Matt Novotny
Reno	Darren Busick	Jeff Schwertfeger
Rice	Wendy Hughes	Lee Scheufler
Sedgwick	Zach Simon	Mike Patry
Stafford	Glenn Newdigger	Kevin Alpers
Sumner	Randy Hein	Tom Norris

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