

# NEBRASKA FARM BUSINESS INC.

*"Yielding Success Through Financial Management"*

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## Cash Rent Increases: When is the Right Time to Give up a Lease?

There has been considerable talk for many years about the increases in cash rent. For example, the average cost of cash rent on irrigated corn has more than doubled from \$127.71 in 2005 to \$258.11 in 2014 (peak of \$274.74 in 2013). Cash rent now accounts for 31% of the total cost of growing irrigated corn. It's no wonder that in times of narrowing margins, producers are considering ways to reduce this major expense.

Unfortunately, reducing cash rent isn't an one sided story. Landowners have also seen their own costs rapidly increasing. The average personal property and real estate taxes paid per acre has also been increasing. In the same 10 year period, personal property and real estate taxes have increased from \$29.22 per acre to \$55.71 per acre. Although this increase has only been \$30 per acre

versus a \$125 per acre for cash rents, it's not fair to discuss cash rents without discussing the increases in landlord costs as well. Unlike cash rent, the cost for Real Estate and Personal Property 2015 will certainly be another significant increase.

So the question remains, what to do with the high cash rents. It seems many tenants feel they are stuck between a rock and a hard place. It's hardly anyone's desire to work all year knowing they will lose money, but giving up ground is a long-term and often an emotional decision.

A producer should keep 3 types of expenses in mind:

- Direct Expenses: Expenses that are directly tied to the production (i.e. seed, chemical, irrigation fuel, etc.)

## Attention PC Mars Clients....

Did you remember to update your accounting software version back in January? The current version is Version 2.4. If you need to get the current version, please let us know as soon as possible so we can get you the form! The update does cost \$100

**Don't forget to check for PC Mars Patches to download!**

*We have updated here at the office, so in order for you and your consultant to work together on your records you must be on the same version!*



## Have you thought about early tax planning?

It's never really "too" early to start thinking about doing some tax planning. Getting an early look at your income and expenses for the year can help ease the question of whether you should be selling more grain and taking the income or whether you should be looking into buying more inputs. Talk with your consultants today if you are interested in getting a head start!



## NFB Crop Insurance Notes from Brad...

This has been an interesting growing season with a wet spring, replanting and prevented planting across the state. It has been amazing to watch how much rain we received this spring and early summer and to think back to the drought conditions we had only a few years ago. Remember, that however this crop season finishes up, our Revenue Protection Crop Insurance plan is our first line of defense in revenue losses on the farm!

### Reminders...

As we move towards this fall's harvest, don't forget...

- Keep production from irrigated crops separate from the non-irrigated crop in order to maintain separate units. Production must also be kept separate by section.
- Get prior approval if you intend to co-mingle your grain as authorization is required. Bins need to be marked to keep production separate by section and practice. Keep load records to assist in calculating bushels in the bin.
- Contact us if you have ANY questions prior to or during harvest. If production records aren't properly maintained, you could lose your separate unit structure-plus any loss payment could be reduced.
- Report production information to your agent when harvest is complete so we can review each unit to determine if there is a loss.

### Final Thoughts...

- **Be sure to review your 2015 Summary of Coverage to ensure all acres and shares are correct. Information should match what was reported to the FSA Office.**
- **Crop Insurance Premiums for row crops are due by September 15th, interest will be added if payment is not received by October 1st.**
- **Be sure to contact Brad ASAP if you think you have a loss on your crops and BEFORE chopping any crops for silage!**

**Contact Brad with any questions at: [brad@nfbi.net](mailto:brad@nfbi.net) or (402) 984-6474!!**

## Did you or someone you know Receive an ACA Subsidy for Health Insurance for 2014?

**Reminder:** Taxpayers who did receive a credit from the Premium Tax Credit in 2014, you must file a 2014 tax return (even if not required to!), this also includes those individuals that are on extension

### IF YOU DON'T FILE....

- You lose your eligibility to receive the premium payment subsidy through the marketplace, meaning, you are going to responsible for the premiums in full!

## Depreciation Update for 2015 Tax Year!!!

The Senate Finance committee has passed a 2 Year (2015 and 2016) extension for depreciation limits of:

- **\$500,000 limit for Section 179 (new and used)**
  - **50% Bonus limit (new only)**
- **CURRENT LIMIT: \$25,000 but \$0 if you spend more than \$225,000**

Keep your fingers crossed! The bill still needs to pass the Senate and House before the regulations can take place. Hopefully the bill will be passed by December if not earlier!

## Cash Rent Increases: When is the Right Time to Give up a Lease? (continued)

- **Overhead Expenses:** Expenses that don't go away with a change in acres (i.e. farm insurance, utilities, depreciation, etc.)
- **Family Living Expenses:** Non farm costs that must be covered by farm income

Ideally there would be enough gross income to cover all expenses, especially if you look at the last 8-10 years. It's hard to go back and realize that in some situations we are going to have to accept less.

A producer needs to make sure to keep a balance between the incomes and expenses that allow for a positive net return. If you end up with a negative net return it is important to see if you had a positive return before family living or if it is coming from direct expenses. There are ways you can contin-

ue to operate in the short term, but over time without adjustment, it will cause you to lose enough net worth that it will put an end to your business.

The reality is this decision just can't be about the numbers. The likelihood of ever having the opportunity to farm that ground again once you have given it up is slim. It is also tough to find additional ground to farm with the markets turning around. The scarcity of the income producing resource (i.e. the land) makes the decision to give up high cash rent extremely tough. It's also important to remember that giving up the ground may reduce your risk, but it also cuts the opportunity to make money.

The final decision as to whether you should continue the high risk lease may come down to the overall financial health of your business. If the operation is highly leveraged

and has a significant amount of acres of high rent land, the tough decision will have to be made sooner than an operation with low debt and only a few acres of high cash rents. It's also going to be easier for an operator with plenty of net worth built up to continue in this situation rather than a young/beginning farmer who doesn't have years of profits to fall back on. In any case, high cash leases shouldn't be given up as a knee-jerk reaction to tight margins, but only with consideration of net return, overall financial health and long-term outlook of the operation.

*\*\*To see the full article with 10 year trend history and scenarios, please visit our website, [www.nfbi.net](http://www.nfbi.net), and click on the Articles & Newsletters tab*