Nebraska Farm Business, Inc.

August-September 2022

Inside this issue:

Husker Harvest	1
Accounting Reminder	1
Early Tax Planning	1
Form 2290	1
IP Pin	2
Protecting Liquidity	3-5
Crop Insurance	5
New Phone Numbers	6

Husker Harvest Days 2022

Be looking for a postcard from us in the mail!

The show is held in Grand Island September 13th-15th, 2022. The hours of the show are as follows: Tuesday and Wednesday 8 a.m.-5 p.m. and Thursday 8 a.m.-4 p.m.

Don't forget to download the Husker Harvest Days app. It is available on App Store and Google Play, just search "Husker Harvest Days 2022."

Stop in, say "Hello!" and bring the postcard to our booth at HHD and you will be given a free cooler

OUR BOOTH IS LOCATED

In the Diversified Industries Building West. DIBW1707

HUSKER HARVEST DAYS

Accounting Reminder

Keep in mind bank statements for the first 8 months of the year are due by October 15th. Any January-August statements received in our office after this date will be charged at double the hourly rate of $55/hour. We prefer bank statements to be sent in monthly or quarterly so we can provide you with timely, updated reports.

Early Tax Planning

Tax planning is beneficial in years with high or low profit margins. Since many farmers had a larger than normal carryover gain from 2021; now might be a good time to meet with your consultant before harvest begins. Contact our office to make an early tax planning appointment.

Form 2290-Heavy Highway Use

Reminder: Please send in your signed 8879-EX 2290 Heavy Highway Use form by August 31st. Contact Anthony (anthony@nfbi.net) with questions or comments.

IRS Encourages Taxpayers to Get Identity Protection PIN

By: Michelle Seifert

The IRS Identity Protection Personal Identification Number (IP PIN) is a six-digit number assigned to taxpayers to help prevent the misuse of their Social Security number (SSN) on fraudulently filed federal income tax returns. An IP PIN allows the IRS to verify a taxpayer's identity at the point of filing, thereby preventing someone else from filing a tax return using the IP PIN holder's SSN.

All taxpayers now have access to this program. Taxpayers who want an IP PIN should use the Get an IP PIN tool on IRS.Gov and pass the secure access authentication process to receive a six-digit IP PIN on the spot.

An IP PIN is valid for one calendar year, and the taxpayer must obtain a new IP PIN each year. The IP PIN tool is generally unavailable from mid-November through mid-January.

If you receive an IP PIN, you must use it when filing your tax return, so make sure you write it down and keep it where you will not lose it. Your tax preparer will need to know you have it and have the number when preparing your return.

Should I have an IRS account?

Setting up an account with the IRS may not be a fun way to spend your time, but it could be worth it. An IRS online account is a safe and easy way for individuals to view details on their tax account. With an online account you can:

- View the balance for each tax year for which you owe taxes.
- View your payment history which includes when and the amount of quarterly estimates paid.
- View key information for the most current tax return.
- Order transcript of your account
- Order transcript of you returns
- Authorize and electronically sign Power of Attorney and Tax Information Authorizations from your tax professionals

So should you take the time to register for an account? If any of the following apply to you, then yes you should set up an account.

- You would prefer to pay your taxes due or quarterly estimates online yourself rather than have us set it up to come out of your bank account automatically.
- You are making payments to the IRS
- You have a hard time remembering if you made quarterly estimates or prepaid your taxes

To set up your account go to IRS.Gov and select File/Individuals/View your Tax Account/Sign into your Online Account. Here you will find a box "ID.me Create and account" Click on this to create your account. To verify your identity your will need a photo ID, like your drivers license or passport, and take a selfie or video chat.

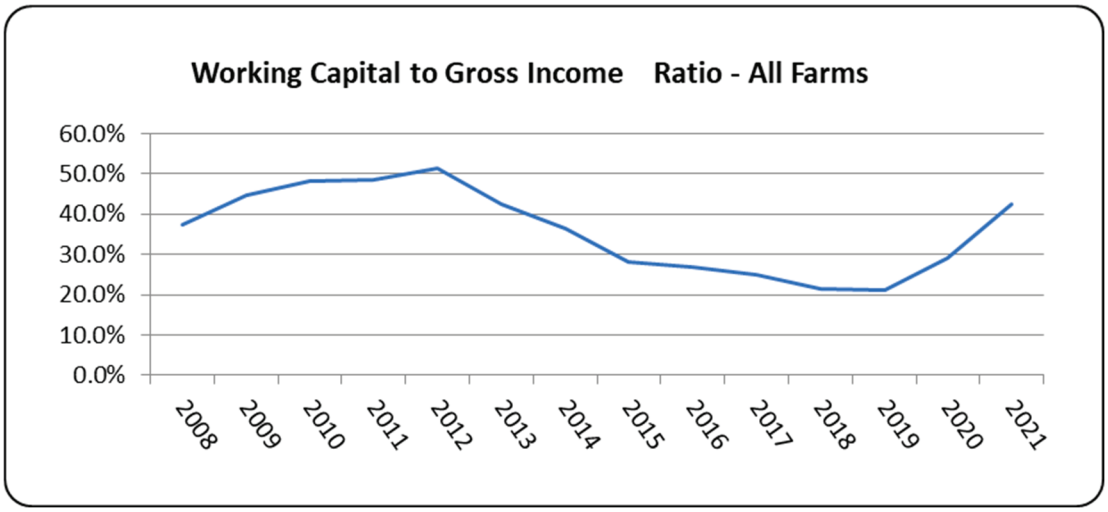
Information from this article was obtained from "Tax Pros Should Encourage Clients to Get IP Pin's," published by the National Association of Tax Professionals.

Protecting Liquidity with Tax Planning

By: Tina Barrett

2021 provided a shot of profitability for many producers across the Midwest. In Nebraska, we saw the combination of rising prices and excellent yields create the largest net farm income on record for the Nebraska Farm Business averages. This profitability led to a significant improvement in liquidity, which was needed by many farms, but now the challenge moves to protecting that liquidity.

Liquidity is traditionally measured with a Current Ratio, Working Capital, or more recently Working Capital to Gross Income. All these measures deal with Current Assets (cash and those assets that will be used or turned into cash in the next 12 months, such as prepaid expenses, grain, feed, feeder livestock, etc.) and Current Liabilities (operating notes, accounts payable, current portion of long-term loans). Working Capital measures, the difference between these two numbers or the margin that would be left over after satisfying all current liabilities. Working Capital to Gross Income is taking that first measure divided by your accrual gross income. This measures if there is enough working capital for an operation. For example, $100,000 of working capital is great for a farm whose gross income is $200,000, but it is not nearly enough for a farm whose gross income is $2 million. The following chart shows the trend of working capital to gross income for the past 14 years. This takes us back to the start of the last upturn in profitability in Nebraska, lasting from 2008-2012. You can see the ratio improve from just under 40% to over 50% in that time and then rapidly decline to under 30% by 2015. Profitability over the past two years has again brought the average over 40%. In general, we would like to see this number always be over 30%.

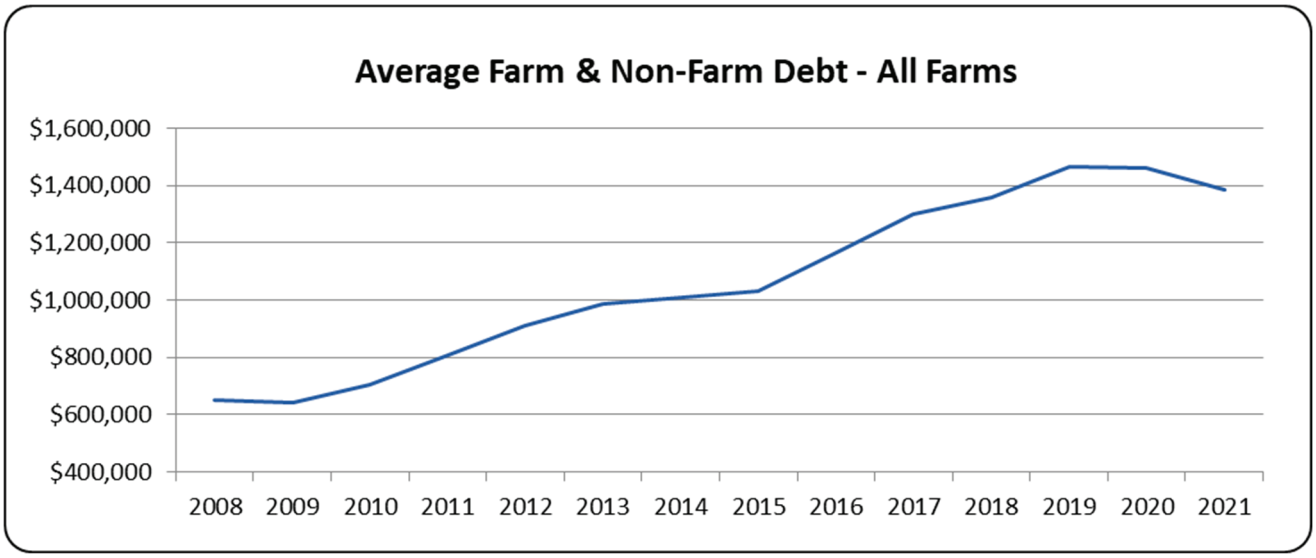


So, what happened in 2013-2019 that "burned" liquidity that we can learn from in 2022?

Tax management strategies caused a lot of problems, and it will be extra important to handle them correctly in 2022. Many operations' gross cash farm income is already higher than in past years. We saw the largest inventory increase on average, which means producers had more value of grain and livestock brought into 2022 than ever before. If you are one of those producers, starting your tax planning pre-harvest will be vital in making management plans. If you already have a higher gross income than usual, selling at harvest will put you in a position where you may feel you have to make extreme decisions in December to put your taxable income in a reasonable position.

Those extreme decisions may include buying equipment you do not need, prepaying expenses that may not be a good decision or even a valid prepaid expense, increasing debt to cover those purchases and other short-term solutions that cause long-term problems.

We saw many of these extreme "solutions" in 2008-2012 as profitable years kept stacking up. However, while liquidity improved, total debt skyrocketed. Many producers borrowed money to buy equipment to write off on their taxes, prepay expenses, for family living needs, and to buy land. Then when profitability decreased quickly in 2013-2015, all those payments were due, but there was no income to pay them. This is when we saw the rapid loss of liquidity. The cash reserves had to be "burned" to cover the decisions made during profitable times.



Historically, this is a great time to recognize taxable income. Since 2018, we have had historically low tax rates and the Section 199a deduction, which allows most producers to exclude 20% of their income from taxation. While it seems counterproductive to pay income taxes to preserve liquidity, it does work in the long run. For example, if you are in the 12% tax bracket, a $100,000 capital purchase will save you approximately $27,000 in taxes. The $100,000 section 179 expense will offset $80,000 of income (since the 199a deduction would have reduced the $100,000 of income down to $80,000). That $80,000 would be subject to a 12% Federal Income Tax, a 15.3% Self-Employment Tax, and 6.68% State Income Tax. There are many things that could make your tax return different than this but generally speaking, this applies. If you paid $27,000 in taxes rather than buying an asset you did not need, you would have $73,000 to reduce debt or add to your cash balance. This protects liquidity more than adding debt or spending cash unnecessarily.

Capital purchases that are needed for an operation to maintain assets or improve profitability have a different decision factor and can be a beneficial tax strategy, but beware of buying assets, financing them, and using rapid depreciation to accelerate the tax benefits to year one. If you take all depreciation in year one, you will have to recognize taxable income in the future to make those payments (principle is not deductible), which could put you in a tough position in the future.

To add to the challenges in 2022, the scarcity of equipment available to purchase is real. For an asset to be depreciated, it must be "ready and available for use" which means that just because you have a purchase agreement for a new tractor, it does not mean you have a deduction. The tractor must be built and ready for use before the end of your tax year.

Prepaying expenses does not impact working capital, but it will change your current ratio. For example, if you prepay $500,000 of inputs and prior to that you had $1 million of other current assets and $500,000 of current liabilities, your current ratio prior to prepaying would be 2 (Current Assets/ Current Liabilities) but after prepaying it would drop to 1.5 (assuming you borrowed the money to buy the inputs). You would still have $500,000 of working capital, so depending on how you measure liquidity, it may not affect it. This makes prepaying a good tax management strategy, but you still must follow the guidelines from the IRS (Internal Revenue Service). A qualified prepaid expense cannot be made just to avoid taxes. There must be a management purpose (such as a discount, securing availability, or locking in lower prices) to the purchase. Prepaids are also limited to 50% of your "normal" Schedule F expenses, which seemed like a crazy reach, but we had operations that needed to watch this in 2011 and 2012. Rent and feed also have some special rules, so before prepaying those, talk with your tax professional.

The challenge that comes with prepaying expenses is the "snowball" that forms. If you "steal" $100,000 of expenses from next year to deduct this year, then you will be looking to prepay not only the same $100,000 the next year but another $100,000 to keep income at the same level. It takes dramatic declines in profitability to reverse the snowball.

Protecting liquidity is going to be important over the next couple of years as input prices rise and we figure out what the new commodity price normal will be. History tells us that we will be looking at tight margins again soon, so using these years of profitability to heal up battered balance sheets may be the difference between operations that survive and those that do not.

NFB Crop Insurance Notes:

Wheat 2022 Harvest Price Set: For Revenue Protection policies, the Harvest Price for WHEAT has been set at $8.72 for 2022.
Projected Price for 2022 Wheat (last fall) was $7.10
Harvest Price for 2022 Wheat is $8.72
With the rise in price from this past fall to harvest, there will be no revenue loss. Your guarantee will be refigured and you must have a yield loss to collect.

Wheat 2022 Harvest: Contact your agent if you think there may be a loss. Contact your agent as soon as harvest is complete to report production bushels.

Wheat 2023:
Final Plant Date for 2023 Wheat: October 5th, 10th, or 15th*
(*Dates may vary depending upon location. Contact Brad for more info.)
Sales Closing for 2023 Wheat: September 30
(*Be sure to get wheat on your policy by this date, if planting this fall.)
Acreage Reporting Deadline for Wheat: November 15
Production Reporting Deadline for Wheat: November 14

Planting Wheat this Fall?
We can provide competitive rates and personalized service for your operation, no matter the size.
Give me a call today for a quote!

Chopping Silage?
Contact your agent BEFORE chopping silage for an appraisal to be completed.

Hail or Wind Losses on Spring Crops:
If you see any losses while checking crops or as you begin harvest, contact your agent—within 72 hours of discovery of loss.
The earlier the better!

Crop-Hail CASH DISCOUNT available until 8/30:
Crop-Hail premiums will need to be paid by 8/30/22 in order to have discounts apply to your premium. After August 30, a full premium amount (without discount) will apply. If any questions, contact Brad. Multi-Peril is due at a later time.

Fall Harvest Preparation Notes :
- Keep irrigated and non-irrigated bushels separated.
- Keep production records separate for each farm/section/unit.
- NEW crop should not be combined with OLD crop in a bin until an appraisal is completed. Contact Brad if 2021 grain is still in the bin, to allow for an adjuster to take measurements.

Have a safe and productive Fall Harvest!

NFB Crop Insurance, Inc.

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Crop Insurance Specialist
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NFBI will be closed on Monday, September 5th, for Labor Day. We wish everyone a happy and safe Labor Day!

Phone System Update

NFBI updated our phone system this summer. The main phone number will stay the same and is the best number to use. The biggest change you will see is the new system will allow us to text from our office phone number instead of using our personal cell phones. The employee's extension numbers did change; below is a list of everyone's new numbers. Please use the numbers below instead of our cell phone numbers. If you receive a text from any of the numbers below please feel free to respond or call the main office number if you have questions. We ask for your patience while we transition through this.

Main Office	402-464-6324
Anthony Barrett	402-261-2333
Tina Barrett	402-261-2377
Carrie Bennett	402-261-2341
Janice Hildebrandt	402-261-2400

Spencer Hruby	402-261-2386
Chad Oelke	402-261-2419
Andrew Rahe	402-261-2512
Michelle Seifert	402-261-2393
Brandon Timoney	402-261-2500