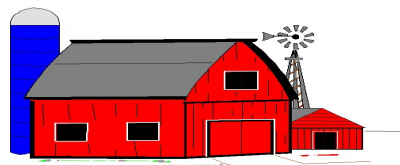


Perfect Storm Brewing in Agriculture



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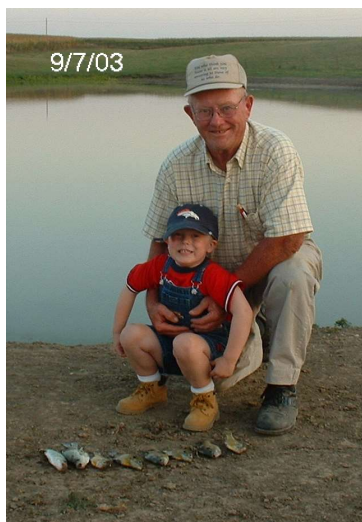
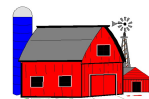
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1



Statement



The purpose of the Farm Financial Strategies workshop is not to offer specific legal or tax advice, nor should it be construed as a substitute for competent legal, accounting, or tax advice from a licensed professional.

Specific advice can only be offered and should only be acted upon after careful deliberation and thought from competent licensed professionals dealing with your individual situation and your situation only.

2

An Introduction to Who We Are



Strategies Within Families

1. Succession Planning
2. Estate Planning
3. Family/Advisor Meetings

www.farmestate.com



Strategies Across Families

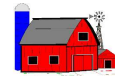
1. Matching & Mentoring Program
2. Farm Leasing Program
3. 3rd Party Peer Relations/Advisory

www.nextgenag.us

3



The Transition Problem



- Number of acres in Iowa:
 - 30,600,000 acres in Iowa agriculture
- The average price/acre is:
 - \$11,835/acre (2023)
 - 3.5% increase from 2022 (\$11,411) to 2023 (\$11,835)
 - 56% increase from 2020 (\$7,559) to 2023 (\$11,835)
- The value of Agriculture in Iowa is:
 - \$231,305,000,000 (total equity in 2020 @ \$7,559/a)
 - \$349,176,600,000 (total equity in 2022 @ \$11,411/a)
 - \$362,151,000,000 (total equity in 2023 @ \$11,835/a)
- Age group who owns the land:

SOURCE: Iowa State University Extension- (2023)

8



The Transition Problem



- Number of acres in Iowa:
 - 30,600,000 acres in Iowa agriculture
- The average price/acre is:
 - \$11,863/acre (2023)
- The value of Agriculture in Iowa is:
 - \$298,380,000,000 (total equity in 2021 @ \$9,751/a)
 - \$362,151,000,000 (total equity in 2023 @ \$11,863/a)
- Age group who owns the land:
 - * 34% of land is owned by owners 75 years or older...
That means...1/3 will transition in next 10 years
 - * 60% of land is owned by those 65 years and older...
That means...2/3 will transition in next 20 years
- 16% of land is owned by owners younger than age 55—Our Future
That means...we are in deep "Stuff"

SOURCE: Iowa State University Extension- (2023)

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Farm Succession Perfect Storm



- 1.) **Age of Landowner**—Oldest in history—60% over age 65
- 2.) **All-time high land values**
 - * Iowa's state average is \$11,863/acre
- 3.) **Cash Flow to acquire land is outside of long-term profitability**
 - * Subsidization and Economies-of-Scale required to compete

SOURCE: : Iowa State University and National Agricultural Statistics Service (2003-2023)

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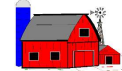
Social Media and Farm Leasing

2018 Example

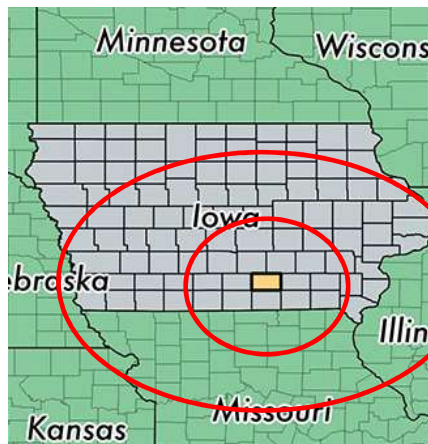
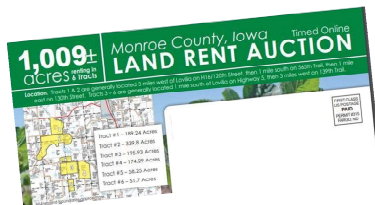


- 250-acre farm in east-central Iowa
- Landowner saw an Internet company advertising on Facebook
- Company offered to lease the farm from landowner and guaranteed \$321/acre for 3 years all paid upfront within 7 days
- Company had no tenant
- Company promised tenant would come from no more than 50 miles away

“How are they able to do this?”
 “What’s in it for the company?”



Transition in Production Agriculture



- 47 bids from 5 states (130 counties)
- 230 mile radius
- “Winner” 85 miles or 3 counties away
- 86,100 farmers in Iowa
- 99 counties (870/county)

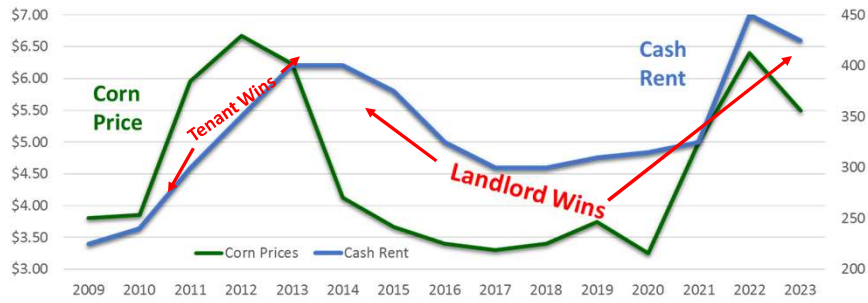
Recent Example

www.nextgenag.us

- Rent auction January 2023 in Chickasaw County
- 338 acres @ \$454/acre avg (53 acres pasture and 228 acres @ 62 CSR)



Fixed Cash Rent Lease The Lag Effect



Are we promoting a long-term relationship?

22



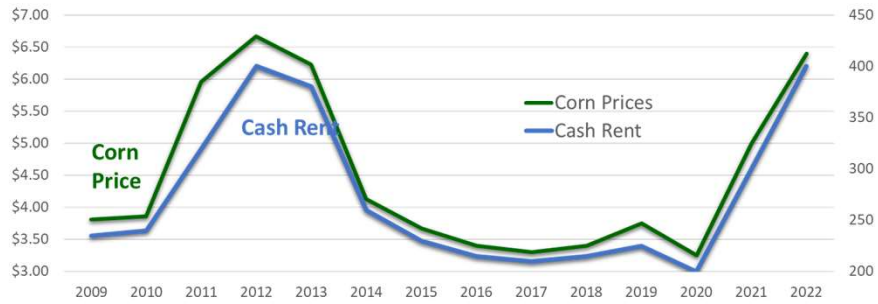
Straight Cash Rent Lease

	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00	\$5.50
260	\$400	\$400	\$400	\$400	\$400	\$400	\$400
240	\$400	\$400	\$400	\$400	\$400	\$400	\$400
220	\$400	\$400	\$400	\$400	\$400	\$400	\$400
200	\$400	\$400	\$400	\$400	\$400	\$400	\$400
185	\$400	\$400	\$400	\$400	\$400	\$400	\$400
170	\$400	\$400	\$400	\$400	\$400	\$400	\$400

23



Flex Rent Lease The "Fair" Effect



Are we promoting a long-term relationship?

25



Flexible Cash Rent Lease

Next Generation Ag Advocates
Landowner's Rent with a Flexible Lease
Average Calendar Year Price

	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00	\$5.50
260	\$225	\$251	\$294	\$337	\$380	\$423	\$466
240	\$225	\$232	\$271	\$311	\$350	\$390	\$430
220	\$225	\$225	\$248	\$284	\$321	\$357	\$393
200	\$225	\$225	\$225	\$258	\$291	\$324	\$357
185	\$225	\$225	\$225	\$238	\$269	\$299	\$330
170	\$225	\$225	\$225	\$225	\$246	\$275	\$303

Assumptions: \$225/acre Base Rent + 33% Share in Profits over \$700/acre B/E Revenue

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Farm Succession Perfect Storm



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- 4.) Farm is a legacy asset—"I farm therefore I am"
- 5.) Control—Difficult to Surrender but REQUIRED to transfer
- 6.) Advice from specialists
 - * Limited by location, experience and incentive
- 7.) Low interest rates will change in the future
- 8.) Longevity of landowner
 - * "Sandwich generation" may lose ownership opportunity

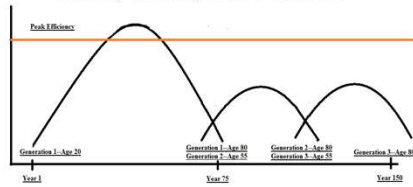
SOURCE: : Iowa State University and National Agricultural Statistics Service (2003-2023)



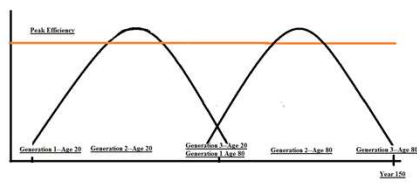
Longevity of the Landowner



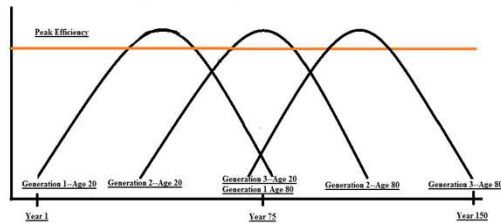
Efficiency of a Family Farm--3 Generations



Efficiency of a Family Farm--Skip Generation 2



Efficiency of a Family Farm--3 Generations





Farm Succession Perfect Storm



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- 9.) **Family dynamics**—Fair vs. Equal
 - * Performance based pay vs. Inheritance based pay

SOURCE: : Iowa State University and National Agricultural Statistics Service (2003-2023)

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Fair vs. Equal



- Everyone has a different idea of what "Fair" is...
 - "Equal" is a Science...
 - "Fair" is an Art!
- "Fair" is cotton candy and horse poop
- "Fair" ... "Fair" means one side got exactly what they wanted in a way that the other side can't complain about
 - John Dutton
- You decide what is "Fair" ...and divide "Fair" equally

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Farm Succession Perfect Storm



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- 10.) **Farming is difficult**—Each generation produces fewer farmers
 - * Fewer next generation producers are willing/able to take risk
- 11.) **Tax Law Uncertainty**—Estate, Income, Capital Gains, Basis

SOURCE: : Iowa State University and National Agricultural Statistics Service (2003-2023)

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Basis "Step Up"



- **Adjusted Basis at Death of Owner**
 - Occurs because an estate is subject to Federal Estate Tax
 - Real Estate
 - Dirt
 - Fertility
 - Fence and Tile
 - Buildings and Improvements
 - Machinery, Grain and Livestock
 - Corporation Shares—Not assets inside of Corporation
 - May not always be to your advantage
 - Could get a basis step "down"
 - Incentive to sell assets (tax-free)
 - Encourages deferral mentality to hold assets until death

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“Unified” Credit—2002-2024



Year	Federal Estate Credit Equivalency	Credit At Death	EITHER OR	Credit While Alive (Gift)	Max. Tax
2002-03	\$345,800	\$1,000,000		\$1,000,000	50%
2004-05	\$555,800	\$1,500,000		\$1,000,000	48%
2006-08	\$780,800	\$2,000,000		\$1,000,000	46%
2009	\$1,455,800	\$3,500,000		\$1,000,000	35%
2010	Unlimited	NA		\$1,000,000	35%
2011	\$1,730,800	\$5,000,000		\$5,000,000	35%
2012	\$1,772,800	\$5,120,000		\$5,120,000	35%
<i>Scheduled to Sunset to \$1,000,000 Exemption Equivalent</i>					
2015	\$2,125,800	\$5,450,000		\$5,450,000	40%
2016	\$2,141,800	\$5,490,000		\$5,490,000	40%
2017	\$2,185,800	\$5,600,000		\$5,600,000	40%
2018	\$4,417,800	\$11,180,000		\$11,180,000	40%
2019	\$4,505,800	\$11,400,000		\$11,400,000	40%
2020	\$4,577,800	\$11,580,000		\$11,580,000	40%
2021	\$4,625,800	\$11,700,000		\$11,700,000	40%
2022	\$4,769,800	\$12,060,000		\$12,060,000	40%
2023	\$5,113,800	\$12,920,000		\$12,920,000	40%
2024	\$5,398,800	\$13,610,000		\$13,610,000	40%

Scheduled to Sunset to \$5,000,000 in 2026 (Adjusted for Inflation)

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SOURCE: The National Underwriter 2023 Tax Facts



Farm Succession Perfect Storm



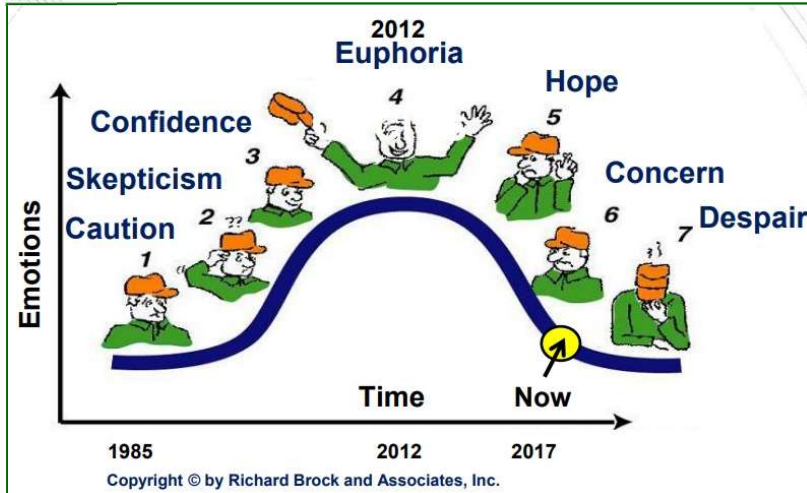
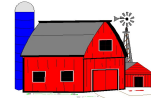
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 - * Fewer next generation producers are willing/able to take risk
- 11.) **Tax Law Uncertainty**—Estate, Income, Capital Gains, Basis
- 12.) **Deferral Mentality**—Susceptible to emotional decision-making
 - * Greed, Hope and Fear

SOURCE: : Iowa State University and National Agricultural Statistics Service (2003-2023)

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Emotional Decision-Making



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5 W's of Farm Succession



- 1.) Identify Ownership and Decision-Makers (Who)
 - * Who are the operators/decision-makers?
 - * Business heirs should own operating assets
 - * Who are the peacemakers?
 - * Who are the troublemakers?
- 2.) Identify and Divide Assets (What—Management, Leadership, Ownership, Labor)
 - * Short and Intermediate-term assets (owned operators/decision makers)
 - * Machinery, Grain and Livestock (Corporation, LLC or Individual)
 - * Long-term assets
 - * Real Estate (Individual, LLC or Corporation)
- 3.) Identify Timeframe (When)
 - * Consciously decide where and when the transfer should occur
 - * At Death (Wills or Trusts)
 - * Living (Sale contracts, Gifting, Corporation or LLC agreements)
 - * Leadership opportunity—Replace yourself
- 4.) Communicate your plan (Where and the Why)
 - * In a business meeting
 - * Rumors and conjecture
 - * At the “reading of your will”
- 5.) Take Action (How)—Navigate through the perfect storm

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LLC or FLP (Entity)

Keep land together as a unit if transfer to more than farm heirs?

- Centralized management
- Ability to gift
 - **\$18,000** annual AND/OR **\$13,610,000** lifetime exclusion
- Deflect pro-rata income after gift is made (future years)
- Discount—minority interest and lack of control/market
- Lease options for farm heirs—ISU Extension Average
- Purchase options for all heirs
 - “Put” option—Special Use Value / 30 year contract @ AFR
 - “Call” option—Special Use Value / 30 year contract @ AFR
- Train heirs to retain a long-term asset
- Super Majority Vote to change agreement--85%
- Retain purchasing power
- Shift income from Schedule F to Schedule E

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Special Use Valuation— 2032A

- Reduced valuation based on income producing ability
 - 5 year cash rent divided by applicable factor
 - Business interest must be 50% of decedent's gross estate
 - ****Value to qualified heir--50% of decedent's gross estate****
 - ****Deceased must own/operate 5 of 8 years prior to death****
 - Qualified Heir must own/operate 5 of 8 years after death
 - Qualified Heir can sell only to another Qualified Heir for 10 years
 - If Qualified Heir doesn't comply...family pays back taxes
 - Creates necessity for a proactive written and funded strategy
- Example of \$15,000/acre land
 - 5 year average cash rent of \$325 (after property tax)
 - Applicable factor .0457 (AgriBank FCB 2022)
 - $\$325 / .0457 = \$7,111/\text{acre}$
 - For estate reduction--Discount may not exceed \$1,310,000 (2023)

SOURCE: The National Underwriter 2023 Tax Facts

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Valuation of a Corporation



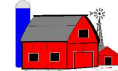
What are the shares really worth?

- No outside market for sale of shares
- Purchase of shares are not deductible
 - Not even interest (unless corporation redemption)
- Deferred income tax liability for buyer
- Majority Rules (or super majority)
 - Everyone else is along for the ride
- Double taxation of profits (if C-Corporation)
 - Deferred income not paid to shareholder is Retained Earnings
- Flat 21% federal tax bracket (if C-Corporation)
- Requires a shareholder's agreement to decide these issues
 - Goal is to transition business and stay out of court
- Typical process to value shares is:
 - Appraisal of assets less debt less deferred tax liability
 - Divided by # Shares and take discount (25-40%)
 - Lack of Market/Lack of Control

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Important Tax Concepts



1.) Self Employment Tax

- * Pay rent for real estate or equipment (F to E transfer of income)
- * C-Corporation (set salary and pay rent/dividends)
- * S-Corporation (set salary and pass through profits...QBI)
- * Reduction of SS benefits (Marry well or invest on your own)

2.) Know your tax brackets

- * \$94,300 is 12% max bucket (Married in 2023)

3.) Understand bonus depreciation and section 179

- * 60% vs. 100% bonus (2024)
- * Maximum limit on 179 is \$1,220,000 (2024)

4.) Other issues

- * Single member LLC
- * Depreciation and recapture of past depreciation
- * Lease to own and footprint leases

45



Understand the Difference...



1.) Exit Strategy

- * Lifestyle exit—Spend down your business over time
- * Liquidation—Close the doors and pay the tax
- * Sell to friendly buyer—Customers, EE's or Family
- * Acquisition—Sell to another competitor in the same business

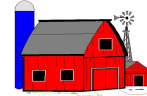
2.) Entrance Strategy

- * Outlast the “old man”
- * Grow into the operation—earn respect and trust
- * Approach a mature landowner with a plan
- * Network with connected people

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Entrance Strategies...



1.) Outlast the “old man”

- * At some point father time wins out
- * Assume an estate battle

2.) Grow into the operation

- * Industry problem...most children are stuck with their parents
- * **ASK FOR HELP!**
- * Present your plan for growth
 - * Come to the table with a plan that adds to the operation
 - * Don't just assume you will take over Dad's operation

3.) Approach a mature landowner with no farming heir

- * Willy Wonka
- * Come to the meeting with a plan
 - * Equipment
 - * Livestock

4.) Network with key people

- * Labor is in demand
- * Find a way to partner with a mentor

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Look for opportunities...



Sometimes it's not what you know...but who you know

1.) John and Duke

- * Original process for John to find a new tenant for 350 acres
- * "He reminds me of me when I was his age"
- * Four years later, John has bought another 120 acres and 240 acres

2.) Harold and Steve

- * Non-related long-term tenant
- * Became more than just a tenant
- * Avoid arranged marriages

3.) Gary and the 2nd wife

- * Wife wanted Gary to retire and move to town
- * Gary owned immaculate building site (100% depreciated)
- * Gary had relationship with 1,000 acre landlord

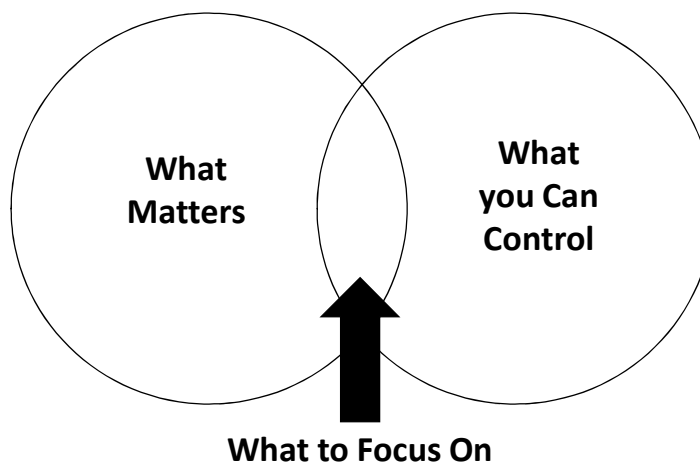
4.) Howard and his 10 children

- * Howard told he couldn't sell his land to his 2 farming sons

48

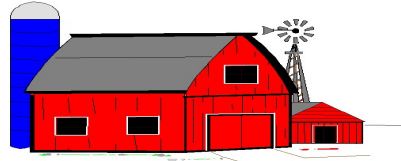


What are you Focused On?



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