

FARM MANAGEMENT SERVICES, INC.

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2018 Farm Bill, Continued

To set the effective reference price for both ARC and PLC programs, an Olympic average of the last five Marketing Year Average prices (MYA's) will be multiplied by 85%. If this is higher than the statute reference price, this number will be used up to the maximum of 115% of the statutory reference prices.

For example: Soybean MYA prices for the last 5 years were: \$10.10, \$8.95, \$9.47, \$9.33, and \$8.60 - (projected). An Olympic average of these MYA's would be \$9.25, which would be multiplied by 85% and become \$7.86. Since this is less than the \$8.40 statute reference, \$8.40 would be used.

Because of the lower commodity prices in the last 5 years, the likelihood of this formula reference price becoming effective for our major Kansas crops is low.

The individual payment limits remains at \$125,000, but allows the definition of family to extend to nieces, nephews, and first cousins. The Adjusted Gross Income cap remains at \$900,000.

K-State will be conducting meetings in August & September to educate producers before sign-up this fall. Please visit the following website for more information and to register – <http://agmanager.info/events/k-state-2018-farm-bill-meetings>. **There is no fee, but registration is required.**

August 26 Hill City, Ks	August 28 Plains, KS & Great Bend, KS	September 5 Seneca, KS
August 27 Goodland, Ks & Leoti, KS	August 30 Wichita, KS	September 10 Concordia, KS 1:00 - 4:30 pm Cd Co Fairgrounds

Yes, we are accepting new clients.

We are often asked if we have time to serve additional clients. We are a growing firm, and we would appreciate your referrals. If you are pleased with our services, please mention us to your friends and business contacts.

The



REPORT

Farm Management Services, Inc.

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FMSI Summer 2019 Update

Our 2018 tax filing return season is nearly finished and despite many significant challenges, your FMSI staff managed to make it through! Not only did we face the daunting task of understanding all of the changes associated with the new Tax Cuts & Jobs Act.....there were also delays at the start of filing season as we waited for final IRS forms and software updates. We appreciate our clients for being so cooperative and understanding as we worked through the last 6 months – thank you!

Signup for the \$16 billion second round of Market Facilitation Program (MFP 2) payments runs July 29th to December 6th. ***All producers must reapply for MFP 2, even if you received the first round of tariff aid payments.*** The payment amount is based on the county payment rate multiplied by the farm's total plantings of MFP-eligible crops in 2019, regardless of which of those crops were planted this year. County payment rates range from \$22-\$73/acre in Kansas counties. The first payment will be the higher of 50% of a producer's calculated payment or \$15/acre and will be made in late August. If conditions warrant, the second and third payments will be made in November and January. Additional information is available at www.farmers.gov/manage/mfp.

2018 Farm Bill

After a lengthy debate, the 2018 Farm Bill is now law. This “new” bill is essentially an extension of the 2014 Farm Bill with some improvements to Title I programs that should benefit producers. Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) are again offered, with ARC having a county or individual farm option, as before. Highlighted changes affecting both programs include:

- ◆ Producers will elect a program per commodity for 2019 and 2020, but will then have ANNUAL elections beginning in 2021. This will eliminate the pressure of making a 5-year commitment at the initial sign-up allowing farmers to change programs based on market conditions is a significant improvement.
- ◆ Effective reference prices (ERP) now include a formula and could go up as much as 15% if commodity prices improve. Statutory reference prices remain the same:

	STATUTE REFERENCE	MAXIMUM EFFECTIVE REFERENCE (115%)
CORN	\$ 3.70	\$ 4.26
SOYBEANS	\$ 8.40	\$ 9.66
WHEAT	\$ 5.50	\$ 6.33
GRAIN SORGHUM	\$ 3.95	\$ 4.54

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- * Farm Semi Tags (Form 2290)
- * Check us out on Facebook @ ksfmsi

Transitioning to the Next Generation

As the baby-boomer generation approaches their 60's and 70's, many of our clients are now bringing their children into their farm operation and preparing for retirement. An example of a typical situation follows:

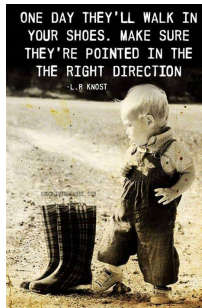
Jack & Jill have managed their farm well, paid down debt, lived within their means and realized the result: a sizable net worth. They have also hired their two adult children to work in the business. The children are proving their value in both labor and management, and they work well together. While there is considerable wealth, the current farm economy profitability is marginal, especially with the children each drawing a salary from the farm. Jack & Jill's concern is transitioning the farm assets to the next generation. They have seen what happens to some young adults who receive (or know they're going to receive) a significant inheritance. What are some ideas of when to begin transitioning the farm assets?

Our suggestions:

First off, Jack & Jill are to be commended for being proactive and taking steps to give the kids a chance to keep the family business intact. Let's assume that there are just the two children and it is everyone's expressed goal that the integrity of the farm business continues after Jack & Jill are gone. With those assumptions in mind, here's a plan that fosters a successful transition.

- **Articulate goals.** Begin with the end in mind – make sure all parties (including spouses) are on the same page. If everyone isn't rowing the boat in the same direction, conflict, confusion, and expense result.
- **Take care of Jack & Jill's financial needs first.** Will they need \$5,000/month to cover their living/medical expenses, or is that number closer to \$10,000/month? Can the operation provide that kind of cash flow? Never transition assets you need to own and control if they are required for the living and lifestyle you've earned and deserve.
- **Set realistic goals.** The farm will only provide a certain amount of cash flow unless the operation changes. Are their opportunities to grow the farm? What about adding/expanding a livestock enterprise?
- **Allow for incremental transition of assets and don't forget about liability protection.** Create separate structures (LLC, corporation, etc.) for the land and the farming operation.
- **Agree upon and inform children of prerequisites before you transition assets.** (Ideally, owners outline this while their children are in high school, but it's never too late to begin.) Here are seven prerequisites we'd recommend:
 1. **Education:** A minimum of a two-year degree in an area of study that benefits the operation.
 2. **Experience:** Initially work full time for a nonfamily boss for at least two to three consecutive years, receiving good performance reviews and promotion for contributions.
 3. **Skin in the game:** A minimum personal financial investment demonstrating commitment that this business is a personal priority and a financial investment for the future. (This is not financed by the farm or senior generation.)
 4. **Sweat equity:** This is earned compensation equal to true monetary value minus the compensation the business is paying. The difference is rewarded by asset transfer annually, not at the time of death.
 5. **Fire in the belly:** Proven self-starter demonstrating this is a job of choice, even during tough times. Maintain high standards and have a passion to learn and work independently and well with others.
 6. **Compliance:** Adherence to and support of existing policies and management practices, and the willingness to teach and lead through necessary changes.
 7. **Positive relationships:** Develop and maintain good relationships with vendors, suppliers, accountant, attorney, the senior generation, etc.

The fear of many parents is that transitioning assets can squash ambition and drive. We've found that not transitioning assets will also have the same result. Do not rob your kids of the zeal to earn a living, build equity, and make an impact. Before beginning the transition, the parents must carefully consider the readiness of their children – it is the most important decision in a business transition.



Employee vs Machine Hire Employment Status Classification

The Internal Revenue Service's Employment Tax Examination Program has recently found that many businesses are misclassifying their employees as independent contractors in order to avoid paying employment taxes. In an effort to address apparent abuse, the IRS has published a list of 20 factors they feel determines an individual's employment status. The factors were developed based on an examination of previous cases and rulings which specifically considered whether an individual was an employee or independent contractor. The degree of importance of each factor varies depending on the occupation and environment in which the services were performed. Some key factors are:

Instructions: If an employer can instruct the worker when, where, and how the worker performs work, this indicates an employer-employee relationship.

Work schedule: An established work schedule indicates an employer-employee relationship. Independent contractors generally have more freedom in scheduling the performance of their services to a client.

Order or sequence set: The more this is controlled for the worker, instead of by the worker, the more employment is suggested.

Payment by time, not job: Independent contractors are more often paid by the job.

Furnishing of tools: Independent contractors more often furnish their own tools and materials.

Length of working relationship: A continual, long-term work relationship implies an employer-employee relationship. Such a factor may also exist with an independent contractor. Therefore, this factor alone is not determinative.

Realization of profit or loss: A worker who can realize a profit or loss from his services is generally an independent contractor.

Right to discharge: An independent contractor cannot be fired as long as he produces a result that meets contract specifications.

Right to terminate: If the worker can terminate services without liability, this indicates an employment relationship.

The employment status determines whether an employer must pay unemployment insurance and/or Social Security taxes. In addition, it also determines the proper amount of income to be withheld from an employee's wages. In addition to back taxes and related payments, failure to comply with the classification rules can result in the assessment of interest and penalties. These penalties can be severe if the IRS determines that the misclassification was made deliberately to avoid paying payroll taxes.

Employment rules are tricky and can lead to significant problems if not handled correctly. Please visit with your Fieldman or Kristi & Therese in our payroll department if you have questions about whether to classify someone as an employee or an independent contractor.

Farm Semi Tags (Form 2290)

If you currently own or have recently purchased a farm truck with a taxable gross weight of 55,000 pounds or more, you are required to file Form 2290 with the IRS annually. The current 2290 form covers the taxable year 7/1/2018 – 6/30/2019 and are **due 8/31/2019**. The IRS will then send back an approved receipt which is actually a stamped Schedule 1 of Form 2290. In order to purchase your truck tags in January 2020, your local county treasurer must have this receipt.

The tax for agricultural vehicles used 7,500 miles or less is **\$0** if you haul your own farm commodities and are not for hire. However, Form 2290 still needs to be filed with the IRS. FMSI files these forms for many of our clients and our letters went out in late June. Please be sure to sign and return these letters along with the VIN's for any new semi's purchased this year. If you need assistance in filing your IRS Form 2290, please contact us.

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