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New Fieldman

Welcome

We are excited to announce that **Blaine Tholstrup** has recently joined our staff as a Fieldman. Blaine graduated from Kansas State University with a B.S. in Agronomy Consulting & Production. He has been involved with the family farm in Cloud County for the past 14 years raising grain and cattle. Blaine joins our team with 2 years in the agriculture equipment industry. He and his wife, Katie, reside in Jamestown.

www.ksfmsi.com

Need to calculate a paycheck, print a business form, send us a quickbooks file, or email one of us after hours? Check out our website at www.ksfmsi.com to find the answers.

You can find commonly used forms, a paycheck withholding calculator and refund tracker under the Resources tab. Under the Web Portal tab you can upload forms and files to the office quickly and securely. Payroll forms will be under the Forms tab. Archived newsletters can be viewed under the Newsletters tab. Put a face with the name under the Who We Are tab where you can email us from, also.

The fmsi REPORT

Farm Management Services, Inc. fmsi@ksfmsi.com

FMSI Summer Update

We have been out making farm visits and there seems to be two primary topics of discussion:

(1) financial challenges many operations are facing, and
(2) possible tax reform.

Debt has always played a key role in our capital intensive U.S. agricultural system. At times, such as the farm crisis of the 1980's, too much debt has been problematic. However, most often it has been a useful tool that has allowed us to substitute capital for labor. Total debt in the farm sector has increased since 2013 and the biggest challenge we're facing today is that our repayment capacity has declined. **Be careful before leveraging your operation and taking on additional debt!** Commodity prices can change very quickly and any perceived profit you have in a crop can rapidly disappear. We all witnessed wheat prices unexpectedly increase by $1.00+/bushel then go right back down. If you have opportunities to price your grain/livestock at a profit, be aggressive in taking advantage of that opportunity. The more debt you have, the more aggressive you should be in locking in profits. Hitting a bunch of singles isn't as fun as hitting a homerun once in a while…..but it may keep you in the game longer.

With tax reform a priority in Congress – what do we expect to get changed?

Corporate Tax Rate: Trump wants to slash the current 35% corporate tax rate cut to 15% - this big of a cut won't happen, most experts assume they will settle near a 25% rate.

Expensing of Asset Purchases: It's doubtful that businesses will be able to fully expense asset purchases, but we anticipate more bonus depreciation and/or a higher asset expensing cap. The Section 179 limit for 2017 is $510,000.

Standard/Itemized Deductions: Lots of discussion about increasing the standard deduction and revising some of the allowed itemized deductions. Currently, only people who itemize deductions can write-off gifts made to charity. Lawmakers are pondering whether to grant this deduction to all taxpayers, even those who take the standard deduction, to encourage more charitable giving.

Estate Taxes: It appears that Congress and the Trump Administration both want to repeal the estate tax, but they may eliminate the step-up in basis that heirs currently receive. For most of our clients, the loss of stepped-up basis would be much more costly than our current estate tax law which exempts the first $5,490,000 of assets from being subject to any estate tax.

These proposed changes may become effective for the 2017 tax year, but as with all things in Washington…..we'll have to see what actually gets signed into law.

ALSO IN THIS ISSUE:

If the Estate Tax Gets Repealed... Do I Still Need a Will or Trust?

Since the election of Donald Trump last fall we continue to learn more about his agenda and specifically his tax strategies. One of his proposals is to eliminate the federal estate tax. With this possibility in mind, many farmers have asked “Do I still need a will or a trust if the estate tax gets repealed?”

It’s a legitimate question, but it’s a pretty easy one to answer: **A farm-based estate plan has many more issues to address in addition to the possibility of estate taxes, especially if a child will someday take over.** Below are ten reasons why you need to be sure your Will or Trust is up to date, estate tax or not. (And, be sure to keep in mind that **<u>if your plan is not in writing it does not exist</u>**.)

1) About two out of every 1000 estates are subject to federal estate tax. The federal estate tax generates less than 1% per year of total Treasury revenue. Since the tax generates such a small percentage of Treasury revenue, this tax is less about revenue generation and more about politics and the notion that “rich” people need to be taxed. As such, the tax is more political in nature and is the subject of much debate in Washington. The estate tax was last repealed in 2010 and was reinstated in 2011. The point is that one President may repeal the tax while the next one could reinstate the tax. A good estate plan should have the “defense on the field” and plan as though an estate tax is always possible.

2) Many families begin transitioning in a younger farmer long before death. Your Will or Trust should contain terms and conditions that are consistent with the transition plan and should cover how you want land, machinery, livestock, ownership interest in an entity, the farm site, your residence and all other assets distributed to heirs. It is wise to review your Will or Trust every 2 to 3 years if transitioning and about every 5 years if not transitioning. Things can and do change.

3) If your Will or Trust includes language about a farming child buying land, are the terms clear? Is there both a cash option and a contract option in the Will or Trust? How long after death must the land be bought, and what is the financial impact to the farm if land is bought from the estate? Does the buyout fit and will it cash flow? And, at what age will a farming child possibly have to start buying land?

4) If you farm through an operating entity, how is this handled? Is it wise to leave the farm operating entity to farming and non-farming heirs? What does your Will or Trust say about your partnership, corporation or LLC? Is a buy-sell agreement in place for the entity?

5) Portability rules allow a married couple to garner two exemptions as long as Federal Estate Tax Form 706 is filed upon the first spouse passing. The exemption amount is $5,490,000 in 2017.

6) If you choose to administer your estate through a Will instead of a Trust is your family prepared for the probate process and the fact that the decedent’s estate will be on public record?

7) How are grandchildren handled if a child predeceases you? Is a Trust in place that allows someone to manage assets until a grandchild attains a certain age? Many farm-based estates are large and one must ask if they want a younger person inheriting hundreds of thousands or maybe millions of dollars of assets at a young age.

8) There is a growing trend for parents to include provisions for the spouse of a child if a child predeceases you. A Will or a Trust can be set up that provides income for the spouse of a child but ultimately leaves the assets to grandchildren.

9) If you are in a second marriage and have children from a previous marriage, what does your Will or Trust say about taking care of a second spouse but leaving the assets to natural children? A special trust called a QTIP trust can be set up to take care of your spouse and your children.

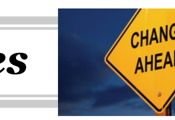
10) Who have you named to manage your affairs at death (executor or Trustee)? Usually we appoint our spouse and then a successor or two are named. Be sure these individuals are still valid, especially if Will or Trust was drafted when your children were young and they are now gainfully employed adults.

...Do I Still Need a Will or Trust, Continued

A plan that is not in writing really does not exist. Document clearly what you want done and how you want it done. Your Will or Trust is more about the process of ensuring the farm continues (assuming there is a transition plan in place) and allocates assets to be either fair or equal. Estate taxes need to be addressed if the estate is taxable, **but the estate tax alone must not drive the entire plan.** The desire to keep the farm going and be fair to our children is the basis for good estate planning documents.

FMSI can assist you in outlining an estate plan for your family – visit with your Fieldman for more information.

Farmers No Longer Exempt—Kansas Changes



On June 6th the Kansas legislature overrode a veto by Governor Brownback and made two significant changes to Kansas income taxes, both of which are retroactive to January 1, 2017.

First, Kansas law no longer exempts “flow-through” business income (i.e. sole proprietors, partnerships, S-Corps) from Kansas income tax. From 2013-2016 income generated from these business entities was generally not taxed by the state of Kansas. However, this income is no longer exempt from Kansas income taxes. This will obviously be a significant change for many of our small business owners and farmers.

Secondly, Kansas income tax rates on individuals have increased. The top individual Kansas rate was 4.6% for 2016. It is now 5.2% for 2017 and will be 5.7% for 2018 (as well as future years). However, the state of Kansas has said it will not assess penalties and interest as a result of underpayment of taxes due to these changes as long as the underpayment is rectified by April 17, 2018.

The following chart shows how our rates have changed over the last several years:

	2012	2013	2014-2016	2017	2018
MFJ $0-$30,000	3.50%	3.00%	2.70%	2.90%	3.10%
MFJ $30,001-$60,000	6.25%	4.90%	4.60%	4.90%	5.25%
MFJ $60,001+	6.45%	4.90%	4.60%	5.20%	5.70%
S,HOH,MFS $0-$15,000	3.50%	3.00%	2.70%	2.90%	3.10%
S,HOH,MFS $15,001-$30,000	6.25%	4.90%	4.60%	4.90%	5.25%
S,HOH,MFS $30,000+	6.45%	4.90%	4.60%	5.20%	5.70%

<u>For farmers and small business owners who haven’t been paying Kansas income tax for the last 4 years, this change is significant and it makes year-end tax planning all that more important. For profitable operations, there will be an additional 5.20% of taxes due for 2017.</u>