

Ag Income Tax Update for Farm Families: January 2010

Prepared by: C. Robert Holcomb, EA, Extension Educator; Gary A. Hachfeld, Extension Educator

Introduction:

For tax years 2009 and 2010, there are a number of changes that have resulted from the passage of federal tax laws. These include changes in Section 179 allowance, reinstatement of bonus depreciation, depreciation year limits, tax rebates, taxation of CRP payments and much more.

Note: this information piece is offered as educational information only and not intended to be legal or financial advice. For questions specific to your farm business or individual situation, consult with your tax preparer.

Deferred Contract Sales and Alternative Minimum Tax (AMT) Issues:

A farmer can sell grain and livestock in one year, sign a deferred payment contract or an installment contract, and postpone payment and recognition of that income into the following year. Tax on the income will be calculated for both regular and AMT tax in the following year.

However, there is one caution here. "... delaying payment increases the chances that the buyer may not pay for the commodity because of financial difficulties. Because the sale was not reported as income, a cash-basis farmer does not have a deductible loss if the buyer defaults on the deferred payments."

Wind Generator Tax Issues:

"Most wind turbines are purchased, installed, and maintained by a power company, which needs access to the land on which towers for the turbines are built and access to land for power lines that collect electricity from the turbines and connect to the electrical power grid. The most common contractual arrangement between an energy company and land-

owners is the purchase of an easement. The contracts typically include three types of payments:

Capital gains tax changes for land and stock sales:

- 10%-15% federal tax bracket: capital gains rate of 5%
- 25% federal tax bracket or above: capital gains rate of 15%
- These rates went into effect for sales after May 5th, 2003. Note: the 5% rate will go to 0% for tax years 2008, 2009, and 2010 for taxpayers in the 10% and 15% federal tax bracket. Check with your tax preparer for details.

Depreciation:

- Section 179 depreciation; For the tax year 2008, the deduction limit was \$250,000 and the phase out amount was \$800,00, not indexed for inflation. For 2009, the Section 179 deduction limit will be \$250,000 with a phase out for qualifying property of \$800,000. For 2010, the amounts are reduced to a \$134,000 deduction and a \$530,000 investment limit.

Income averaging:

- Income averaging remains in effect for farmers only. Farmers can elect an amount of their current farm income to divide equally among the previous three years.

1. Purchase of the easement over the land.
2. Restitution for damage to crops during construction of the towers and power lines.
3. Annual rent payments based on the amount of electricity generated.

Each of these payments has income tax implications for the landowner."

Sale of Easement: "Easements for wind-turbine towers or power lines from the turbines are subject to the same income tax rules that apply to the sale of any easement.

Because the landowner is selling only part of the rights to the property, the general rule in Treas. Reg. § 1.61-6(a) requires a basis allocation.

Two basis allocation issues arise from the sale of an easement:

1. The basis in the entire property must be allocated between the portion of the property that is affected by the easement and the portion of the property that is not affected by the easement.
2. The basis in the property that is affected by the easement must then be allocated between the rights that are sold (the easement) and the rights that are retained. However, if it is impossible to allocate basis between the partial interest that is sold and the partial interest that is retained, then the amount received for the easement can be compared with the entire basis in the affected property [Rev. Rul. 77-414, 1977-2 C.B. 299]."

Payments for Crop Damage: "After buying an easement on crop land, the power company pays the owner of the crop for damage to the crop caused by construction or maintenance of the turbines or power lines. These payments sometimes go to a lessee who is raising a crop on the land. Crop damage payments are treated as proceeds from the sale of crops and are included on line 4 of Schedule F (Form 1040)."

Rental Payments: "The annual payments to landowners that are based on the amount of electricity produced by the turbines are rental payments for land that is not used in agricultural production. The rent is not subject to SE tax [I.R.C. § 1402(a)], and it is reported on Schedule

Continued on pg 3...

Crop Report

Observations on the 2009 crop harvest, W. Central MN.

By Roger Heller., Broker, REALTOR®, A.F.L.B., A.F.M.

As farmers approached the normal harvest time period, the crop remanded somewhat immature after a cool than normal summer; even though September was warm, sunny, and extremely beneficial. In late September, most of the edible beans were harvested with excellent yields, and quality common. The pre-storage harvest of sugar beets began with good sugar content and yields. A few soybeans were harvested in September with average yields.

Then the rains started. Cold, rainy conditions and a lack of sunshine prevailed the entire month of October. Farmers attempted to harvest whenever they could but the soybeans and corn were both very high in moisture and the sugar beet fields mired in mud. Most of the region experienced 6-9" of rainfall during that period with little drying conditions. Finally on November 2nd, the weather improved and harvest resumed, but the fields were still muddy. The pattern tiled farms improved quickly. Other fields had unharvested wet areas right up to soil freeze up on December 3rd, as farmers struggled to harvest whatever they could.

SE MN Crop Report

Wayne Alberts, REALTOR®

Crops were behind this year, by September, the crops were 2-3 weeks behind the usual maturity. Corn chopping in the fields got a slow start, but picked up momentum and was done by the time October arrived. Then the rain started.

Very few soybeans were out and the moisture was a big factor whether to let them dry out, or run them through the dryer. November brought with it the sun. Corn and beans began to

Some of the corn and a smaller amount of the soybeans were harvested on the frozen ground in early December.

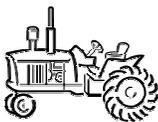
As predicted in the fall issue of the newsletter, there was considerable variation in yields depending where the rains fell during the summer. Soybeans yielded all the way from 30 bu. to 60 bu. per acre, with the average much closer to 40-45. Corn yields were mostly above expectations with yields running from 130-230 bu. per acre. Many farms averaged 180-185 bu. per acre for the entire farm and a few even better. Generally the test weights and quality of the corn crop was below normal due to the shortage of heat units and sunshine. Similarly the weather conditions reduced the sugar content of the sugar beet crop, however early planting, strong plant populations, above normal rainfall, and a late harvest produced a record setting sugar beet tonnage for the growers of the Southern MN Beet Sugar Co-op. The entire cooperative acreage averaged over 27 ton per acre with a few growers averaging 32-33 ton per acre and up to 37 ton on the higher yielding fields.



disappear with higher than normal moisture, the harvest was slow, and LP shortages were common in areas by late November.

There were some mold issues with the ears of corn, but after being sent through the dryer they looked better. Keep an eye on the bins however, with this crop bad things could happen fast.

Come Visit Us At The Agri News Farm Show 2010!



Graham Arena East & West Olmsted County Fairgrounds Rochester MN
Wednesday, March 24, 9am--8pm & Thursday, March 25 9am--4pm

2 LENA STEPPED up to the clerk in the department store and said, "Can I try on that dress in the window?" The clerk responded, "We'd really prefer that you try it on in the dressing room."

Ag Income Tax Update for Farm Families Continued...

E (Form 1040), Supplemental Income and Loss. Landowners generally do not have any expenses to deduct on Schedule E (Form 1040).”

Commodity Futures & Options

Contracts:

“Farmers are increasingly using commodity futures and options contracts in their marketing programs and to secure inputs. Properly documenting futures positions is critical, because the tax consequences of hedging transaction and speculative transactions can be vastly different.

Farmers enter into hedges to protect against adverse price changes of commodities. The gain or loss on these futures or options contracts when they are closed is ordinary income or loss that is reported on Schedule F (Form 1040), Profit or Loss from Farming.

In contrast, a farmer may enter into a commodity futures or option contract with the intention of profiting from the transac-

tion itself (i.e., speculating). Speculative transactions result in a capital gain or loss that is reported on Schedule D (Form 1040), Capital Gains and Losses. Speculative positions that are open at the end of a tax year are marked-to-market, and the owner pays income tax on the unrealized capital gain or loss. The contract’s basis is then adjusted to determine the final gain or loss when the position is closed.”

A producer should never assume their broker will report their marketing transactions appropriately for tax purposes. Even though there may be separate hedging and speculative accounts, the producer should maintain appropriate records for tax purposes.

Taxation of CRP Payments:

Taxation of CRP payments has been an ongoing issue. The issue of discussion is whether or not the CRP payment is subject to Self-Employment (SE) tax.

Recent Farm Bill legislation states that CRP payments made to individuals receiving Social Security retirement, survivor, or disability payments are not subject to SE tax. Any other individuals receiving CRP payments would be subject to SE tax on those payments.

Much has changed in the 2009 and 2010 tax years from the passage of federal tax laws. While this information is offered as educational only and not intended to be legal or financial advise, it will help you begin the tax discussion with your preparer or accountant.

To see the article in its entirety along with its Publication References go to <www.extension.umn.edu/agbusinessmanagement/>.

We would like to thank C. Robert Holcomb, EA, Extension Educator and Gary A. Hachfeld, Extension Educator of the University of Minnesota Extension Ag Business Management office for the use of this excellent article.

Welcome To Our Newest Member Gary Hotovec!



“A half a job done is no job done at all.”

Gary grew up on a livestock and crop farm by Danube, MN. After getting out of the Air Force in 1968, Gary started selling International Harvester farm equipment. He attended Auctioneers College in Mason City, IA in 1984 and then in 1988 he obtained a Minnesota real estate license.

Gary and his wife Holly bought the Hutchinson Livestock Auction Market, Hutchinson, MN in 1994. Currently the Auction Market is selling livestock, hay and straw every Wednesday.

One of Gary’s favorite memories is a story of an older gentleman telling him about cultivating corn with a one row cultivator and a horse in the summer when he was a boy.

In the old days farming was done with horses. Cultivating corn in the summer was quite a boring and hot job. It took forever to make one round, let alone the whole field. After the noon meal,

the son went back out to the field and thought; “To get done faster, I will skip every other row instead of cultivating every row in the field”.

When he had crossed the whole field, he went home, thinking his dad would not notice. His dad, of course, knew how long it took to cultivate the whole field and asked him if the job was all done. The son said it was and the dad said, “Oh really? Let’s go look”. Right then and there the son knew he was in trouble. They went to the field, seeing just every other row was cultivated, and the dad told his son to start over and do ALL the rows again - - even the rows he had done before, because “Half a job done is no job done at all.”

Throughout his 42 year career of agricultural sales, Gary has always kept that story and its moral in mind. “That’s why I love agriculture,” he says. The ag community are down to earth good folks who believe in doing the best you can. He enjoys dealing with the ag community and farmers in general, and will continue to bring his knowledge and experience to the 1 Stop Team, Welcome Gary!

Cooking With Jan

Potato Soup

Jan Shcley, GRI, REALTOR®

Potatoes are very good for you and we all grew up eating them in a variety of ways. This issue I will be sharing another favourite from the Family Cookbook. This soup is a must to help warm up during our cold Minnesota Winter days-Enjoy!

6 medium potatoes
3 cups water
2 large onions, diced
1 tablespoon salt
1 cup celery, diced
3 cups milk

Optional: bacon bits or cooked ham pieces, carrots or any other favourite vegetable

1 cup flour
4 tablespoons melted butter (can use oleo)
blend in 1 egg
dash of salt



The years seem to be moving swiftly. Since the turn of the century year 2000, we already have a decade behind us. When I was a little girl, way back in the 1940s-50s, each new year my dad would say “my dream is to live to see the year 2000.” The year 2000 at that time in my mind was like us ever going to outer space, it never would happen, (I never did the arithmetic to see how old we would be), anyway that would certainly be a miracle not only for him but also me.

Happily my dad did live to see the turn of the century year 2000! He passed away in February that year at the age of 91. His dream had been fulfilled. Yes, I am still alive and kicking, and if I would be as fortunate as my dad I may be around for a few more decades (I did the math). Proves, never give up on your dreams, no matter how far fetched they may seem, there is a chance they may just come true. May you have a wonderful year!

**Check our website
for current home listings!**

www.1stop-realty.com

‘Uff Da!’

OLE LAY sprawled across three seats in the posh theater. The usher took note of this and whispered, "Pardon, sir, but you're only allowed one seat." Ole groaned, but didn't budge. The usher wasn't going to let things pass. "Sir, if you don't get up from there I'm going to have to call the manager," he growled. Ole just groaned some more. The usher trotted up the aisle, and came right back with the manager. Still, they couldn't get Ole to pull himself together, so they called the cops. "All right buddy, what's your name?" one cop demanded. "Ole." "From where, Ole?" "The balcony."

Ye Old Required Disclaimer:

This newsletter is intended as general information to our clients and friends on agricultural subjects. It is not intended to render specific advice; such advice can only be given when related to actual situations and will be different for each person. If you have any questions, please contact “The Experienced Farmland Professionals” today, Kasson: 507-634-7033, Olivia: 320-523-1050.

4 SO OLE asks Sven, “Vy do scuba divers always fall backwards off dare boats?” To which Sven replies, “Vell if dey fell forwards dey’d still be in da boat!”

The Auctioneer's Corner

Past and Future in the New Year

Kristine Fladeboe Duninick

As I write our first 2010 article for the "Auctioneer's Corner" I can't help but reflect on the past and think forward to the future. In this article, I will be sharing with you my opinions and my passion--selling Real Estate Ag land at public auction!

In 2009, commodities fell, however, the demand for quality tillable farmland remained strong resulting in high seller prices. Prices paid for that high quality land remained at or near higher levels than 2008. As a whole, the seller prices obtained at auction were very strong for the entire year of 2009.

In 2010, I suspect continued strength for land demand and consequently strong seller prices. I think that one of the driving factors is that there is less land on the market, which may be a factor as to why land values are holding strong. At our office, we have several buyers on a weekly basis call and express their desire to pur-

chase more land. Most of our calls come from farmers that want to increase their farming operation or investors. The demand for land is strong!



Also, capitol gains rates are still at historic lows and many tax experts expect them to rise in the future.

As we examine recorded land sales in the courthouse, it is obvious that the highest

prices received are from those properties exposed to the market and most notably when the property was sold by auction. In our fall newsletter, I listed the reasons why an auction can benefit you as a seller.

If you continue to ask yourself "why should I sell at auction" call today for your complimentary consultation.

In summary, I believe that the overall "market health" of quality Ag land will remain as strong in 2010 as it was in 2009. Growing up "on the farm" it pleases me to believe that the biggest economic driver for strong land prices is attributed to a positive and profitable Ag industry.

Myself and the entire Heller Group 1 Stop Realty, Inc. team couldn't be more excited about being Ag land professionals. It continues to be an historic time to sell agricultural land in Minnesota and many families are seeing the highest prices ever for their lifetime of hard work!

The Housing Corner

Home Buyer Tax Credit Extended to April 30th, 2010

Jan Schley GRI, REALTOR®

Since our last publication, the \$8,000 tax credit for first time buyer has been extended to April 30th 2010.

There are some new guidelines: You must not have had an interest in a principal residence for 3 years prior to the purchase. So long as a written binding contract to purchase is in effect on April 3rd, 2010, the purchaser will have until July 1st, 2010 to close and still receive the benefits. The tax credit income for a single person is \$125,000 and \$225,000 for married couples, with an additional \$20,000 phase out. The cost of the new home must not exceed \$800,000, and there will be a \$6,500 tax credit for current home owners. You must have lived in or used the home sold or being sold as a principal residence consecutively for 5 of the previous 8 years. The purchaser must attach documentation of the purchase to their tax return to get the credit.

All other rule and guidelines have remained the same, helpful information can be found at:

www.federalhousingtaxcredit.com/home.html

www.irs.gov/newsroom/article/0,,id=204671,00.html.

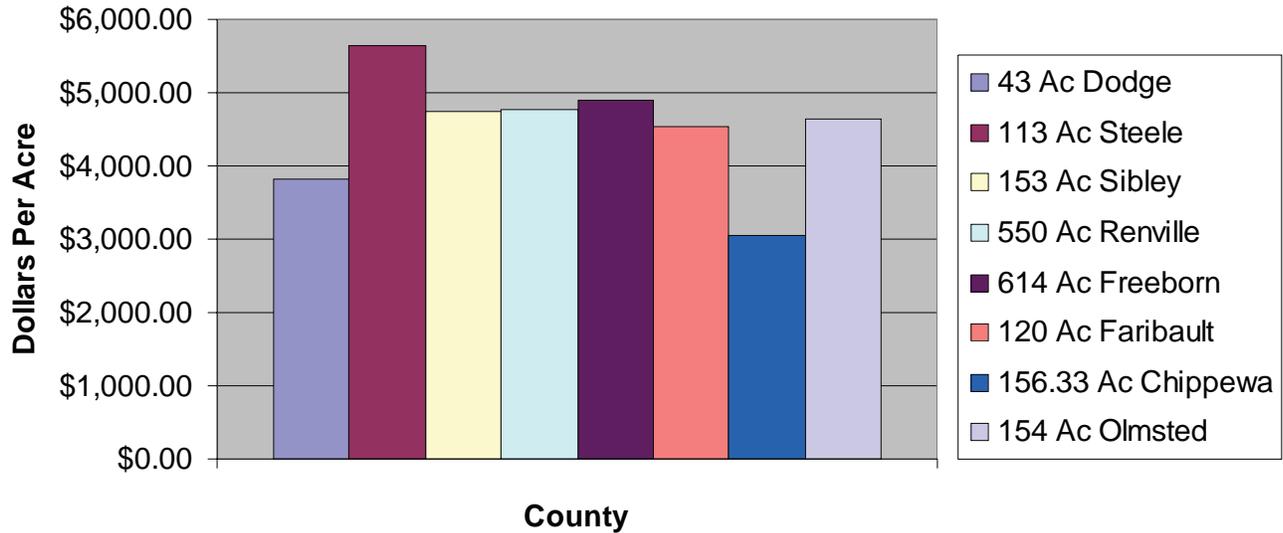
All of these tax incentives have helped our housing market. Most everyone is being cautious; buyers, sellers, and lending institutions alike. Unfortunately, with job losses and a slow recovering economy, there still were many who were forced into foreclosure of their properties last year.

We are looking forward with high expectations to real estate market growth in 2010, it still is going to be a wait and see year. We will keep a positive attitude. To quote Robert Schuler, 'Tough times never last, but tough people do.'

SVEN AND OLE got a job putting in telephone poles. After the first day, they were talking to the foreman. The formen asked how many poles they had put in. "Two" said Ole. "Only TWO?" Said the foreman, "All the other crews put in eight to ten." "Yah!" Said Ole, "But did you see how much dey left sticking out?"

What Sold In 2009?

1 Stop Realty, Inc. 2009 Farmland Sales & Auctions By County



Acres	County	Date Sold	Type of Sale	Sale Price	\$/Acre
150	Renville	March-09	Private Sale	\$730,312	\$4,868.75
614	Freeborn	April-09	Private Sale	\$3,000,000	\$4,885.99
40	Olmsted	May-09	Private Sale	\$170,000	\$4,250.00
153	Sibley	June-09	Private Sale	\$725,000	\$4,738.56
43	Dodge	August-09	Private Sale	\$163,818	\$3,810.00
66	Renville	September-09	Private Sale	\$140,000	\$2,121.21
174	Renville	September-09	Private Sale	\$725,000	\$4,166.67
114	Olmsted	September-09	Private Sale	\$545,000	\$4,780.00
120	Faribault	December-09	Private Sale	\$545,000	\$4,542.00
76.33	Chippewa	December-09	Auction	\$254,865	\$3,338.99
113	Steele	December-09	Private Sale	\$638,480	\$5,650.27
160	Renville	December-09	Auction	\$1,033,200	\$6,457.50
80	Chippewa	December-09	Auction	\$220,480	\$2,756.00

Congratulations to Jan for selling 16 houses in 2009!

Liked an article, have an idea for one you would like to see, or even a favorite Ole and Lena Joke to share?

We'd love to hear from you!

Send us an email at info@1stop-realty.com Subject line: "Quarterly Combine!"

What's For Sale?

3 +/- & 40 ACRE BUILDING SITE & LAND



MLS# 4017585 - \$65,000



MLS# 4017584 - \$220,000

62974 190th St Dodge Center MN 55927

Beautiful wooded 3 +/--acre lot with city sewer, private well and natural gas. Located just outside the city limits with endless possibilities. Additional land can be purchased; 40 acres, approximately 16.5 tillable, with lots of woods, small creek, and abundant wildlife. Survey to be done at time of purchase offer.

Call **Wayne Alberts** for more details at **507-696-0955** or email at wayne@1stop-realty.com

APPROVED 11 ACRE BUILDING SITE



MLS# 4015798 - \$112,000

23rd St Byron MN 55920

Looking for some affordable hunting ground or a place to build your dream home or cabin? This approved 11 acre building site it is! Abundant wildlife (deer, pheasant, turkey), close to black-top road, and only 10 short miles to Rochester. Get out in the country and enjoy the "Nature" of this peaceful setting!

Call **Wendy Forthun** for more details at **507-634-7033** or email at wendy@1stop-realty.com

Don't forget to check out our website for more details!

www.1stop-realty.com

AUCTION! Swift County, MN



455 Acres in Pillsbury Twp, To be sold in six parcels.

Thursday, March 11th 2:30pm
Pennock Community Center, Pennock MN

Contact **Kristine Fladeboe Duininck** of Fladeboe Auctions for more details at **320-212-9379** or visit www.fladeboeauctions.com to view a full bill listing.

AUCTION! Swift County, MN



155 Acres in Hayes Twp, to be sold in two parcels.

Thursday, February 18th, 2pm
Sunburg Community Center, Sunburg MN

Contact **Kristine Fladeboe Duininck** of Fladeboe Auctions for more details at **320-212-9379** or visit www.fladeboeauctions.com to view a full bill listing.

POTENTIAL* BUILDING SITE FOR SALE DODGE CO. MN

28 +/- acres - App. 21.5 tillable acres
Woods, small river, excellent habitat for wildlife.
(* Potential, with proper bldg site prep with the county.)

Call **Wayne Alberts** or **Wendy Forthun** for additional information & location of the property at **507-6347-033**, or e-mail us at wayne@1stop-realty.com or wendy@1stop-realty.com

AUCTION! McLeod County, MN



122 Acres +/- and Building Site to be offered in two tracts.

Thursday, February 11, 2pm
Stewart Community Center, Stewart MN

Contact **Gary Hotovec** for more details at **320-523-1050** cell **612-202-5090** or email at ghhotovec@redred.com

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Our Mission:

To handle all your Agricultural real estate needs, in a professional friendly manner, so that sellers, buyers, landlords, and tenants have a pleasant and enjoyable experience.

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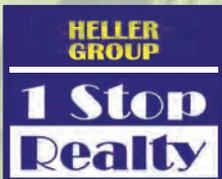


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