SPRING 2019

FARM BILL DETAILS EVERY LANDOWNER SHOULD KNOW

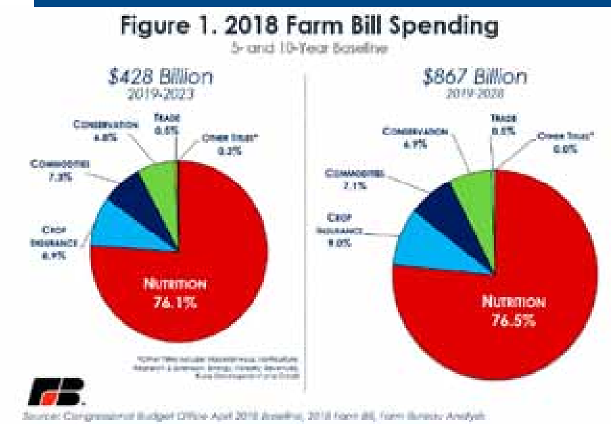


Figure 1. 2018 Farm Bill Spending

On Dec. 20, 2018, President Trump signed into law the Agriculture Improvement Act of 2018. Very few modifications were made in this bill compared to the last, so if you liked the 2014 Farm Bill, you will probably like this one, too.

In Figure 1, Farm Bureau compared the 5 and 10 year baseline for the 2018 Farm Bill as a percentage of spending for different bill titles. Although 76.5% of the farm bill is for nutrition, our focus is on the commodity, crop insurance and conservation titles that make up 23% of the funding. What follows includes information Midsouth landowners need to know about the current farm bill.

- The adjusted gross income (AGI) is still at $900,000, meaning if an individual has a three-year average above $900,000, he or she will be disqualified from farm bill programs. As in the past, the AGI form must be completed annually for any person or entity with an interest in the farmland.

- Title I, the commodity title, contains a few tweaks, but no new programs were added compared to the 2014 bill. Under a crop share lease, a landowner can participate in the commodity programs. The Price Loss Coverage (PLC) is similar to the old counter-cyclical program which paid when the market price was below the "reference price." The 2018 Farm Bill allows the reference price to increase up to 15% if the Olympic average price of the specific commodity increases. The second change to PLC is the option to update your base yields. Updating the base yield is optional, but there is no downside to improving base yields since PLC payments are calculated with them.

- The county-level Agricultural Coverage Program (ARC-CO) is continued and remains unchanged from the prior farm bill. In 2014, landowners/operators had a one-time decision to place each base crop in either PLC or ARC-CO. Almost all rice and peanuts went into PLC while other crops such as corn, soybeans, wheat and grain sorghum went into ARC-CO. This time the commodity program decision will be made twice: the first is this year and includes the decision for 2019 and 2020, while the second decision for the commodity program allocation will bind the farm for the remaining three years of the farm bill.

- Title II covers conservation. Most non-operating landowners use the Conservation Reserve Program (CRP), Farmable Wetlands Program (FRP) and the Environmental Quality Incentives Program (EQIP). There are other programs, such as the Conservation Stewardship Program (CSP), that are specifically for operators. We encourage all landowners to visit with their operators about CSP and how it can be used on the farm.

- CRP has previously been used to take marginal farmland out of production. Typically, most land in the Mid-south under CRP is either highly erodible or flood prone. The new farm bill adds an additional three million acres to be phased in over five years. Contracts are generally 10 to 15 years with an annual payment. The goal of this program is to improve water quality, reduce soil erosion and increase wildlife habitat. Enrollment for CRP will likely be once per year. FRP falls under the CRP umbrella and is designed to convert farmable wetlands (land that can be cultivated) back into a fully restored wetland status. This program is like CRP in that it pays annually and has a contract length between 10 to 15 years. Another program is Wetland Reserve Easements (WRE), which places a 30-year or permanent easement on cropland that is restored to a functioning wetland.

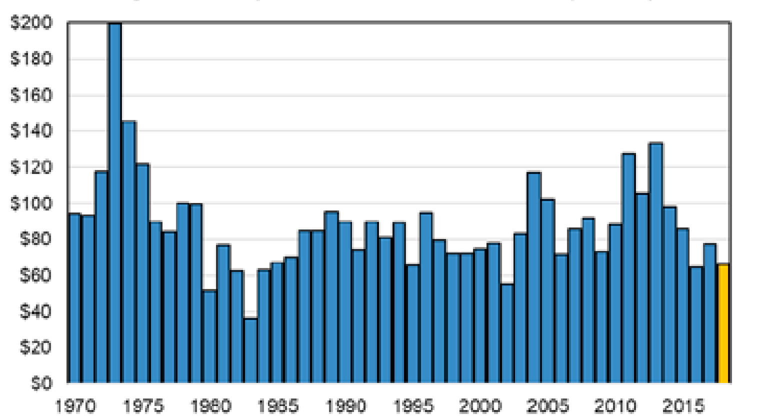
CONTINUED

- In GFM's opinion, EQIP is the most important program for a landowner. EQIP provides a cost-share payment for completing certain conservation measures, many of which improve productivity and profitability and thus lead to an increase in asset value. For example, EQIP will cost-share to precision level a farm and build surface water confinement structures such as reservoirs and tail-water recovery pits. Funding for EQIP slightly increased from the prior farm bill, so this will hopefully help more landowners improve conservation and profitability.
- Title XI covers crop insurance. Landowners who crop share and meet eligibility requirements can participate in crop insurance, which is partially subsidized under the farm bill. Crop insurance can be used to limit downside risk, and on many farms, can act as a floor that would be similar to cash renting and still allow upside gains under a crop share. Overall, there were no significant changes to crop insurance in the 2018 Farm Bill.

Landowners should be aware that a new farm bill became law. The new law has only slight changes, but landowners will still have several decisions to make regarding the commodity programs and should review how conservation and crop insurance funding can be utilized.

FARM INCOME DECLINES, FINANCIAL STRESS INCREASES

Figure 1. Adjusted Net Farm Income ($2018)



The USDA measures net farm income, which is a broad measure of profits for the farm economy and includes cash receipts, inventory changes, economic depreciation and gross imputed rental income of operator dwellings. Figure 1 (labeled Adjusted Net Farm Income) has been adjusted to include inflation so that a comparison across years can be made. Since 1970, only seven years have had lower incomes than 2018.

Another concern in the farm economy is farm debt to asset levels. Figure 2 (labeled Farm Debt/Assets) presents debt for real estate and non-real estate relative to their asset values. Most real estate has relatively low debt, but operations are generally leveraged. The figure shows non-real estate debt to assets hit a low in 2012 when commodity prices skyrocketed. Since then, debt relative to assets has increased for the sixth straight year.

Figure 2. Farm Debt/Asset

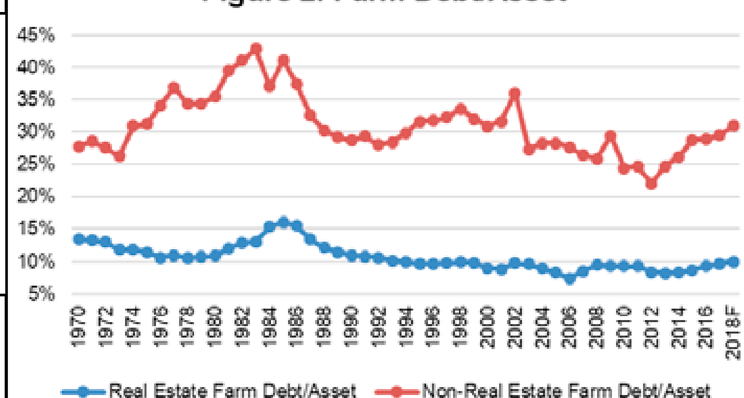


Figure 3. Total U.S. Farm Debt/ Total U.S. Net Farm Income

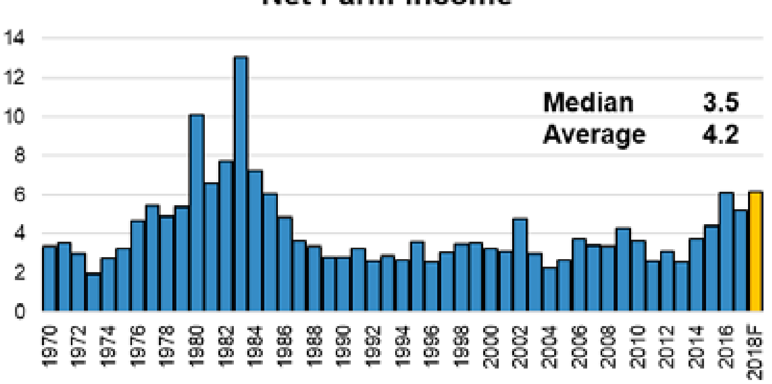


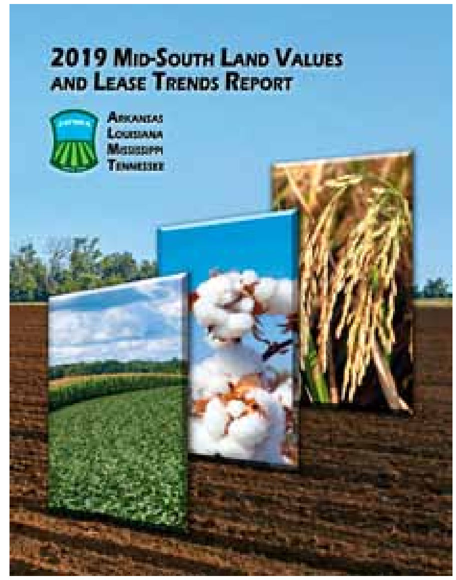
Figure 3 presents the Total U.S Farm Debt to Total U.S. Net Farm Income. On average, the ratio has been 4.2:1 but is currently around 6.2:1. When the ratio pushes above 4:1, the farm economy and land values begin to weaken as pointed out by Mike Walsten, LandOwner Newsletter editor for 45 years. The last time this ratio was greater than 6:1 was in the 1980s when the farm economy was significantly stressed. The last few years have seen stable land values, but if income does not improve relative to debt, we could see a decline in land values, although unlikely to the extent of the 1980s.

2019 MID-SOUTH LAND VALUES REPORT NOW AVAILABLE

American Society of Farm Managers & Rural Appraisers
MID-SOUTH CHAPTER

A comprehensive look at farmland values and agricultural property lease rates is now available through members of the Mid-South Chapter of the American Society of Farm Managers and Rural Appraisers.

The 76-page 2019 Mid-South Land Values and Lease Trends Report is a compilation of information gathered by members of the ASFMRA Chapter. "The Report is divided into four separate sections with region-specific information for Arkansas, Louisiana, Western Mississippi and Western Tennessee" says Bill Shannon, AFM, Farmers National Company, past president of the Chapter and overall project chair for the publication. "The members have contributed sales and lease trends information from their specific areas of influence. There are also informational articles ranging from the status of the poultry and forestry industries in the area as well as a complete roster of Chapter members."



Stacey Gillison, AFM, Agriworld, Inc., and current Chapter President notes "This is the second year the Chapter has compiled and published the information. It's great data for anyone involved with agriculture as well as those who are interested in Mid-South land trends. It's a handy reference but not a basis for making individual land decisions. I encourage you to contact a qualified land professional listed in our book when making such an important and lasting decision."

Copies of the book are available from Mid-South Chapter members or by contacting Jeffrey Hignight, AFM, ALC, Glaub Farm Management, Jonesboro, AR. He can be contacted at jeff@glaubfm.com or 870-972-6996. Copies can also be ordered online at www.asfmra.org/LandTrendMS for $10 per copy.

NEW TAX CODE CREATES REAL ESTATE INCENTIVES

The 2017 Tax Cuts and Jobs Act established Qualified Opportunity Zones (QOZ) to encourage development and job growth in economically-distressed communities across the U.S. Many of these zones are located in the Mid-South and provide an opportunity to invest in real estate, including agricultural real estate. Once real property is purchased, requirements may include building new construction or "substantially improving" the property.

Investments in eligible properties can be made through Qualified Opportunity Funds (QOF). For a certified QOF, investors must be organized as a corporation or partnership for the purpose of investing in a QOZ property, qualify with the U.S. Treasury and hold at least 90% of their assets in the QOZ property. In addition, a QOF can only be an equity investment. Loans made to a QOZ are not eligible.

Several tax incentives are available through this program, most notably capital gains deferments. Capital gains reinvested into a QOZ within 180 days are tax-deferred for up to nine years. If the investment is held for five years, capital gains on the reinvested gains are reduced by 10%. If held for seven years, the reduction is increased to 15%. Additionally, any gains accrued after the investment into QOZ are tax-free if held longer than ten years.

More information—including a list of designated zones—can be found online at www.irs.gov. Please be aware that the above is merely an overview of the program. To acquire such a real estate investment, advice should be sought from legal and tax advisors.

GLAUB FARM MANAGEMENT

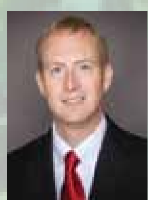
- MANAGEMENT
- REAL ESTATE
- LAND AUCTIONS
- APPRAISALS
- CONSULTING
- INVESTMENTS

1702 Stone St., Ste C • Jonesboro, AR 72401

Scan me

To receive a digital copy by email, scan the QR code or email info@glaubfm.com

Ted L. Glaub
Manager/Broker



Jeffrey Hignight
Manager/Broker

Houston M. Matthews
Real Estate Appraiser

TED GLAUB SPEAKS AT ASU AGRIBUSINESS CONFERENCE

The morning session of the 25th Agribusiness Conference, held on Feb. 13 at Arkansas State University, featured Glaub Farm Management's own Ted Glaub. Ted's speech, titled "40 Years of Farm Management," addressed why people own farmland and the dilution and consolidation of small family farms into larger farms. He also discussed trends in land transfer and ownership, the next generation of land owners and farm operational changes. Ted finished the talk by discussing the measurables required for leasing, buying and selling land.

GLAUB FARM MANAGEMENT

870.972.6996
INFO@GLAUBFM.COM
WWW.GLAUBFM.COM

Follow us at our blog & Facebook LinkedIn YouTube Twitter

1702 STONE ST., SUITE C • JONESBORO, AR 72401