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## *Succession Planning, continued from page 1*

2) *Losing talent on your team*. If your successors aren't confident in your ability to plan, they may become uninterested and leave in frustration. If you have employees, they may look elsewhere if they're uncertain about the employer's future stability.
3) *Slow burnout*. The stress of worrying about it can result in negative health consequences – there is physical toll of wearing yourself out by not sharing the load.
4) *Partnerships sour*. There's a relationship cost to kicking the can down the road when it impacts others.
5) *Sudden events leave your family in a lurch*. The worst-case scenario – untimely death – leave a mess for those picking up the pieces. Besides the personal stress placed on family members, it could risk the viability of the business.
6) *You are forced to make quick, reactive decisions* – rather than proactive, wise ones.
7) *It costs you money*. You pay unneeded taxes. The business dies slowly or abruptly. Notice this is last on the list – not because it's not important, but because it is usually paid attention to automatically. Be sure you consider the first six items!

**THE COST OF DOING NOTHING IS HIGH ENOUGH TO PUT YOUR FARM AT RISK OF NOT SURVIVING INTO THE NEXT GENERATION**

**Schedule a consultation with us today to begin your estate-planning process**



**The fmsi REPORT**

**Farm Management Services, Inc.** fmsi@farmtaxpro.com

## *FMSI 2024 Summer Update*

Graduation season is over and wheat harvest is just around the corner. Wheat acres continue to decline across the Midwest as more producers are raising corn, soybeans and other alternative crops. In Kansas, wheat acres have been cut in nearly half from over 14,000,000 in 1982 compared to 8,100,000 acres last year. It appears wheat yields will vary greatly across our trade area this year. We've received timely rains in some areas – which should result in average yields in northern Kansas & southern Nebraska. However, there remains a sizable part of central and south-central Kansas still in a severe drought.

The Federal Reserve started raising the Federal Funds Rate in March 2022 from 0.08% to the current rate of 5.33% in an effort to slow down inflation. Rising inflation erodes your purchasing power on your farm as well as the purchasing power of every consumer. Will these higher rates remain? Inflation has slowed but still remains a challenge for our economy. Most economists predict the Federal Reserve will move rates down 0.25% prior to year-end. In our opinion, the days of borrowing operating funds at 4.00% are behind us. We need to use these higher rates while preparing cash-flow projections and determining the debt-load capacity of your operation. Having a good relationship with your lender is more critical as these higher interest rates will take a larger portion out of profit margins.

## *Why is Farm Succession Planning so Hard?*

Why is it so hard? Based on our experience, here's what we typically see:

1) *It's the classic Eisenhower matrix of <u>urgent</u> vs. <u>important</u>*. While transition planning is important, it's rarely the most urgent thing on your radar. Farmers have lots of logistics to manage and balls to keep in the air. It's easy to defer a long-term, slow-burn project like transition planning.
2) *It may be uncomfortable* – facing your own mortality is difficult. Additionally, many farmers are uncomfortable talking about their assets or maybe you know there's potential conflict among the family. Many farmers are not good at sharing responsibility, so you dread even trying.
3) *It's overwhelming*. You know the tax and legal considerations are complex. It takes so much time to wade through that. Or you're not confident there is a good solution for your situation.
4) *It's expensive*. You anticipate needing professional advice from an attorney and you've rarely or never used one before.

These are all legitimate, real reasons. There is no shame in admitting your stumbling block. But what are the consequences of not having a plan in place?

1) *"Fail to plan, and you plan to fail"* – that comes across a bit dire and preachy. But it's true - you're less likely to have a business continue successfully if you aren't intentional about it.

...Continued on Page 4

<u>ALSO IN THIS ISSUE</u>:

## *Deducting Soil Fertility*

The practice of deducting soil fertility in cropland and pasture is becoming more widely accepted within the ag accounting world. This deduction was first used in the eastern corn belt of Illinois/Indiana/Iowa and has been "spreading west" over the last couple of years. IRS has reviewed a few of these cases in audit without requiring changes in the deduction. An agronomist must be involved in order to quantify the value of the nutrients found in the soil in order to take the deduction.

FMSI has taken this deduction on a few clients, but we believe there are many other clients who could benefit from this. We have reviewed some reports that support a 25%-40% deduction. Typically that deduction is taken over 3 years (60%/30%/10%). For example, if you bought a farm today and the purchase price was $5,000/acre the deduction could equate to $2,000/acre. On a 160 acre farm, this is a $320,000 write-off. We'd deduct $192,000 in 2024 / $96,000 in 2025 / $32,000 in 2026.

The most interesting thing we've found is that you can take this deduction not only in the year the land is purchased…..but you can also take the deduction on land purchased **or inherited** anytime after 2010. You either need to have taken soil samples at the time the land was deeded into your name or have good production / input records in order to estimate the soil fertility as of the date of purchase. The tradeoff of taking this deduction is reducing your tax basis in the land. If you have questions about qualifying for this deduction, visit with your Fieldman.

## *Trump Tax Cuts Expiring*

The Tax Cuts and Jobs Act (TCJA) of 2017 lowered individual tax rates, increased the standard deduction, doubled the child tax credit, and doubled the estate tax exemption amount. On 12/31/2025 these beneficial changes will expire and we will revert back to the tax laws in effect prior to the TCJA. Largely dependent on which party wins the White House and Congress in November, changes to the tax code are coming. Republicans would like to keep the tax cuts in place while Democrats want to increase tax rates on high earners. We know that the rules will change beginning in 2026….we just don't know what those changes will be. However, chances are tax rates in the future won't be lower than what we're experiencing today. Showing more taxable income in 2024 and 2025 is a strategy to consider. We'll keep you informed when these changes come about.

## *Canopy Client Portal…Do you Have the App?*

This was our first full tax season with the Canopy Client Portal being in use. Many clients are now using Canopy to securely send/receive files from FMSI, e-sign documents, receive/pay their invoices, and access documents anytime, anywhere. We'd encourage you to give it a try if you haven't signed up yet. No computer, or not at home? No Problem! Downloading the Canopy Client Portal App onto your cell phone enables you to scan & upload files directly to FMSI in a **secure manner** with your cell phone camera.

If you have questions or need assistance to get started using the **Canopy Client Portal** – give our office a call.

*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.

## *Quickbooks Desktop - The End is Near!*

Quickbooks Desktop has been a mainstay for many of our clients since accounting software became readily available in the early 1990's. Many people are currently using older versions of QB Desktop that were relatively inexpensive and we've been able to use that old software for several years….we still have some folks using QB 2010. But, Quickbooks has changed to a subscription-based Desktop product that involves an ongoing annual cost….and the only option is the more expensive Enterprise product. So, what are your options when the time comes to upgrade your QB Desktop?

1) Upgrade to Quickbooks Desktop Enterprise Silver - $1,481/year
2) Update to Quickbooks Online – subscriptions start at $720/year *or* $240/year if you subscribe through FMSI
3) Hire FMSI to journalize your books for you. We receive copies of your bank statements and prepare your books as we go throughout the year. Reports are made available to you on the Canopy Client Portal for 24/7 access. Cost for an average-sized farm/business is typically $600-$1,000/year.

Visit with your Fieldman to see which option is the best choice for your situation.

## *Corporate Transparency Act - File By 12/31/2024*

In 2021, Congress enacted the Corporate Transparency Act (CTA) as part of a larger national defense bill. This law creates a **b**eneficial **o**wnership **i**nformation (BOI) reporting requirement and beginning on January 1, 2024, many companies in the United States will have to report information about their beneficial owners, i.e., the individuals who ultimately own or control the company. They will have to report the information to the Financial Crimes Enforcement Network (FinCEN). FinCEN is a bureau of the U.S. Department of the Treasury. **Due to this new federal regulation, nearly all business entities will be required to submit reports to FinCEN to avoid potential civil and criminal penalties.**

Information regarding the BOI reporting requirements can be found at https://www.fincen.gov/boi. Consider consulting with legal counsel if you have questions regarding the applicability of the CTA's reporting requirements and issues surrounding the collection of relevant ownership information.

**Who Has to Report?**

Companies required to report are called reporting companies. Your company may be a reporting company and need to report information about its beneficial owners if your company is:

1) **Corporation (both C & S Corp)**
2) **Limited Liability Company (LLC)**
3) **Limited Partnership (LP)**
4) Other entities otherwise created in the United States by filing a document with a secretary of state or any similar office under the law of a state or Indian tribe; or
5) A foreign company and was registered to do business in any U.S. state or Indian tribe by such a filing.

## *IRS Letters and Audit Rates Increasing*

The IRS recently announced a significant increase in audit rates, using funds provided by the Democrat-backed Inflation Reduction Act that passed in 2022. The audit rate for households that earn less than $400,000 is not expected to change, but if you are a high income earner it would be prudent to make sure your documentation is in order.

We have noticed an uptick in the amount of correspondence being received by our clients from the IRS and state tax agencies. If you receive any such mail, please send all pages to your Fieldman as this contains much needed information to be used to investigate and resolve any issues you may have.