Flanagan State Bank

AG NEWSLETTER

NOV 2018

Dicamba in 2018 & its future

Round-up Soybeans were introduced in 1996 and enabled farmers to spray round-up and kill almost any weed. Over the years weeds have become resistant to Round Up, PPO and other chemicals. This has caused farmers to look at their planting options such as liberty and Xtend(Dicamba). Enlist(24D) soybeans could be another option if it is ever approved by China. The cost to bring new chemicals to market is so expensive with all the regulations that there are not many new ones in the pipeline, so we will have to rely on what we have and can't afford to lose any current products if we want to try and stay ahead of the battle.

The EPA was supposed to announce the new Dicamba label Oct 1st, but as of Oct 15th nothing has been announced. With the mergers and buyouts that have happened in the Agriculture industry over the last couple years, there have been many chemical products that have switched companies. This includes Bayer buying Monsanto and bringing in the Xtendmax portfolio, but that also meant they had to sell liberty to BASF. As of Sept 15th, there has been over 500 pesticide misuse cases to the Illinois Dept of Ag. Of those complaints, 62% have revealed dicamba to be the source of the complaint. This is an increase of almost five times prior to 2017 when dicamba was first used on soybeans. I was called to look at many fields showing dicamba damage well into August, which means there were many off label applications made as rescue treatments. In 2018 every applicator that used dicamba was required by label to take a special class to be able to spray the dicamba product. I believe there is enough money

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FSB Locations

301 W. Falcon, Flanagan

403 State, Benson

2401 E. Washington, Bloomington

111 N. Fayette, El Paso

500 S. Persimmon, Le Roy

411 N. Center, Gridley

behind this trait that it will get an approval, but will have some changes on the label. A date of when Dicamba product can't be sprayed and buffer strips will be required against all sensitive crop no matter what which way the wind is blowing. The biggest problem with Dicamba is volatilization where the liquid turns into gas and moves to the product off target and into the atmosphere. This can happen days after the initial application.

Removing the concern about dicamba moving to neighbor fields has caused many to look at Liberty as an alternative and have good results without worrying about misuse claims, fines, lawsuits, or upset neighbors. Liberty is a contact killer and needs to be applied with a higher gallon per acre rate to get desired results. With the Dicamba label not approved yet this might be a good alternative to have as a plan B if you are planning on using Dicamba in case the label is thrown out in court or is only registered as a burndown application.

There is a lot of breeding being done to combine traits, Round-up and Liberty will be available in limited supply as LL27, which will also include HPPD chemistry, which has not been approved yet but beans can be planted. This is the first step of hopefully having Liberty and dicamba traits combined. The cost has not been released, but I am sure there will be a premium, but it will let farmers use the chemical of their choice without worry about neighbors except the non gmo soybeans. The key to a solid weed program no matter what program you are using is to start with clean fields with effective modes of action. We need to spray when weeds are small, use full rates, and use layered residual to get longer we control. Controlling weeds in soybeans will always be a challenge compared to corn.

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What has Happened?

The 2018 marketing year has been a year unlike any other since the 1980 Russian grain embargo. The grain markets have not only been trying to predict our yearly production, but also have been trying to estimate what the impacts have been on short-term demand as well as the long-term effects of trade talks with our biggest soybean importer. We started out this past summer with talks that China was going to import twice as many Ag products from the U.S, which quickly went out the window. Ever since then, market direction has hinged on every piece of information to leak out regarding Chinese trade talks. Is it "Fake News," what the next tweet is going to say, and "who can I believe," has led to little/no progress between the two countries. The lack of anticipated exports for the 2018/2019 marketing year coupled with projected record soybean production has created an overwhelming bearish outlook for the soybean market. Corn on the other hand isn't as negative. Despite a massive corn production number, usage, both domestically and internationally, has resulted in shrinking U.S corn carryout, as well as, creating one of the tightest world corn stocks-to-use figures in 30+ years.

Outlook Going Forward?

With historically wide basis levels for both corn and soybeans across the nation, coupled with massive carries between futures months, more grain than ever has been tucked away in some of even the most unconventional locations. Seasonal basis improvements towards the tail end of the marketing year are likely, however, with inputs not coming down and producers faced with cash flow crunches there will likely be more grain movement out of farmers hands and into elevators to finish out the calendar year. With strong yields & deferred futures near $4.00 in corn and $9.00 in beans, strong gross revenues per acre are being seen and needs a close look. Due to the markets willingness to responded to any and every piece of news, maintaining ownership for the long-term continues to be a favorite in our mind and can be done in a multitude of different ways via options.

Why Have an Advisor?

Having the time to sift through all the information that's driving the markets is the last thing that a producer has time for. You can subscribe to newsletters, everyone has one and there's one to fit every market bias, but having the time to formulate an opinion with all the data that's out there today can be extremely time consuming. A trusted advisor with an extra set of eyes and ears on your team to bounce ideas off, as well as, bring personalized plans and strategies to your operation can help set you apart from your neighbor and give you that competitive edge. Call us to discuss your operations risk management plans and needs.

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Tax Planning is a must - Gary Bressner Tax Plan

Tax management is just as important in times of low income as in times of prosperity, maybe more important. But tax planning can't be done without good records and thoughtful projections. The objective of tax management is not to eliminate taxes in the short run but rather to minimize or optimize taxes in the long run while generating income sufficient to service debt, investment and living needs of the taxpayer. Poor tax management can increase taxes in the long run.

Tax planning should include historical consideration of income as well as future projected income. What has been the taxpayer's typical income range, what does the taxpayer project the current year's income to be and how will future income change? With all of those things considered, how should the current year's income be adjusted to have appropriate taxable income? These projections can vary significantly with the stage of their career each taxpayer is in. Taxpayers early in their career versus those approaching retirement or career change have entirely different tax management objectives to consider.

Typical taxpayers have more than one tax to consider in tax planning. Federal income tax is paid on taxable income which includes non-business deductions. These deductions have historically included family member exemptions that were $4,050 per family member in 2017 but are eliminated in the tax laws in effect for 2018. For many, the loss of family exemptions may be offset by doubling the child tax credit for dependents under age 17 from $2,000 to $4,000. Other non-business deductions historically included use of the higher of standard deduction or itemized deductions but approximate doubling of the standard deduction in new tax laws make itemizing less likely for many taxpayers.

For 2018 compared to 2017 the top end of marginal income tax brackets has increased slightly but greater income tax impact will likely result from lowering of marginal tax rates in the new tax law. While the lowest marginal tax rate remains at 10% most of the marginal rates were reduced slightly and may lower income tax for many taxpayers. Examples of this are lowering the 15% rate to 12%, 25% to 22%, and 28% to 24%.

Self-employed taxpayers also pay self-employment tax (SE Tax) on business income. This includes Social Security and Medicare contributions. Poor tax planning that creates losses in one year and profits in other years can actually increase the amount of SE Tax paid in the long run. While net operating losses can be carried to past or future tax years to offset income taxes in those years the losses do not reduce SE Taxes payable in those years.

The Tax Cuts and Jobs Act passed by Congress on December 20, 2017, created many tax law changes that need to be considered before yearend. These include a Qualified Business Income Deduction that will allow many taxpayers to reduce their taxable income by up to 20% of certain domestic qualified business income. This may include income for self-employed operators and landlords along with qualified income from partnerships, S corporations, and other entities.

The new tax laws also significantly change income tax reporting of equipment trades and asset purchases. In the past when a piece of fully depreciated equipment was traded for a new asset with a cash balance paid to complete the trade only that cash balance was used to calculate depreciation on the new asset. New regulations will require traded assets to be shown as a taxable sale for the trade allowance amount and the full sale price of the new asset before trade allowance will be depreciated. Larger first-year depreciation options will be available on purchases as well.

Tax planning can reveal opportunities that might otherwise be missed. Income lower than preferred creates opportunity to generate new income to pay down debt sooner and reduce crop storage cost. Taking new income now reduces carryover grain inventories for farmers considering retirement or career changes in coming years.

The considerations discussed above along with many others make tax planning a necessity for many business taxpayers. The complexities of the Tax Cuts and Jobs Act cannot be fully discussed in this type of article so it is imperative that taxpayers consult their tax advisors to see how the law changes impact them personally. And during times of reduced economic opportunity, optimal tax management is a part of overall cash flow management that can be a part of financial survival.

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The Farm Service Agency (FSA) is committed to providing family farmers with loans to meet their farm credit needs. If you are having trouble getting the credit you need for your farm, or regularly borrow from FSA, direct and guaranteed loans may be available.

Direct Loans

FSA offers direct farm ownership and direct farm operating loans to producers who want to establish, maintain or strengthen their farm or ranch. FSA loan officers process, approve and service direct loans.

Direct farm Operating Loans can be used to purchase livestock and feed, farm equipment, seed, fertilizer and chemicals, insurance and other farm operating expenses. Operating loans can also be used to finance minor improvements or repairs to buildings and to refinance some farm-related debts, excluding real estate.

Direct Farm Ownership loans are used primarily to purchase farmland. Anyone receiving a farm ownership loan must have three years' experience operating a farm.

The maximum loan amount for both direct farm ownership and operating loans is $300,000. Repayment terms vary depending on the type of loan, collateral and the producer's ability to repay the loan. Annual Operating Loans are due in one year, while term loans are normally repaid within seven years. Farm Ownership loans are not to exceed 40 years.

Guaranteed Loan Program

FSA guaranteed loans allow lenders to provide agricultural credit to farmers who do not meet the lender's normal underwriting criteria. Farmers and ranchers apply for a guaranteed loan through a commercial lender, and the lender arranges for the guarantee. FSA can guarantee up to 95 percent of the loss of principal and interest on a loan. Guaranteed loans can be used for both farm ownership and operating purposes.

Guaranteed Farm Ownership loans can be used to purchase farmland, construct or repair buildings, develop farmland to promote soil and water conservation or to refinance debt.

Guaranteed Operating Loans can be used to purchase livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance and other operating expenses.

FSA can guarantee Farm Ownership and Operating Loans up to $1,429,000. Repayment terms vary depending on the type of loan, collateral and the producer's ability to repay the loan. Operating loans are normally repaid within seven years and Farm Ownership loans are not to exceed 40 years.

Beginning Farmer Loans

FSA assists beginning farmers to finance agricultural enterprises. Each year Congress allocates a certain amount of money specifically towards beginning farmers. Under these designated farm loan programs, FSA can provide financing to eligible applicants through either direct or guaranteed loans. FSA defines a beginning farmer as a person who:

- Has operated a farm for not more than 10 years, but has substantially participated in a farming operation for at least three years,
- Will operate the farm after loan closing,
- Agrees to participate in a loan assessment, borrower training and financial management program sponsored by FSA,
- Does not own a farm in excess of 30 percent of the county's average size farm (these acreages are available at the FSA office).

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Youth Loans

The Farm Service Agency makes loans to youth to establish and operate agricultural income-producing projects in connection with 4-H clubs, FFA and other agricultural groups. Projects must be planned and operated with the help of the organization advisor, produce sufficient income to repay the loan and provide the youth with practical business and educational experience. The maximum loan amount is $5000.

Youth Loan Eligibility Requirements:

- Be a citizen of the United States or a legal resident alien
- Be 10 years to 20 years of age
- Comply with FSA's general eligibility requirements
- Be unable to get a loan from other sources
- Conduct a modest income-producing project in a supervised program of work as outlined above
- Demonstrate capability of planning, managing and operating the project under guidance and assistance from a project advisor. The project supervisor must recommend the youth loan applicant, along with providing adequate supervision.

Farm Service Agency (FSA) Farm Loan programs are considered supervised credit. Unlike loans from a commercial lender, FSA loans are intended to be temporary in nature. Therefore, it is our goal to help you graduate to commercial credit, and our farm loan staff is available to help borrowers through training and credit counseling.

The FSA team will help borrowers identify their goals to ensure financial success. Through this process, FSA staff will advise borrowers in

developing strategies and a plan to meet your operation's goals. Ultimately, the borrower is responsible for the success of the farming operation, but FSA's staff will act in an advisory role to help you achieve your operational goals and manage your finances.

Farm Service Agency (FSA) is committed to providing our farm loan borrowers the tools necessary to be a success. Please contact your local FSA office with any questions, or if further information is desired.

Steven D. Schmillen
Farm Loan Manager
Farm Service Agency

USDA

In my parents' generation, not many people owned individual stocks and stock mutual funds. They were considered "risky."

For my clients, I typically recommend a balanced portfolio of stocks and bonds in retirement. Most of my clients have used stock and bond mutual funds in their workplace 401K's, so the concept is not new. In my parents' generation, most people worked for companies that had pension plans or no retirement plan at all. 401K's started in the early 1980's and became commonplace in the 1990's. I started my working career around 1988; I was offered a 401K plan when I started working at EDS in Dallas, Texas. In the 1990's, many companies converted their pension plans to 401K plans.

This was a big change because in pension plans investment professionals made the investment decisions for the large pools of money in the plan. With 401K plans, novice investors make the investment decisions for their own account. This is great if you are knowledgeable and have the desire to follow markets. But if you have no interest or time to get educated and do your research, this can be very intimidating. It can also lead people to be very conservative and not earn market rates of return or to be overconfident and make terrible mistakes.

Craig Israelsen, who writes for Financial Planning, is a PhD. and associate professor at BYU in Provo, Utah. He is known for conducting and writing about historical data-based financial studies. He performed a study recently and the results were an article in Financial Planning magazine and website.

I have been sharing his latest study with some of my clients. I will not go into all the details, but he used real historical data going back to 1926.

A person who started his working career at the age of 35 and works until age 70, then has a 25-year retirement and died at the age of 95. He makes $50,000 per year and gets a 1.5% raise each year and saves 8% of earnings. Mr. Israelsen analyzed 33 distinct 60-year rolling periods from 1926 to 2017.

At retirement at age 70, the person takes out only the required minimum distribution (RMD) each year based on the balance at the previous year end. The retirement savings are invested in a 60% stock, 40% bond and cash portfolio and rebalanced every year. There wasn't an instance where the person ran out of money before age 95.

Israelsen asserts – "Simply put, a retirement portfolio that is built for growth both during the accumulation years and the distribution years (meaning it has at least a 60% equity allocation), can distribute far more to the retiree than its starting balance at the beginning of retirement."

The Best Portfolio in Retirement

My job as a portfolio manager is to help people reach their goals. Most people want their money to grow without taking on too much risk. One of the biggest decisions my clients and I make together is the portfolio's asset allocation. Asset allocation is defined as the mix of stocks, bonds and cash in the account or portfolio.

I have always been comfortable with recommending at least a 60% stock portfolio in retirement, but this study using real historical data reaffirms my thoughts on this matter.

Box somewhere – You need at least a 60% stock portfolio in retirement to keep up with inflation.

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