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Farm Records Filed… For How Long?

Every year another stack of records has to be stored in a box, drawer or shelf. We find ourselves keeping records for tax, insurance and bank purposes and of course for our own use. Eventually, the storage space fills up and then what?

Is it safe to throw any records away? Following are some suggestions from the Internal Revenue Service (IRS) and the banking industry concerning shelf life of farm business records.

- **Permanently**
  - Keep a copy of all filed federal and state tax returns and proof of mailing or electronic filing. Be sure to also keep copies of documents included in the filing.
  - Sales and purchase agreements for capital items including land, buildings and equipment.
  - Investment Retirement Account (IRA) and retirement plan contributions, including statements and records of contributions.
- **Seven years**
  - Cancelled checks, deposit statements and receipts.
  - Credit card statements. Keep original receipts until monthly statements are received and if the two match up, shred the receipts. If a capital item is purchased by credit card, keep the receipt for life of item.
- **Four years**
  - Employment tax records. If you hire employees, the employment tax records must be kept four years past the date the taxes were due or paid, whichever is later.
- **Three years**
  - Information needed to prepare tax returns such as records of sales receipts and operating expenses. (The IRS has three years from your filing date to audit returns if it suspects good faith errors. Three years also applies if you find an error and decide to amend your return to claim a refund. The IRS has six years to challenge your return if it thinks you underreported your gross income by 25% or more, but the return would have been audited within three years of filing.)
  - Car and truck expense documents and meal and travel receipts for the farm business.

Sometimes we focus on tax purposes for keeping records, but remember the records are yours for helping make more informed decisions. These suggestions combined with your knowledge of your own business, just might help in clearing off a small section of shelf space for future records.

Author: Mary Sobba, Agriculture Business Specialist

The Next Farm Bill

Debate on the next farm bill has begun, but how the debate will end remains far from clear. Elections, the budget and World Trade Organization (WTO) concerns could all play a role in determining the shape of the next farm bill.

The 2002 farm bill covers the 2002-2007 crops of grains, oilseeds, and cotton. If Congress fails to act by the spring of 2008, provisions of "permanent" farm legislation would take effect for the 2008 crop year. The permanent legislation has little in common with current farm policy, and is generally seen as unrealistic and undesirable. As a result, Congress has a strong incentive to approve a new farm bill sometime between now and the spring of 2008.

Some farm groups are reasonably content with current farm legislation and would like to see an extension of the 2002 farm bill, while others want changes. The Administration is expected to weigh in next January with its own farm bill proposal that is likely to call for major changes in the way the federal government supports the agricultural sector.

Elections

The November 2006 Congressional elections could prove important for the farm bill debate. Agriculture Committees in the House and Senate have historically played a central role in the development of farm legislation. A House Agriculture Committee chaired by Republican Bob Goodlatte of Virginia may have different priorities than a Committee headed by Democrat Collin Peterson of Minnesota.

Party control of Congress also matters in later stages of the farm bill debate. Especially in the House, the leadership has the ability to limit floor debate, restricting the number and content of amendments that can be considered. Senate debate tends to be more free-wheeling, and bipartisan cooperation is required to approve most controversial bills.

Budget

In the 1996 farm bill debate, a drive to reduce government spending played an important role in Congressional willingness to consider a major change in farm legislation. In 2002, the prospect of budget surpluses made it possible for Congress to pass a farm bill that created new commodity and conservation programs at a significant budgetary cost.

The federal budget is again in deficit, but what this will mean for the 2007 farm bill debate is not yet certain. At a minimum, it seems unlikely that Congress will have "new" money to spend on the next farm bill. It is possible that the Agriculture Committees will be charged with writing a new farm bill with a smaller budget than would be implied by a simple extension of current law. Since many interests seek to expand federal spending on particular programs, the Agriculture Committees could face a major challenge in putting together a farm bill that stays within budgetary limits.

WTO

The recent suspension of WTO talks may have led many to believe that WTO concerns are not relevant to the farm bill debate. Whether or not the trade talks resume, WTO issues are at play.

In particular, a WTO case brought by Brazil against the U.S. cotton program could have big implications. A panel has ruled that certain aspects of U.S. farm programs are not consistent with WTO rules, and Congress has already made some changes in the cotton program in response to the panel ruling. Ongoing litigation will determine what further changes in U.S. farm law might be required to comply with WTO rules.

While the case specifically addresses the U.S. cotton program, it has implications for other commodities as well. Particularly vulnerable are the marketing loan and counter-cyclical payment programs, as the initial WTO panel ruled that they contributed to damages to the interests of Brazilian producers. How Congress would choose to respond to another negative WTO ruling is uncertain. Failure to comply with a WTO ruling could result in trade sanctions against U.S. commercial interests.

So What's Going to Happen?

An extension of current farm legislation has considerable support in the farm community, and it is certainly possible that the next farm bill will look a lot like the current farm bill. While the WTO talks were still underway, some suggested a short-term (one to two year) extension of current law until the talks were completed, so that Congress would know the international rules that would govern farm policy before it writes the "real" farm bill.

With the WTO talks suspended, the prospects of a short-term extension appear less likely. However, another scenario could lead to a short-term extension. Suppose the House and Senate approve very different farm bills but are unable to reach a compromise in time for the 2008 crop. One could imagine a short-term extension of current legislation until a compromise package can be developed.

The Administration and many other interests would like to see substantive changes in the new farm bill.

For example, the Administration has been very critical of the fact that current farm program benefits are concentrated on five principal crops (corn, soybeans, wheat, cotton, and rice) while leaving much of American agriculture with no or limited support. The Administration could play a major role in the farm bill debate, especially if the President were to signal that he might veto legislation he finds unacceptable.

Many other ideas have also been discussed, and more will surface in the months ahead. For example, the National Corn Growers Association and others have suggested that Congress consider replacing some existing programs with a revenue assurance program. The only certainty is that the farm bill debate will have lots of twists and turns in the months—or years—to come.

Author: Pat Westhoff, Food and Agricultural Policy Research Institute

Bringing New Generations Into The Farm

Many traditional farm families are faced with huge decisions as their children become older and are deciding whether or not to become part of the family operation. Farm operators and their operations tend to pass through three career stages: entry, growth and exit.

The entry stage involves testing and establishment of the farm. Growth involves expansion and consolidation. The exit stage includes consideration for retirement and inter-generation transfer.

The exit stage could be one of the hardest transitions for a family farming operation. At this stage the farm operator attempts to reduce management responsibilities while maintaining sufficient control of their farm assets to generate adequate retirement income. An estate plan that will implement during life or at-death transfers of property and the associated managerial responsibility to the next generation should also be considered.

Merging a new generation into the farming business should be explored carefully. The following should be considered:

- Will the farm financially support more than one generation? Along with this, goals, objectives and priorities of the participating parties should be considered.
- Managerial ability and timing of the merger should also be examined at this point. Both parties' responsibility for management should be discussed and agreed upon.
- Consider how to equitably treat both on-farm and off-farm heirs.
- Are personalities of all the parties compatible and can they work together? Can all parties communicate effectively with each other?

A plan should be followed to aid a farm operator and their family in making decisions about the future of the operation.

- The first step should assess whether the younger generation should attempt to farm. Consider these possibilities:
  - farming with their parents or family
  - farming, but separate from the family
  - pursuing another career
- If the family chooses to allow new generations into the operation, the second stage is testing the business arrangement and personalities involved. This stage should last two to three years.
- The third step is to establish and develop the operation as either a joint operation or separate units. Financial adequacy of the operation should be the key concern at this point. Farm arrangements (forming a corporation, partnership, LLC or a combination) should be the focal point. If the farm is financially inadequate for two families new avenues should be explored.
- The final stage of the transfer plan includes transferring ownership of the farm, management and property to the heirs.

Author: Randa Brunkhorst, Agricultural Business Specialist, Source: Farm Business Arrangements: Which One for You? North Central Regional Extension Publication 50

Taxation Tidbit: Grain Condo Storage

While the residential condo market may be cooling, the grain condo market is just getting off the ground. That's right – condo storage for your grain. Typically, a condo grain storage facility is built next to an elevator, managed by the elevator, and operated as a Limited Liability Partnership or Limited Liability Company. A condo grain storage facility can provide benefits for both the elevator and producers.

The condo encourages producers to deliver grain for the elevator to manage. Grain elevators are grain managers, not grain speculators – so this condo concept dove-tails with their primary business. Additionally, it provides the elevator a financial means for substantially increasing storage capacity without incurring significant amounts of long-term debt.

Producers are encouraged to utilize the condo because they have an equity interest in the storage facility. For a given investment, a producer gets the right to store a specified amount of grain in the facility. Typically, an investor in the facility is not charged a monthly storage fee for use of the facility. However, condo owners are typically charged an annual management fee by the elevator.

A grain condo owner is able to claim depreciation on their respective share of the condo's depreciable assets. Investments in grain condos are generally more liquid than a similar investment in grain bins on the farm. The equity interest in the condo is transferable, via sale, gift or bequest.

A grain condo will not be for everyone. Most of the current interest in condos is in the northern section of the corn belt. However, it's only a matter of time until you will hear of a grain condo "opportunity" somewhere in central Missouri.

Professionals who have investigated grain condos suggest you (preferably your attorney) read the fine print and ask a lot of questions. Determine how title can be changed, if there are any limitations on how and when shares can be sold, gifted or transferred via an estate. Find out who will be the major investors, how profits and losses will be shared, who stands the loss if grain quality is not maintained.

In other words, grain condo storage sounds interesting, however, proceed with caution. A grain condo could be a great asset managed by a great elevator, but a grain condo will probably not reverse the trend of a poorly managed elevator.

Author: Parman R. Green, Agriculture Business Management Specialist

Anhydrous Ammonia Treatment of Hay

In the October 1996 issue of Ag Connection, we discussed the procedure for treating hay with anhydrous ammonia to improve quality: http://extension.missouri.edu/agconnection/newsletters/is-96-10.htm#Ammonia

Costs have changed since that issue and the following is an update on costs: If we look at treating about 28 tons of forage, it would cost about $258.60 for 6 mil plastic per ton of forage. It would take sixty pounds of nitrogen per ton of forage. For 28 tons, it would require 1680 pounds of nitrogen. At a cost of $0.25 per pound of anhydrous ammonia, the cost would be $420. The total cost of the nitrogen and plastic would be $24.24 per ton of forage.

Author: Wendy Flatt, Livestock Specialist

AG CONNECTION

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