

Taxation Tidbit
Grain Condo Storage

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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 dovetails 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, etc., etc.

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.