

# Farmland

## IN PERSPECTIVE

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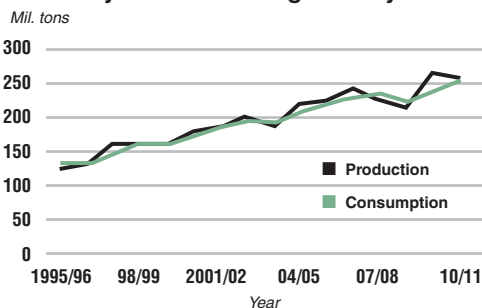
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### China remains a growth market for soybeans

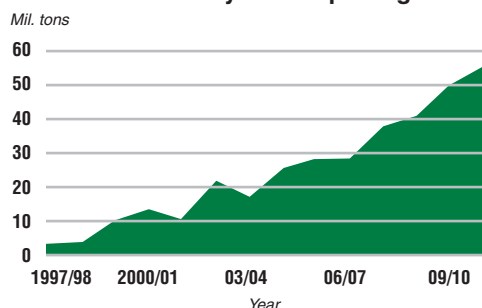
Since China emerged as the dominant force in the global imports of soybeans during the 2002/03 crop marketing year, it has helped U.S. soybean exports reach record levels. China should continue to be a growth market, according to the Economic Research Service of the U.S. Department of Agriculture. It now imports 55-60% of its total consumption of soybeans.

#### World production and consumption of soybeans are rising steadily...



2010/11 preliminary.  
Source: USDA, Economic Research Service.

#### ...as China's soybean imports grow



Source: USDA, Economic Research Service.

## How Recent Tax Changes Affect Landowners

*By Gary J. Hoff, E.A. • Extension Specialist, Taxation  
Department of Agricultural Economics • University of Illinois*

**We have seen numerous changes to the Internal Revenue Code in the past few years. It is very likely that we will see many more in the coming months. Some of these changes are especially relevant to landowners.**

### Depreciation

Two categories of landlords have a disadvantage with depreciation deductions compared to farmers who materially participate in the farm business. They are crop share landlords who do not actively participate in the management of their land and cash rent landlords.

Active farmers can take advantage of both the Section 179 expensing election and bonus depreciation. The Section 179 deduction applies to both new and used property placed in service that year. Purchase and income limitations determine the maximum deduction allowed. However, the Sec. 179 depreciation is only available if the taxpayer uses the property in a trade or business. Cash rent does not qualify as a trade or business.

Prior to September 8, 2010, bonus depreciation rules allowed a deduction for 50% of the cost in the year qualifying property was placed into service. Qualifying property includes any new property with a depreciable life of 20 years or less. Therefore, farm buildings, fencing and tile qualify.

For purchases after September 8, 2010, and before January 1, 2012, bonus depreciation is increased to 100%. Both active farmers and cash rent landlords qualify for the bonus depreciation. No income or purchase limitations exist on the bonus depreciation. Consequently, the only limitation is the total cost of the new qualifying purchases.

**Example:** An absentee owner of farmland cash rents to a local tenant. The landowner wants to tile the property at a cost of \$20,000. The entire \$20,000 will be deductible as long as he meets the bonus depreciation requirements. He should be aware that he is subject to the passive loss limitations. Unless the taxpayer's adjusted gross income for the year exceeds \$100,000, he can deduct up to \$25,000 of aggregate passive losses from all activities.

*Continued on page 2*

## 1099 Filing Requirement Repealed

The Small Business Jobs Act subjected landowners to filing 1099-MISC forms for aggregate payments of \$600 or more for services performed on their rental property. For example, a landowner with land under the Conservation Reserve Program (CRP) could have been required to give a 1099-MISC to the person that mowed the weeds on the land. Fortunately, Congress realized the added burden this would place on landowners and repealed this provision in the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011.

A second 1099 filing requirement was a part of the Health Care bill that would require giving a 1099-MISC to corporations as well as individuals and noncorporate business entities. This would have covered payments for property as well as services. This was also repealed in the Comprehensive 1099 Taxpayer Protection bill.

## Self-Employed Health Insurance

Taxpayers with self-employment income received a tax break from Congress for 2010. If these individuals are paying for health insurance for themselves and their family, they are able to reduce their self-employment income when they compute their self-employment tax. The deduction is taken on Line 3 of Schedule SE as well as on Line 29 of Form 1040. While the deduction has been on the Form 1040 in the past, it has never reduced self-employment tax. This means \$10,000 of health insurance will reduce the self-employment tax by \$1,413. This is a 2010 reduction only.

## Estate and Gift Tax

Congress made changes to the estate and gift taxes that are very beneficial to the estates of taxpayers who die in 2011 and 2012. The estate tax exemption amount has been increased to \$5 million with the estate assets receiving a stepped-up basis (value equal to current fair market value).

Without these changes, 2010 estates would have a 100% exemption, but the assets would have a carry-over basis (value equal to purchase price plus capital improvements over time) except for a limited step-up. With the limited step-up, the estate can step-up the asset basis \$1.3 million for non-spouses or \$3 million for spouses.

The 2010 estates can elect to follow the old law with no estate tax and a carry-over basis or a \$5 million exclusion and a stepped-up basis. It is important for the estate executor to calculate the tax both ways to see which is most beneficial to the estate and the heirs.

A second part of the estate tax relief is a new portability election. For married taxpayers, this election allows the executor of the first to die to transfer any unused portion of the \$5 million estate exemption to the surviving spouse. This effectively gives the couple a full \$10 million exclusion. However, both individuals must die in 2011 or 2012 to benefit from this election.

# Verbal Lease Notification Dates

**If you would like to write new lease terms with your tenant, you would be well advised to honor these verbal lease notification dates.**

*\* Traditional lease year and notification dates for verbal leases. In some states, the lease continues "as is" unless notified by a specified notification date. Lease years and notification dates may vary based on the terms of a written lease. Consult your farm manager or attorney for confirmation.*

State	Traditional Verbal Lease Year*	Traditional Verbal Notification Date*
Arkansas	Jan. 1 – Dec. 31 But may vary. Consult your farm manager.	June 30
Illinois	Mar. 1 – Feb. 28	Oct. 31
Indiana	Mar. 1 – Feb. 28	Nov. 30
Iowa	Mar. 1 – Feb. 28	Prior to Sept. 1 Recommended that notices be provided in writing and sent by certified mail.
Minnesota	Not well defined. Consult your farm manager.	Not well defined. Consult your farm manager.
Missouri	Mar. 1 – Feb. 28 (Sometimes Jan. 1 – Dec. 31)	60 days prior to the day the oral agreement was given on.
Wisconsin	Mar. 1 – Feb. 28	Dec. 1 90 days advance notice is required to terminate a verbal lease.

## Caution

For gifts in 2011 and 2012, the lifetime gift tax exclusion amount is \$5 million. There is no change in the \$13,000 annual exclusion, and 2010 gifts are subject to the \$1 million exclusion.

Taxpayers should consult with their tax professional to be sure the law changes apply to their situation.

**Gary J. Hoff** is an Extension Specialist, Taxation, with the Department of Agricultural Economics at the University of Illinois. He has been working with Midwest farm families for more than 40 years in accounting and tax preparation. He had his own practice in Ohio until 1987 when he became National Tax Manager for AgriSolutions, Inc. In 2001 he joined the Illinois Tax School as an author and presenter in their program which trains more than 6,100 tax professionals annually.



Hoff, an enrolled agent with the Internal Revenue Service, received his B.S. from The Ohio State University. He works for the U of I and maintains his own tax practice. Hoff has made tax presentations in more than 40 states and has written numerous tax-related articles.

# For what do food dollars pay?

The question “For what do our food dollars pay?” is answered in a new food dollar series from the Economic Research Service of the U.S. Department of Agriculture. The new series provides three different ways of slicing the same food dollar:

## 2008 Marketing Bill Dollar



Farm Share 15.8¢      Marketing Share 84.2¢

The marketing bill dollar shows the distribution of the food dollar between farm and marketing shares.

## 2008 Industry Group Dollar



Farm & Agribusiness	Food Processing	Retail Trade	Food Services	Energy	Other
11.6¢	18.6¢	13.6¢	33.7¢	6.8¢	3.8¢
	Packaging	Transportation			
	4.0¢	3.5¢			
				Finance & Insurance	
				4.4¢	

The industry group dollar shows how the same food dollar is distributed among supply chain industry groups.

## 2008 Primary Factor Dollar



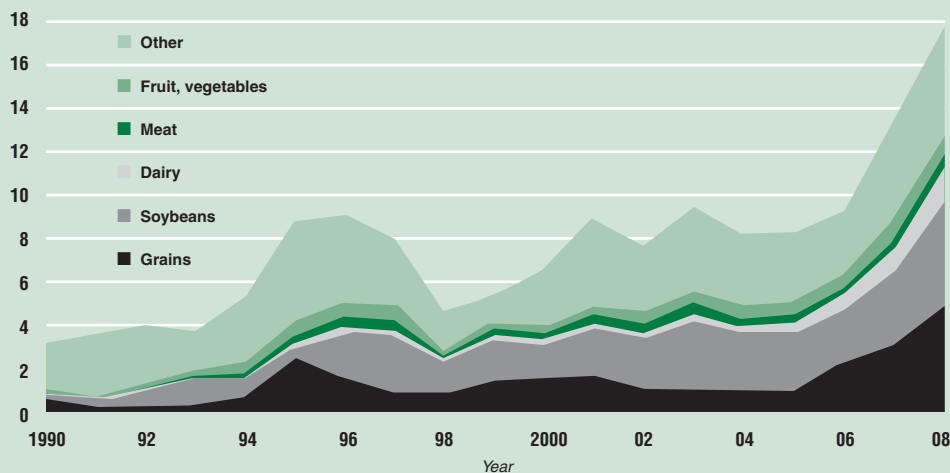
Imports	Output Taxes	Property Income	Salary & Benefits
7.8¢	8.4¢	33.0¢	50.8¢

The primary factor dollar shows how the same food dollar is distributed in terms of U.S. worker salaries and benefits, rent paid to owners of food-industry property, taxes, and imported food items.

## Increases in global food demand to come from developing countries

### U.S. agricultural exports to Indonesia quadrupled between 1990 and 2008

U.S. dollars in 2000 (millions)



Source: USDA, Economic Research Service using U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics.

Income growth has increased food imports by developing countries, particularly since higher incomes strengthen the demand not only for traditional food but also for a more diversified diet. As a greater proportion of the world's population seeks to expand the quality and quantity of foods consumed, U.S. agricultural exports – such as feed and fodder and high-value foods – will continue to increase, according to the Economic Research Service of the U.S. Department of Agriculture.

Developing countries now account for more than half of all U.S. agricultural exports. Mexico and China represent two major markets for U.S. agricultural exports. Countries such as India, Indonesia, and Colombia are becoming important export destinations. Among the large number of developing-country trading partners, 15 low- and middle-income countries account for 37% of U.S. agricultural exports, up from 15% in 1990. Since 1990, the average growth of U.S. exports to these countries has exceeded 10% annually.

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