

Iowa Farm Business Association News

January 2001

The Farm Business Association Foundation IFBA's New Charitable Entity

As the face of Iowa agriculture changes, the Iowa Farm Business Association has been endeavoring to change its vision of member services as well. New economic climates in Iowa's production agriculture environment, as well as the structural changes in agriculture will necessitate new services and changes in the way those services are delivered.

IFBA believes that there is opportunity in agriculture. It will not be necessarily like it was a generation or even a decade ago, but with the right kind of tools and resources it can be an exciting and rewarding opportunity. These opportunities must be personally and economically satisfying to the individual and/or family involved.

We know that the rural community is changing and will continue to do so. And not all communities will grow and prosper. We believe that where the leadership is inclined to be proactive and positive, and the community is willing to reach out and work together, they will be successful.

We also believe that there are individual and businesses in rural communities that are willing and able to contribute leadership and philanthropic efforts towards the success of agriculture and rural communities.

With these beliefs in mind, the Iowa Farm Business Association has established a charitable foundation—The Farm Business Association Foundation, a 501C3 entity. A volunteer board has been selected, and has been working for several months now, chartering the corporation, outlining the mission and goals of the foundation, and planning focus group meetings to involve members and their ideas. Our basic idea is to enlist members in local communities, tapping their leadership and project ideas.

The Farm Business Association Foundation plans to be a catalyst and mentor in helping individuals; families and communities explore and develop new opportunities.

The Foundation's mission statement is: "To enhance the economic and social well being of Iowa's rural communities and their citizens, businesses and agricultural producers."

Our goals are:

- To enhance the business skills of Iowa's farm families
- To help rural citizens achieve their personal and family goals
- To aid in the economic and social survival of the rural community
- To be an educator and facilitator.

Naturally, these activities will demand resources—first, human resources in the form of members who will be willing to volunteer their ideas and visions for their community and agriculture in general. Second, funds in the form of contributions to a charitable foundation.

In the weeks and months ahead we will be sponsoring focus group meetings around the state. We invite you to attend. We need your input to guide us in the right direction. What can we do for you and your family operation? How can we give you and the next generation of producers the tools that will allow them to not just survive, but thrive? If you'd like to participate in one of the focus group meetings, let your consultant know. Or call our office, 515-233-5802, or email us at iafmbus@netins.net.



The Farm Business Association Foundation Board (l to r): Duane Bennink, Ames; David Dvorak, West Branch; Steve Schneckloth, Des Moines; Steve Vogelzang, Ames; Bob Dunaway, Monroe; Jim Almquist, Johnston; and Jim Wright, Collins.

Equipment Software Is Here!

Iowa Farm Business Accounting, Inc.'s newest software, Equipment Maintenance, is now available! This Windows based software is designed to assist equipment owners in tracking the servicing and repairs of their specific machines as well as calculating the costs of operating each piece of equipment.

The software divides equipment items into two categories - motorized and non-motorized, and compiles a database of servicing and repair records for each. It records the servicing item part numbers, hours between servicing periods and any other pertinent service/repair data.

The database permits the generation of annual or lifetime costs of usage reports, servicing records, repair records, and future servicing reports. All are designed to be easily read, useable formats. Report formats also include ownership reports, such as those that could be used when working with lenders or insurance providers.

SOFTWARE CONTINUED ON PAGE 3

Year End Analysis

Most members should have completed bookclosing by now and awaiting their farm analysis for 2000. I am sure all members have an idea of how they fared in 2000 resulting from their pre-pay decisions compared to a year ago. But the analysis will show how and what impacted your 2000 profit. According to David Kohl, Agriculture Economist, as reported in the Top Producer March 2000 issue, "Number one on the list for managers at a recent Texas A & M agricultural executive program was the utilization of a sound financial and business performance monitoring system. This includes trend analysis for three or five years and a complete enterprise analysis."

ANALYSIS CONTINUED ON PAGE 2

MNT Financial Advisors, LLC Kicks Off First Month Of Service

MNT Financial Advisors, LLC, a company partnered with Murk-N-T, Inc., opened for its first month of service in August 2000. Andy Thompson, President of MNT Financial Services, recently passed Iowa Securities and Insurance Licensing exams in order to bring a full array of services to Murk-N-T's clients. Thompson states, "We believe we are uniquely positioned through current tax and estate planning work to sit down with our clients and plan for their long-term future. Similarly to what has worked in the past with tax, bookkeeping and farm consulting, regular financial planning will greatly benefit our farm clients by opening the scope of services available."

CPAs were not allowed to offer "multi-disciplinary services" in Iowa until recently. This change in the AICPA stance has allowed accountants to offer more services to their clients such as: financial/estate/college planning, IRA's, 401K's, defined benefits, asset management, and insurance solutions. MNT Financial Advisors and Murk-N-T believe that this is the future of the highest level of service available.

ANALYSIS CONT. FROM FRONT PG.

Your farm analysis has always had complete enterprise analysis. And for the past six years has included the five year trends for each enterprise along with accrued profit and net worth. When it's time to make decisions in your operation this past history is crucial. So—make sure to provide all details needed to provide an accurate analysis.

As a reminder—here are the items needed:

1. A complete, accurate listing of liabilities at year-end. This not only includes bank loans, but accounts payable at local businesses, payroll tax deposits due, etc.
2. A good inventory. Accurate numbers and weights. Complete inventories of supplies from prepaidd seeds to bedding and fuel inventories.
3. Your family living expenditures and all non-farm incomes. We need the real numbers even though we can estimate fairly closely.
4. Finally, accurate bank account balances at both the beginning and end of the year. A good analysis, like a sources and uses report, should account for all the dollars generated during the year. If you are using PC Mars, this should be easy. Remember—you need to know more about your operation than anyone else!!

Consultants Gather At Council Bluffs

The consultants from across the state gathered at Council Bluffs for their Fall 2000 Workshop September 18-20th. The workshop consisted of three days packed with speakers and discussion. Speakers included Leo Martin, Attorney from Peters Law Firm who spoke on New Rules in Trust and Estate Returns; Larry O'Rourke, US Bank spoke on Banking and Agriculture; Mr. Kruse, spoke on Insurance Claims and Adjustments; Brenda Charbonneau with the Department of Revenue and Jay Kerrigan with the State of Iowa

spoke on Electronic Filing of Federal and State Returns; John Rasmussen, Attorney from Peters Law Firm spoke on Corporation Liquidation.

The consultant workshops are rotated across the state to utilize various speakers and tour different agriculture companies to keep pace with changing financial topics and technologies. At each workshop members are invited to have a consultant team evaluate their farm analysis and consult with members to achieve their goals.

A Consultant's Education Never Ends

What is an "EA or Enrolled Agent"? The best answer is an Enrolled Agent is to tax preparation as a CPA is to accounting or a lawyer is to law. One of the big differences is that CPA's and lawyers are licensed by the state and may practice and use their credentials in the states they are certified in. An EA is certified by the Internal Revenue Service and can practice and use their credentials anywhere the Internal Revenue Service is. Technically, an EA is enrolled to practice before the Internal Revenue Service. This means that an EA can represent a client or even another taxpayer with a return they did not prepare, in an audit. They are also able to sign a limited number of tax forms for the taxpayer.

To become an Enrolled Agent, all you need to do is pass the enrolled agent exam. The first step is to apply to take the exam by July 31 of the year you want to take it. The exam is usually scheduled for two consecutive days in late September. The exam is given all across the United States on the same two days only once a year.

The exam itself is a two-day exam. It really doesn't cover how to prepare a return; it is mostly the theory behind many situations that you may run into in tax preparation. It is also important to remember that the exam is on tax law in effect for the previous year. The first morning exam is over individual taxation. It is a three-hour exam, and for most preparers, the most difficult part of this section is just the massive amount of information they can cover in this area of taxation. After lunch and some last minute cramming, the next area of the exam is sole proprietors and partnerships. Three hours of the afternoon is spent on this part of the exam. The next morning at 9:00 a.m. is the beginning of what I usually hear is the toughest part of the exam—three hours of corporations, fiduciaries, estate and gift tax and trusts. That afternoon is the final and fourth part of the exam—the two hours of eth-

ics, record keeping procedures, research materials and collection procedures. The 2000 exam also included electronic filing in this section.

To pass the exam, a passing score is needed on all four parts. If you pass three parts of the exam or if you get at least 90% of the passing score on the parts you did miss, you can take the missed parts the next year—otherwise you need to take all four parts over. You have four years to pass all four parts, otherwise you start all over. I heard that for the 1999 exam, 8200 people across the nation registered to take the exam, 5700 showed up to take it and 1100 passed.

By the following week, several tax analysts will have their version of the correct answers out. The IRS states that they will try to have the official answers by the end of January. In the case of the 1999 exam, it was March 2000. The next step in becoming an enrolled agent is sending the IRS another form, another check and a copy of the letter stating that you passed the exam. The IRS states that you should have your certificate in 5-6 months, in which time they do a background check on you.

Like many other licenses and certificates, there is a continuing education requirement for Enrolled Agents. They have three-year cycles and new EA's need two credit hours for each month of the remainder of the current cycle. After recertification at the end of the first cycle, they need a minimum of sixteen credit hours a year and a minimum of 72 credit hours in the three-year cycle. Or an Enrolled Agent can forego the hour's requirement by passing the exam again.

Those consultants who have completed their EA exams and are awaiting the results are: Larry McAlexander, Southwest; Daryl Kruse, Southwest; and Lowell Lewis, Cedar Valley. We congratulate Bob McHugh, Southwest; Jim Vermazen, Northeast; Gary Johnson, Northeast; and Tim Gradert, Mississippi Valley on achieving their EA.

Leasing Equipment

For the past several years there seems to be confusion about tax implications whenever the term lease pops up. It seems like an easy method to acquire machinery until tax regulations are quoted. If a picture is worth a thousand words, I hope this example is easier than reading through volumes of tax laws.

Typically the situation is as follows: **CASE 1**—John trades in a ten-year-old tractor (fully depreciated out and valued at \$15,000) and “leases” a new tractor (valued at \$70,000). John’s “lease” is typical in that it requires a payment of \$17,500 each year for the following five years. Since John traded in his old tractor valued at 15K, his first year lease payment would be \$2500 (\$17,500-\$15,000). At the end of five years John has the option to purchase the tractor at FMV (Fair Market Value). The key here is that John has the option at the end of the lease to purchase the tractor at FMV. This lease is no different than paying cash rent for land. This expense is fully a deductible expense. However, the \$15,000 credit he was given on the old tractor is taxable.

John’s tax return will show: 1). The sale of the old tractor as taxable income for \$15,000 (because it was fully depreciated). He will pay Federal Tax and State Tax on this income and, in turn, deduct \$17,500

(\$15,000 trade in value + \$2500 cash payment) as a lease payment on his Schedule F. This lease deduction will reduce Federal Tax, State Tax and Self Employment Tax (social security).

CASE 2—Let’s look at Steve. Steve also traded in a 10 year old tractor (fully depreciated with a value of \$15,000) for a new tractor valued at \$70,000. However, this time the dealer calculated the lease payment by subtracting the old tractor value (\$15,000) from the price of the new tractor (\$70,000) and amortized the payments of \$55,000 over five years with 7% interest rate. At the end of the “lease” Steve gets to keep the tractor. In this example the payments are not deductible as a lease payment. The key here is the payments have interest calculations included and the final buyout is not equal to Fair Market Value. This is a trade and an installment purchase. Steve’s tax return/depreciation schedule will show:

- 1). Depreciation schedule will show his old tractor traded on a new tractor. The new tractor will have a basis of \$55,000 that will be depreciated over seven years. However, since Steve has not used the new tractor before and he did not purchase it from a related party, he is eligible to use the quick write off (up to \$20,000 total) election on the new tractor.
- 2). His tax return will show depreciation as an expense on his Schedule F. This depreciation deduction will reduce Federal Tax, State Tax and Self Employment Tax (social security).

Cedar Valley & Central Iowa Annual Meetings Held

December is annual meeting time for two of our Associations—Cedar Valley and Central Iowa.

November 27th Central Iowa members gathered at the Starlight in Ames for a daylong agenda. Excellent speakers with a variety of topics including Market Outlook, Farm Succession, Risk Management, Estate Planning, and applying for college loans made a very informational meeting.

Cedar Valley members traveled to Amana on the evening of December 6th for their annual meeting. The director of the Leopold Center for Sustainable Agriculture, Fred Kirschemann, was the featured speaker. He presented his views of “Where we want to go with agriculture in the future”.

Cedar Valley’s annual meeting made for an insightful and educating evening for those who attended.

New State Board President

At the State Board meeting held August 15th, the presidency was passed from David Dvorak to Jim Wright. During David’s term he has worked to promote professional certification among the consultants and make the analysis and software training available to members and consultants. The Iowa Farm Business Association thanks Dave for the numerous hours he has given to the Association.

Jim and his family have been members of Central Iowa Farm Business Association since 1958. Jim has served his local board and/or State Board for the past five years. Jim is committed to see that the Association continues to provide financial consulting and tax management and address specific issues in the farming business.

Congratulations to Jim and our best wishes to David.



Newly elected IFBA President, Jim Wright of Collins, presents retiring President, David Dvorak of West Branch, a plaque as a token of appreciation for David’s leadership during his two year tenure as President of the IFBA State Board.

SOFTWARE CORNER

PC Mars For Windows

In the next few months we will be releasing a new version of PC Mars for Windows. This update will have an export feature to Farm Equity Manager.

Farm Equity Manager has become quite popular for loan analysis purposes with ag banks and the Farm Credit System. Along with this export capability you will also have the option to purchase the “farmer” version of Farm Equity Manager with the PC Mars update for a greatly reduced price. As a registered owner of PC Mars for Windows, you will be notified when this option is available.

PC Mars (DOS Version) And Window ME

It seems that many members are upgrading their operating systems to Windows ME this year. If you are a loyal DOS user, don’t worry - your PC Mars will work fine with Windows ME (assuming that your printer will support DOS programs). To get a PC Mars icon on your screen follow the instructions below:

- Click on Start Button
 - Click on Settings
 - Click on Task Bar & Start Menu
 - Click on “tab” Start Menu Programs
- On command line type:

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c:\pccmars\pccmars.exe
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Click next and follow rest of prompted instructions.

SOFTWARE CONT. FROM FRONT PG.

The software permits a very simplistic, (not IRS approved), depreciation method, allowance for fuel consumption averages, and investment charges as a part of the “cost of ownership” computations.

Equipment Maintenance may be operated as a stand-alone software, but will interface with PC Mars to import selected repair bills, etc. that may be pertinent. This does require some specific descriptions being utilized in the PC Mars record keeping process however.

Any computer that will support Windows 95 or 98 will support Equipment Maintenance. Cost of the software is \$125.00 plus \$10.00 shipping and handling, plus sales tax. Free demos are available, either by contacting us at 515-233-5802, or iafbmbus@netins.net, or by downloading from our web page at iowafarmbusiness.org. The system may be purchased via email on the web page, or by calling the above phone number.

New "Wrinkle" In Depreciation Rules For 2000

It has been some time since there has been any new rule for depreciation of machinery and equipment. Yes, the Sec. 179 limit has been raised each year—this year's limit being \$20,000, but other than that and some tinkering with the listed properties limits each year, there has been no major changes.

A change for 2000 has occurred however. It doesn't immediately impact the amount that you write off for a depreciation deduction, but it certainly will add a lot of bulk to your depreciation schedules in the years ahead.

This change deals with traded assets. Historically, the item that is traded on a new purchase has its basis added to the new purchase. Its shown as "Trade Value" on our schedules and those basis dollars are added to the "Cash Paid" to obtain the items tax basis for de-

preciation. The following year the item that was traded disappears from the schedule. Not anymore!

Starting January 1st 2000, traded items **stay** on the schedule, depreciating at their original rates. New purchases go on the schedule with their basis being only the cash boot paid. If the new item is sold at a later date, its basis plus the basis of all items traded on it are used to determine if there is profit on the sale that might qualify for capital gains treatment.

On our schedules, the traded items will be renumbered, using the prefix of TR, with the 3-digit number being the same as the new item's numbers. And the renumbered TRxxx's will print immediately below the new item that they were traded on.

So, if you trade items often, in a few years your schedule may be several pages long! More fun!

Heath Houge Hired For Ankeny/Ames Office Consultant Position



Heath Houge

Heath was raised on a family farm in Central Iowa. After high school at North Polk of Alleman, he attended Iowa State University. He graduated in 1993 with a major in Agricultural Business and a minor in Agronomy.

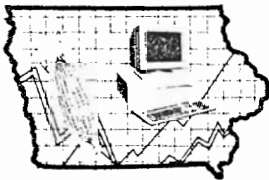
After gaining work experience in the supply side of production agriculture, including operating his own business, Heath returned to Iowa State in the field of accounting. Heath hoped to find a position where

he could combine his interest in accounting and agriculture.

The year 2000 brought many changes. On September 20, 2000 Heath and Shelise celebrated the birth of Matthew (their first child) and Heath accepted an offer from the Central Iowa Farm Business Association to be a consultant on November 27th.

Heath is very excited about this opportunity to work with the Central Iowa FBA members, board and consultants. He looks forward to meeting many of you and to assist the members in his area. Heath will be locating his office in Ankeny and invites everyone to stop in so he can meet them. We welcome Heath to the Farm Business Association Family.

Visit the Iowa Farm Business Association web site. Our address is:
"www.iowafarmbusiness.org" or email us at: iafmbus@netins.net.



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