Welcome to the graduates of Annie’s Project and Annie’s Project II Women Marketing Grain & Livestock this past year. The Annie’s Project newsletter is sent about once or twice a year, and contains information that the instructor team believes may be of interest to you.

The goal of the newsletter is to complement material covered during Annie’s Project and provide information on upcoming classes. If anyone has ideas for future articles please e-mail Karisha Devlin or Mary Sobba (e-mail addresses are in the left column).

Did you miss a session of your Annie’s Project class? Would you like to hear a topic repeated? If so, you are welcome to sit in on another class, with the instructor’s approval and if there is space. To see a list of upcoming classes, visit the Missouri Annie’s Project website at http://extension.missouri.edu/annie

Changes:
Nationally there have been some changes with Annie’s Project. The national office has moved from Iowa State University to Illinois. We now have a new logo as well, as you can see here.

Missouri completed a grant through USDA which helped support Annie’s Project, at the end of September. University of Missouri Extension coordinates and delivers the program, but we have had support this past year from USDA Risk Management Agency. Missouri Farm Service Agency, Missouri Farm Bureau and FCS Financial have been helpful too. We would also like to thank all of our past participants for spreading the word about Annie’s Project!

Wishing you Peace and Joy this Season!
Crop Production Costs and Cash Rent

The most basic farm management tool is a crop budget. I use budgets almost daily to help advise owners and operators for a variety of business decisions. The best budgets are built from actual costs for a specific farming situation. In the absence of actual costs, estimates from MU Extension budgets can be useful.

Current cost estimates per acre and per bushel are shown in the table. In summary, overall operating costs are projected slightly lower for 2016 due to the outlook for fertilizer and fuel prices, but are still at historically high levels. Costs of pest control particularly continue to increase.

An important use of a crop budget is to estimate the expected return after accounting for operating and ownership costs. The numbers show tight margins are expected.

Compare expected market prices on line A with costs per bushel on lines B and C. The market is expected to offer prices that cover operating (variable) costs, but fall short of repaying the total costs of production. On owned land there is an economic incentive to plant and target high yields in an attempt to recover at least a portion of the machinery and land ownership costs.

However, on rented ground where land is effectively a cash operating cost the incentive for the farmer is different. See line D where the assumed real estate charge ($140 per acre for dryland corn and soybeans) is part of operating rather than ownership costs. For the cash rent tenant the market price falls short of even the operating costs. The implication is that many farmers will likely experience a net negative return in 2016. In this situation the only economic incentive to rent is to retain farming rights in hopes this year or future years will generate more net income than currently projected.

It seems to be human nature to let history unduly color our view of what will happen in the future, even when there are other indicators. However, both owners and operators negotiating cash rental rates are best served by looking forward to the most likely returns. It is advisable to not set rental rates based on unrealistic expectations or to ignore the signs that the boom years are getting further behind us. Contact your Ag Business Specialist for assistance with leasing arrangements or estimating costs of production for your farm.

(by Brent Carpenter, Ag Business Specialist, University of Missouri Extension)

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Table 1. Estimated Costs of Production for 2016 Crops in Central Missouri.

<table>
<thead>
<tr>
<th></th>
<th>Dryland Corn</th>
<th>Irrigated Corn</th>
<th>Grain Sorghum</th>
<th>Grain Soybeans</th>
<th>Grain Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted yield, bushels</td>
<td>135 bu</td>
<td>185 bu</td>
<td>86 bu</td>
<td>45 bu</td>
<td>55 bu</td>
</tr>
<tr>
<td>Budgeted price, $ per bu</td>
<td>$3.70</td>
<td>$3.70</td>
<td>$3.50</td>
<td>$0.15</td>
<td>$5.05</td>
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<tr>
<td>Seed</td>
<td>99</td>
<td>100</td>
<td>14</td>
<td>62</td>
<td>34</td>
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<tr>
<td>Fertilizer</td>
<td>109</td>
<td>139</td>
<td>81</td>
<td>51</td>
<td>60</td>
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<tr>
<td>Crop protection chemicals</td>
<td>60</td>
<td>60</td>
<td>32</td>
<td>60</td>
<td>20</td>
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<tr>
<td>Crop insurance</td>
<td>22</td>
<td>22</td>
<td>14</td>
<td>12</td>
<td>13</td>
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<tr>
<td>Custom hire and rental</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Energy: Machinery, drying, irrig</td>
<td>34</td>
<td>80</td>
<td>13</td>
<td>11</td>
<td>9</td>
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<tr>
<td>Machinery repairs and maint</td>
<td>16</td>
<td>49</td>
<td>12</td>
<td>12</td>
<td>10</td>
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<tr>
<td>Operator and hired labor</td>
<td>16</td>
<td>23</td>
<td>15</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Operating interest</td>
<td>11</td>
<td>15</td>
<td>6</td>
<td>7</td>
<td>5</td>
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<tr>
<td>Operating costs per acre</td>
<td>$372</td>
<td>$499</td>
<td>$192</td>
<td>$235</td>
<td>$182</td>
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<tr>
<td>Farm business overhead</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>4</td>
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<tr>
<td>Machinery overhead</td>
<td>26</td>
<td>40</td>
<td>22</td>
<td>18</td>
<td>14</td>
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<tr>
<td>Machinery depreciation</td>
<td>20</td>
<td>51</td>
<td>24</td>
<td>23</td>
<td>18</td>
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<td>Real estate charge</td>
<td>140</td>
<td>175</td>
<td>123</td>
<td>140</td>
<td>123</td>
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<td>Ownership costs per acre</td>
<td>$200</td>
<td>$279</td>
<td>$172</td>
<td>$187</td>
<td>$159</td>
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<td>Total costs per acre</td>
<td>$573</td>
<td>$779</td>
<td>$365</td>
<td>$423</td>
<td>$342</td>
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<td>Operating costs per bushel</td>
<td>2.76</td>
<td>2.70</td>
<td>2.27</td>
<td>5.24</td>
<td>3.33</td>
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<tr>
<td>Total costs per bushel</td>
<td>4.24</td>
<td>4.21</td>
<td>4.30</td>
<td>9.39</td>
<td>6.22</td>
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<tr>
<td>Operating costs per bushel if real</td>
<td>3.79</td>
<td>3.84</td>
<td>3.70</td>
<td>8.33</td>
<td>5.54</td>
</tr>
<tr>
<td>Real estate charge above is cash rent payment</td>
<td>3.79</td>
<td>3.84</td>
<td>3.70</td>
<td>8.33</td>
<td>5.54</td>
</tr>
</tbody>
</table>
**Tax Issues for 2015**

This is a difficult time to write an article on taxes simply because it may change at any time. There is a proposed bill and speculators are thinking there is a very good possibility it could pass before Christmas. So, this article will include the law as it is and also the proposed legislation.

**Law as of today**

As the law stands at the time of writing this article, in 2015, Section 179 will be reduced from $500,000 to $25,000 and additional first year depreciation (AFYD) or commonly called bonus depreciation will not be available. These two provisions have historically allowed farmers to substantially manipulate their income tax liability. These are two potentially big changes if there is no new law.

**Proposed legislation provisions**

Several items are included in the proposed legislation but the items of most interest to farmers is what will be included. The bill is titled "The Protecting Americans from Tax Hikes Act of 2015".

This bill would make Section 179 permanent at the $500,000 level. Once equipment purchases total $2 million, then the allowed Section 179 amount will start to phase-out dollar-for-dollar and no more will be allowed after $2.5 million.

Also, the additional first year depreciation (50% bonus depreciation) would be extended until 2019, however, the amount allowed in 2018 would be 40% and 30% in 2019.

There are other provisions in this bill (the summary is 20 pages) and if it should pass we will post more information on the Annie’s Facebook page and will also have additional Extension newsletter articles in ag newsletters on the details. To join the Facebook page search on Facebook for Annie’s Project – Missouri.

**Changes made for 2015 – these changes are final and not dependent upon the proposed bill.**

The penalties for failure to timely file forms 1099-MISC and payee statement will be changing for returns filed after December 31, 2015. The penalty starts at $50 (up from $30) for each 1099-MISC form for the first 30 days; it increases to $100 (up from $60) from March 1 to August 1, and then to $250 (up from $100) after August 1. The maximum penalty imposed may be as high as $1 million (up from $500,000) for the small business taxpayer. Intentional disregard of the rules carries a $500 (up from $250) per Form 1099-MISC penalty.

A few years ago, Form 1099 had significant changes. This year there are again some significant changes.

Taxpayers must issue 1099-MISC to all vendors when the taxpayer, in the course of trade or business, pays that vendor over $600 during the year for rent or services. Payments to corporations are generally exempt from Form 1099-MISC reporting. Family and family entities must be issued 1099-MISC when they are paid $600 during the year for rent or services.

There are some unlikely businesses/entities that do need 1099-MISC forms if over the yearly $600 amount. Attorney fees paid in the course of a trade or business must be reported in box 7 of Form 1099-MISC even if the law firm is incorporated. In addition, the Treasury has indicated payments to veterinarians were payments for medical and health care services. This requires taxpayers to issue Form 1099-MISC for such services (over $600) in the course of a trade or business even if the veterinarian is incorporated. The amount paid should be reported in box 6 (medical and health care payments) rather than box 7 (nonemployee compensation).

The rules can get confusing. The purchase and sale of crops is not subject to Form 1099-MISC reporting because the transaction involves materials, not services. Some entities send 1099-MISC when not needed. If that happens, the taxpayer needs to notify the issuing business so it can be corrected. IRS attempts to match Forms 1099 to the tax return.

The changes not only affect adults, but may affect youth. Young people raising animals as part of a 4-H or FFA project and selling at the local fair may be affected. Normally, selling an animal would not require a 1099-MISC because the animal is a product and not a service. However, when the sales price on animals, greatly exceeds market value there may be an element of prize money in the payment. Issuing a Form 1099-MISC eliminates any uncertainty.

(by Joe Koenen and Mary Sobba, ag business specialists, University of Missouri Extension)
In This Issue:
- Crop Production Costs and Cash Rent
- Tax Issues for 2015
- And More…..

Other Ag Business Related Classes:
Computers on the Farm
Tan-Tar-A, Osage Beach, MO Jan. 9 & 10
Technology conference featuring wearable technology (google glasses, watches), weather tools, tax update and more. Fee and registration details:
http://agebb.missouri.edu/cotf

Your Farm, Your Business, Your Future
Feb, 4, 11, 18 & 25
Locations: Carrollton, Moberly, Novinger
New class covering estate planning, retirement and succession. Four sessions, 3 hrs ea. totaling 12 hours.

Interesting Websites
Missouri Annie’s Project
http://extension.missouri.edu/annie
Annie’s Project—National site
www.anniesproject.org
MU Ag Site Assessment
(physical, environmental & cultural assessment of land)
AgSite.missouri.edu

Annie’s Project

Upcoming Classes:
If you are interested in the class below. The contact person’s email and phone number are on the front page of this newsletter.

Annie’s Project:
Sedalia—start date not set, but will be Feb. or March
Contact: Bremt Carpenter

More classes to be scheduled for Spring
Watch the Annie’s website or Facebook page

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