

Should the Estate Tax be Repealed? *(A political non-sensical football)*

In June, the National Farm and Ranch Business Management Education Association met in Omaha. One of our speakers was Roger McEowen. Mr. McEowen is an associate professor of agricultural law, Iowa State University. You may know that Mr. McEowen took Neil Harl's place at Iowa State. Ron Van Nurdan and Rich Baumann contributed to this article.

The U.S. House of Representatives has passed an estate tax repeal bill on April 13, 2006. The estate tax was first adopted in 1916 for the purpose of raising revenue. Today, the estate tax raises about one percent of our federal government's budget. The other purpose for the estate tax was to reduce large concentrations of family wealth. The attempt to repeal the estate tax is based on the assumption that it causes "hardships...on the closely-held family businesses and farms," according to President Bush. The facts do not support the claim that farm estates are taking the hit.

Who pays and who does not? The bottom five states in terms of estate tax collections in 2003 were South Dakota, Iowa, Rhode Island, West Virginia and Washington. The top five states in terms of federal estate tax paid in 2003 were Delaware, District of Columbia, New Hampshire, Idaho and New York. Urban states were affected more than rural states.

Mr. McEowen stated that in his career and in that of Neil Harl, neither of them had known of a farm family estate that had been adversely affected by the current estate tax law. So, on the face of it, giving the very wealthiest a tax break would not affect the rest of us except for the one percent of the federal budget that would have to come from somewhere else.

Where would it come from? That is the bad part. As part of the repeal, the "stepped-up basis" ruling would also be drastically changed. For example, under current law, if you inherit an acre of land from your Grandpa, you get a new basis in the land equal to the market value on the day Grandpa passed away. So, if Grandpa paid \$50 for that acre and now it is

yours, your basis is today's market value which may be \$3000 per acre or more. You can sell that land for \$3000 and pay no tax on it. If the estate tax repeal bill is passed, that is no longer true. Under some circumstances, your basis may not be stepped up and your basis could be the same as Grandpa's. So you inherit with a basis of \$50 and sell at market value of \$3000. Guess what? You are going to pay tax. There are some major adjustments to be made to this calculation, but we all know people who could be affected by this change.

What should be done? Roger McEowen suggests that we should not scrap the federal estate tax. We should increase the federal estate tax deductions to decrease the number of estates that have to pay the tax. The stepped-up basis rule should stay as it is.

Dates to look forward to

Wednesday, December 6, 2006 – This is the date for our Riverland **FBM – Wells Fargo – Agrilience Agronomy Seminar at Digger's in Kasson. This workshop starts at 9 and runs until 3 p.m. Wells Fargo is providing lunch. There is no charge.** One of our speakers will be Larry Olson, marketing consultant with Professional Marketing Associates of Mankato, who will provide a marketing update for us. Our featured agronomy speaker will be Lynn Lagerstedt, owner and operator of FarmTech, a crop consulting business in Adams. You will receive Riverland's plot results and an updated 2006 Farm Business Management Resource Book.

Tentative Plan: Tuesday, December 12, 2006 – Winning the Game, "Launch and Land your Post-Harvest Marketing Plan."

This workshop is conducted by Ed Usset with the University of Minnesota. It is a completely new program that Ed promises you have never seen before.

DHIA Interpretation Worksheet

It seems that most dairy producers use their DHI action lists and other DHI online capabilities. Some do not use the DHI Herd Summary at all. This is not all bad. You should be using what you feel is most important.

I have developed a worksheet that helps producers use some of that DHI Herd Summary information. It might be useful to fill out this worksheet once or twice a year just to remind you of how much information is on that sheet. The worksheet contains a detailed guide to help us find the information. Guidelines and benchmarks are also included. It takes about half an hour to complete. Information is based on Dr. Jim Fountaine's broad experience and expertise. Dr. Fountaine is from Kenyon and is one of the facilitators for the Southeast Minnesota Dairy Initiatives. So far, the producers who have tried it find it at least interesting. For some of you who test through other associations, there is some back and forth interpretation to be done, so it is not easy to follow at all.

The worksheet and the accompanying sample guide farm are available on my web site at:
www.riverland.edu/mgt/Wpike/index.htm.



Land Values Make No Sense

Ron VanNurden, Owatonna FBM

Wells Fargo chief ag economist, Dr. Mike Swanson, said that land values are out of whack. He based this statement upon research done from the University of Illinois and from the Minnesota Farm Business Management Education program.

Rental values and the money paid to buy land do not match the productive capability of the land. Dr. Swanson says that there is no correlation between what people are paying for land and the CER ratings. He also found no correlation between yield and rental or land purchase price. The study then was using only land that is used for ag purposes.

Are people so desperate for land that they will pay anything to get it?

Dr. Swanson said that farmers need to be more patient as they look to expand their acres. The best farm managers don't rent everything that comes along. They wait until land becomes available to rent at a profitable level. The same goes for land purchases.

Dr. Swanson also looked at the optimal size for a cash crop farm. He discovered that when a crop farm gets to 1200 acres, economies of size are maximized. From that point on, costs per acre stay about the same or actually go up some. Based on this information, Dr. Swanson recommended that as land comes up for rent in an area and you are at this optimum size, dump land that you may be renting that is over priced and take on the more productive land rather than simply expanding your size. When you have 1200 acres of land that is priced in line with productivity, then expand beyond the 1200 acres.

Corn is Getting Better at Using Nitrogen

(based on George Rehm's eNews "Nitrogen Efficiency in Corn Production: It's Better than it Used to Be" at www.extension.umn.edu/cropnews)

High corn yields are being achieved by rates of nitrogen fertilizer that do not seem high enough to meet the needs of the corn plant. Many producers now find that nitrogen fertilizer efficiency is in the range of .6 to .7 pounds of nitrogen per bushel of corn, down from the old rule of thumb of 1.25 pounds of nitrogen per bushel.

We find that Minnesota soils can supply a substantial amount of N for economic corn production. This amount, however, is not constant. It varies with soils and the microclimate in the soil.

Corn may seem to have become more efficient in the use of nitrogen because of better roots and better weed control. Corn is better at tolerating drought. Bt corn has reduced the negative impact of corn borer on stalk and ear. Nutrients now are preserved in yield that used to be wasted. This is also true relating to rootworm damage. Weed control is generally better than in the past.

With improved nitrogen fertilizer efficiencies, lower rates of nitrogen are needed to achieve optimum yield. These improved efficiencies are reflected in the new guidelines for nitrogen fertilizer use for Minnesota corn production.
