

# **I** Top Ten Business Strategies 2023

farmdoc



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A cooperative educational-service program to assist farmers with management decision-making

## What is Illinois Farm Business Management (FBFM)?

FBFM is a cooperative educational-service program designed to assist farmers with management decision-making. It provides help with business and family records. Computer assisted record processing options are available either on farm or at service centers. It provides financial and production business analysis reports. An experienced Farm Analysis Specialist helps interpret analysis reports and counsels on management problems. The specialist meets regularly with each cooperator throughout the year. [Read More...](#)

## Publications & Tools

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[Index Numbers for Illinois Farms](#)

[2017 Annual Summary of Illinois Farm Business Results](#)

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# #10

# Changes in Tenancy Raises Risk

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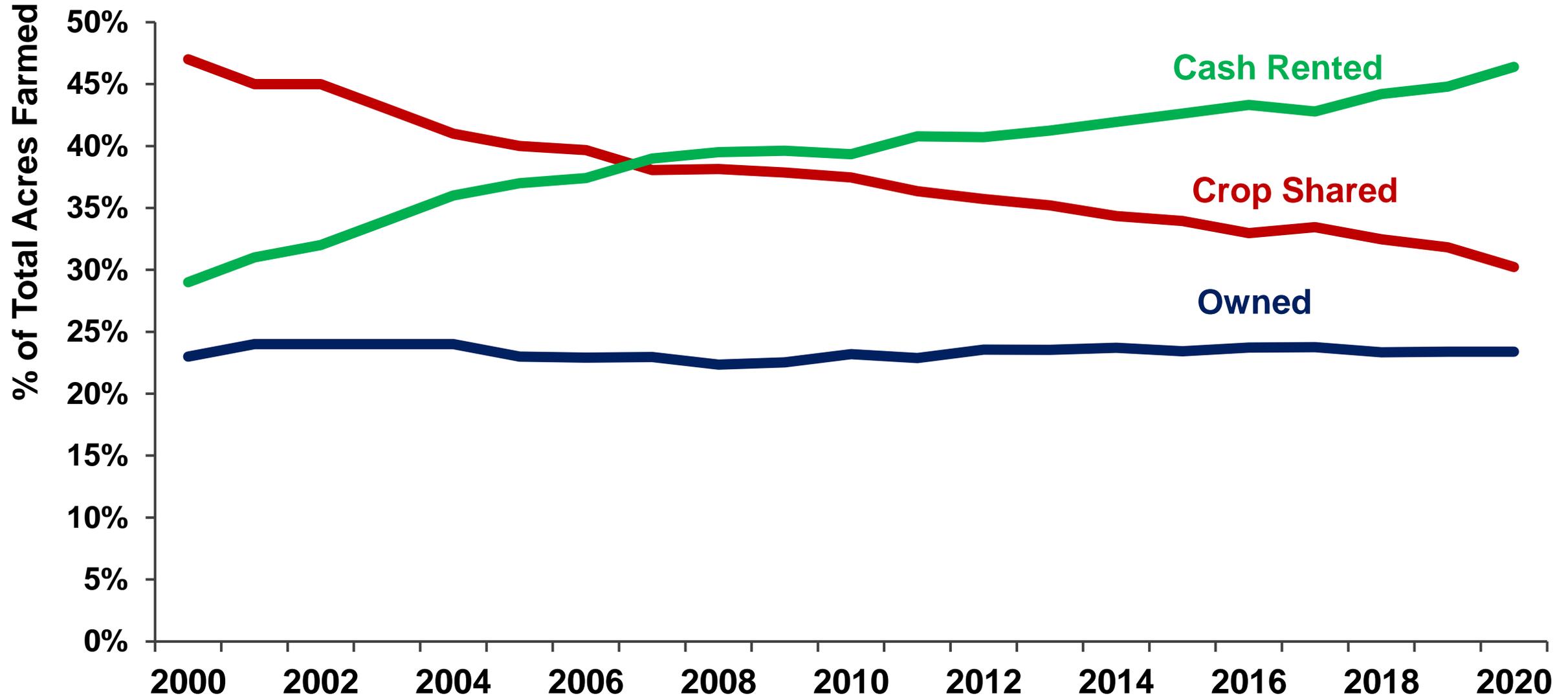
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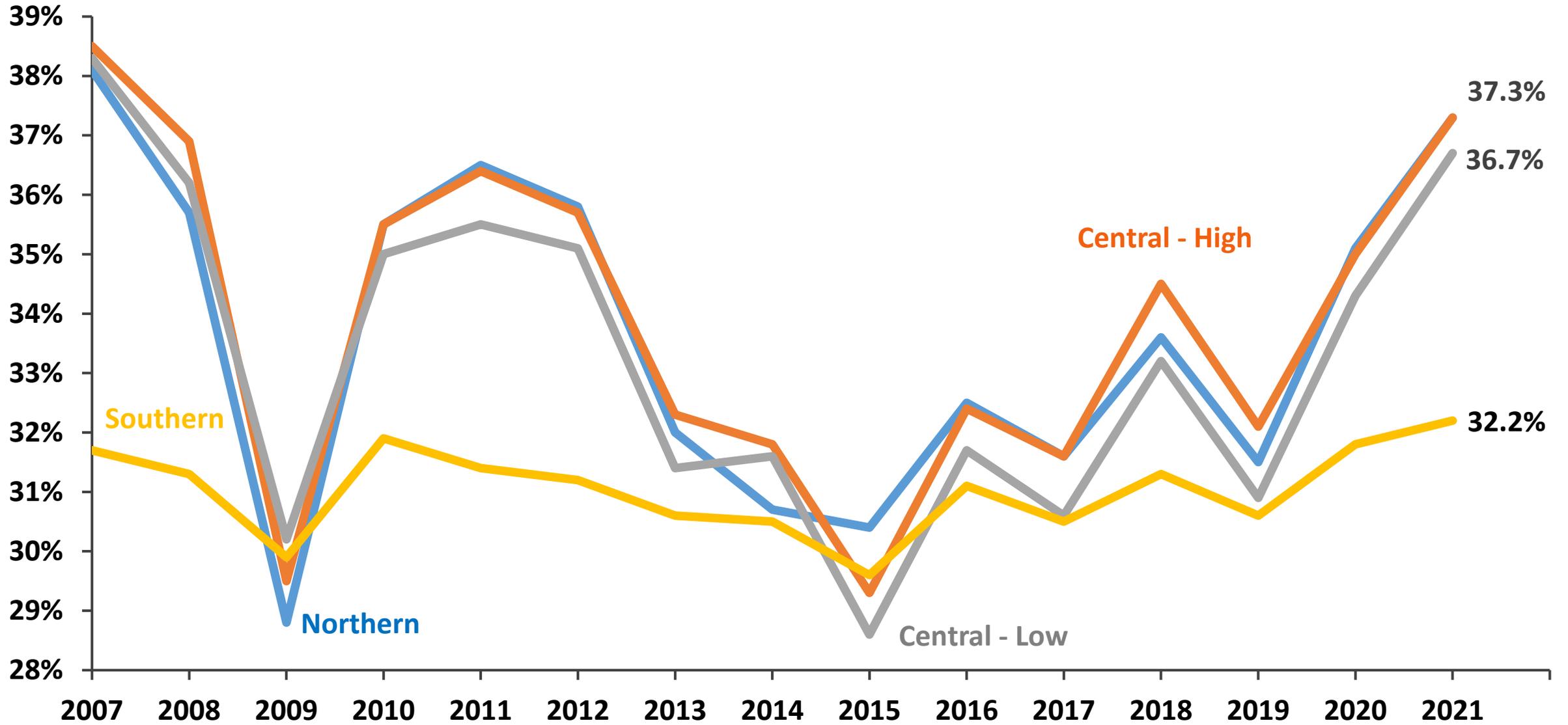
# Land Tenure



# Changes in Tenancy Raises Risk

- **Additional capital required by tenant**
- **Growing need for crop insurance**
- **Higher interest cost per acre**
- **Price management to protect gross/A**
- **Opportunities for higher profit**

# Net-Share Rent as a % of Crop Returns



# #9

# Uncertainty of farm income



TIAA

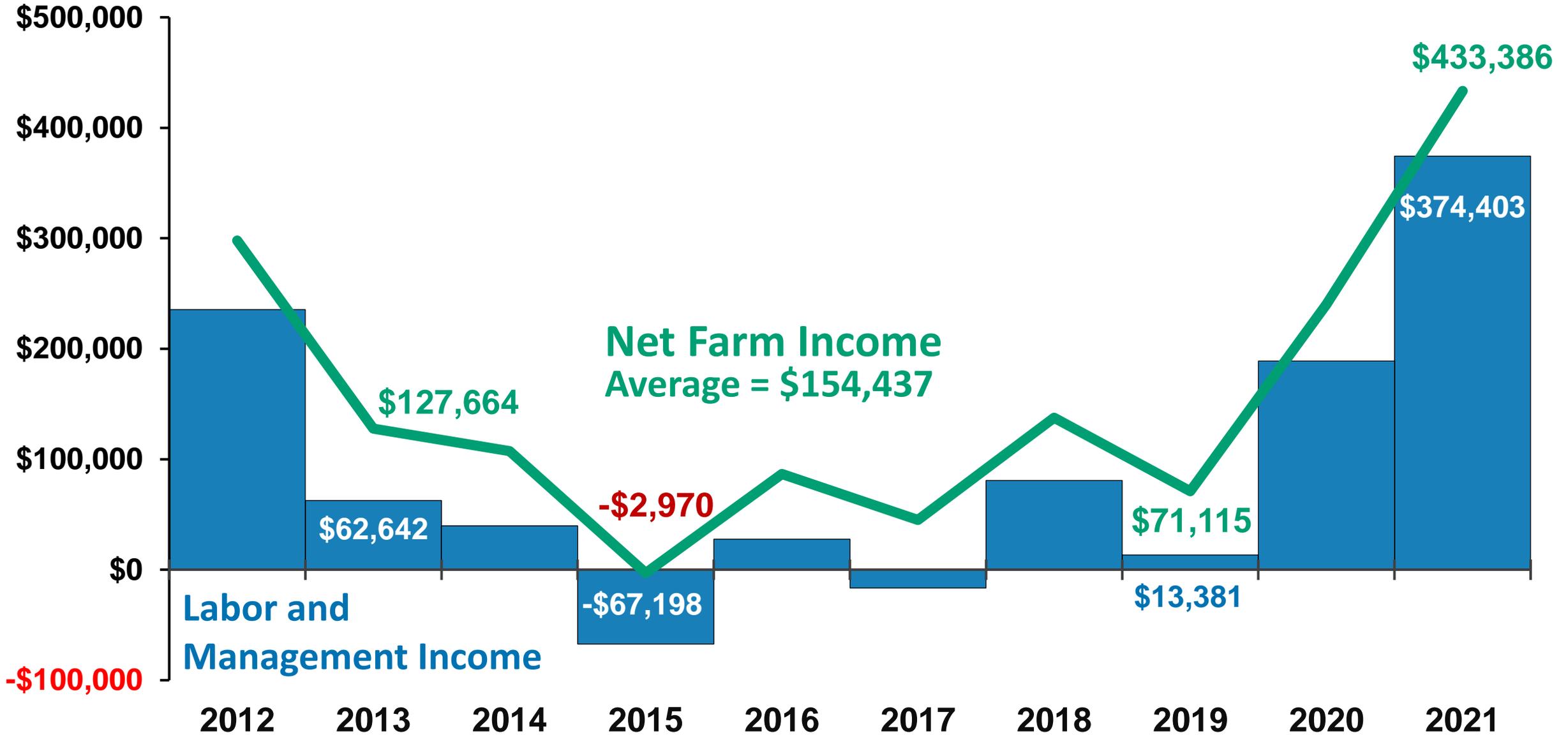
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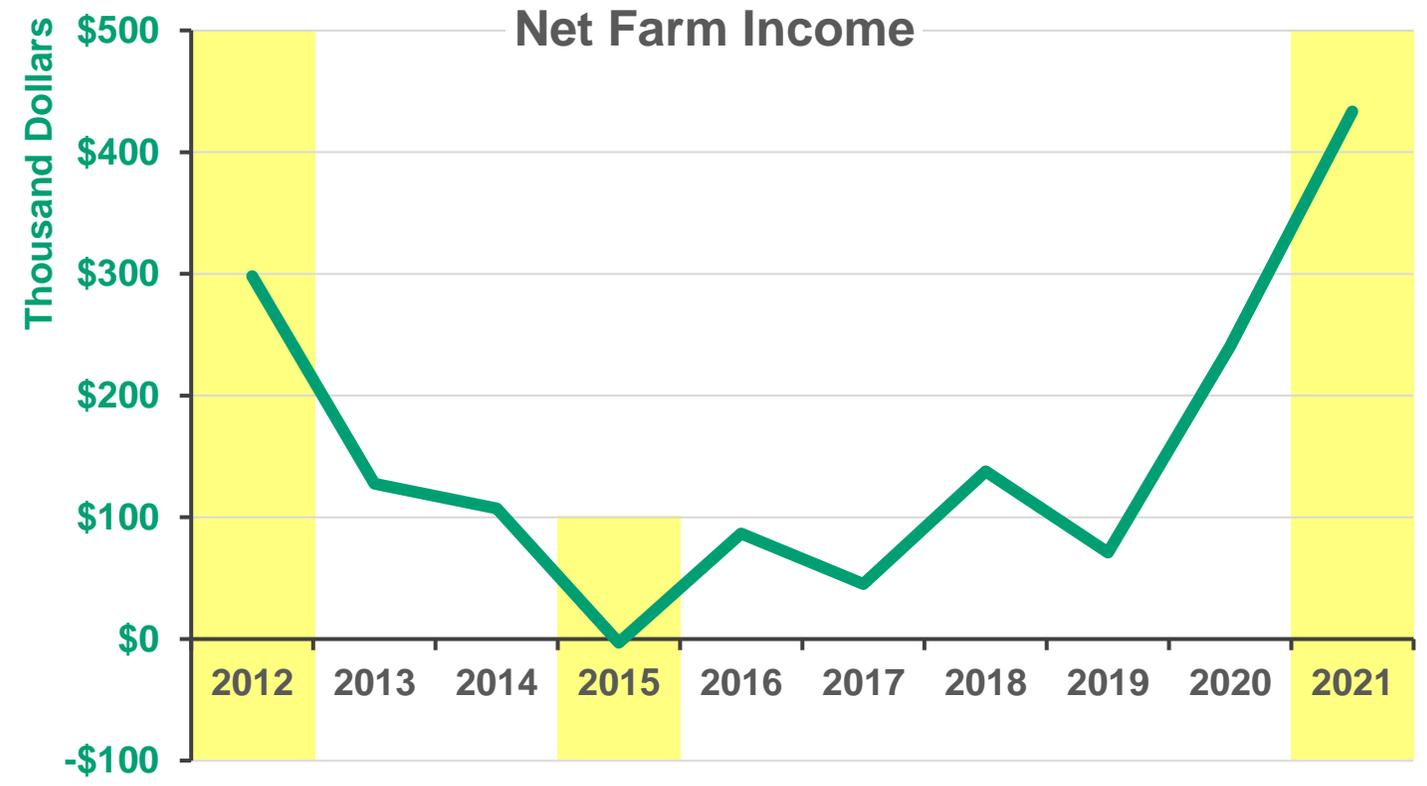


# 2012 to 2021 FBFM Incomes



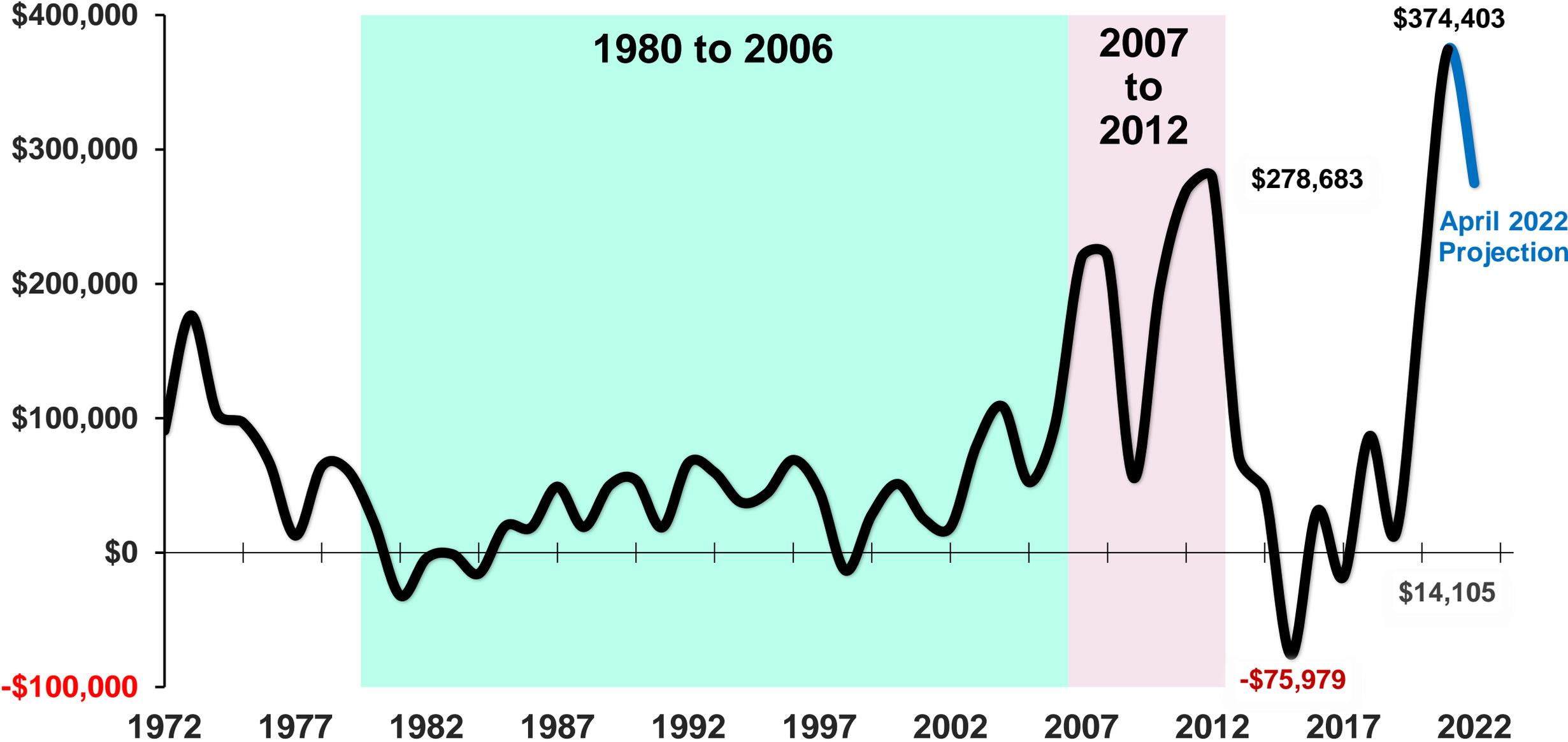
# Uncertainty of farm income

- Record high in 2012
- Record low in 2015
- Record high in 2021
- Projected smaller profits 2023



**All create need for higher management focus**

# Operator's Share Labor & Management Income (Inflation Adjusted)



# #8

# Know Non-Farm Costs



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# Know Non-Farm Costs

**\$85,828**    **Family living expendables**

**\$6,509**    **Family living capital**

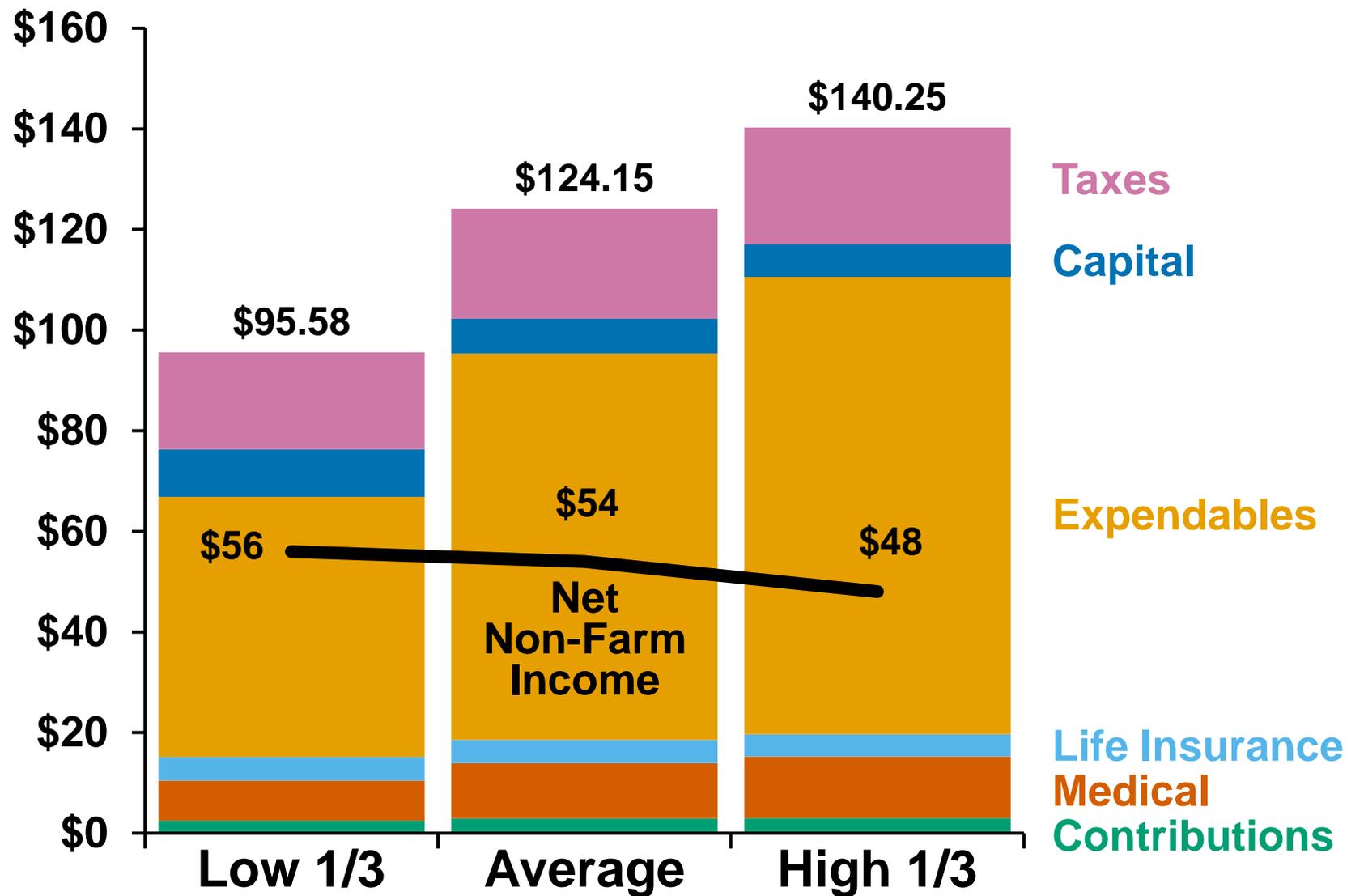
**\$24,654**    **Income tax**

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**\$116,991**    **Total**

\*\* Avg of 1,213 FBFM farm records,  
Operator age 58

# 2021 Total Cost of Living per Acre



Farm businesses cover living costs from either farm or non-farm income sources and are a vital part of successful work / life balance.

Living Costs increase taxable income, reduce working capital, and reduce net worth.

These are often understated on cash flow projections.

# #7 Inflation Impacts Bottom Line

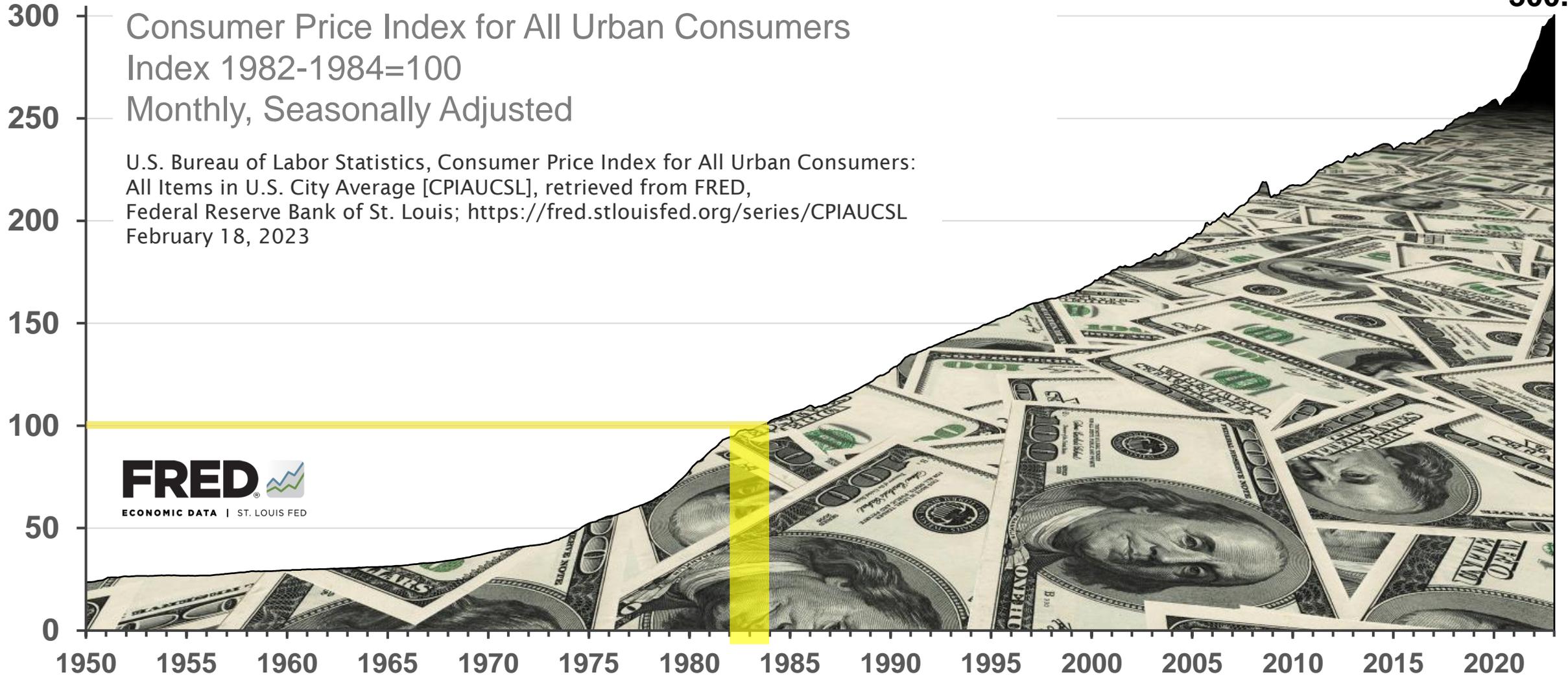
January 2023  
300.5

300  
250  
200  
150  
100  
50  
0

Consumer Price Index for All Urban Consumers  
Index 1982-1984=100  
Monthly, Seasonally Adjusted

U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers:  
All Items in U.S. City Average [CPIAUCSL], retrieved from FRED,  
Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIAUCSL>  
February 18, 2023

**FRED**  
ECONOMIC DATA | ST. LOUIS FED

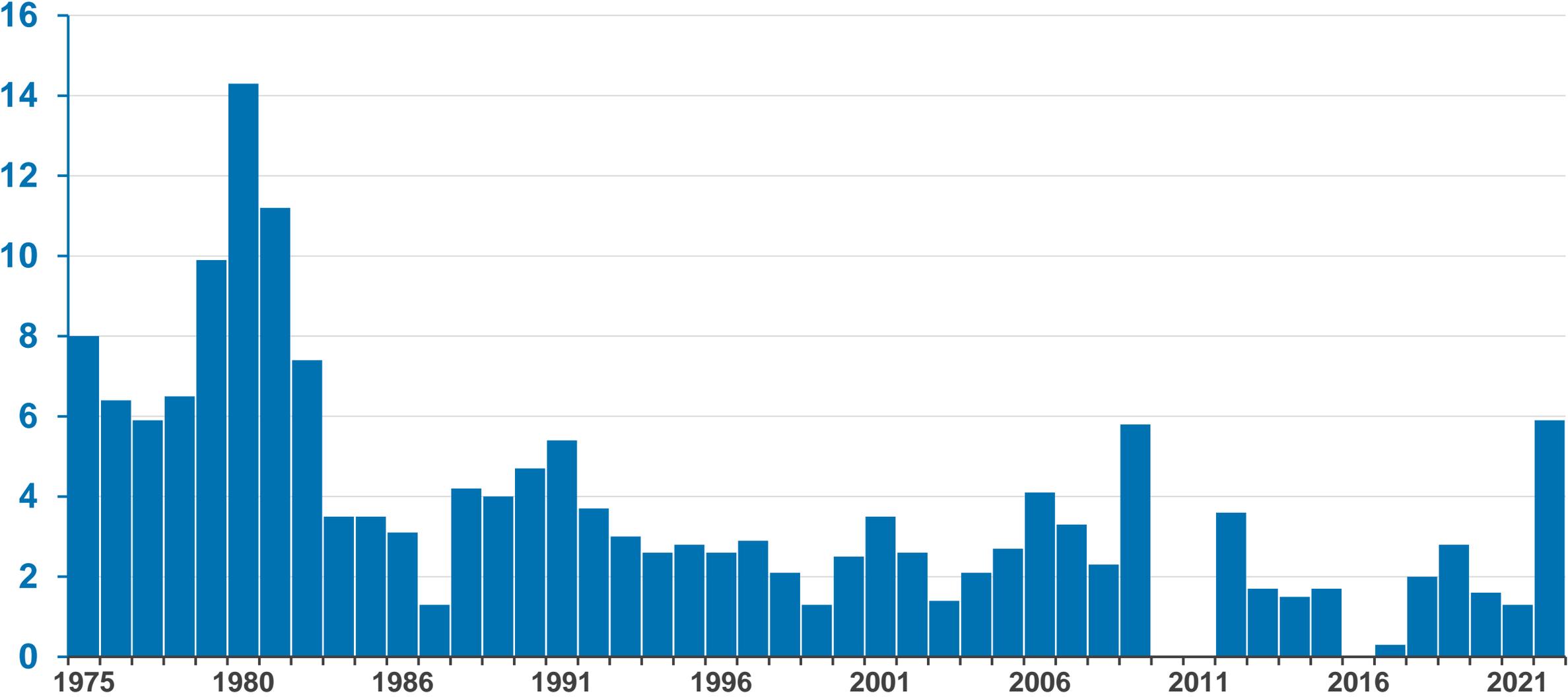


# **Inflation impacts bottom line**

- **Increases commodity prices**
- **Raises cost of inputs**
- **Grows asset value on balance sheet**
- **Non-farm income and expenses climb**

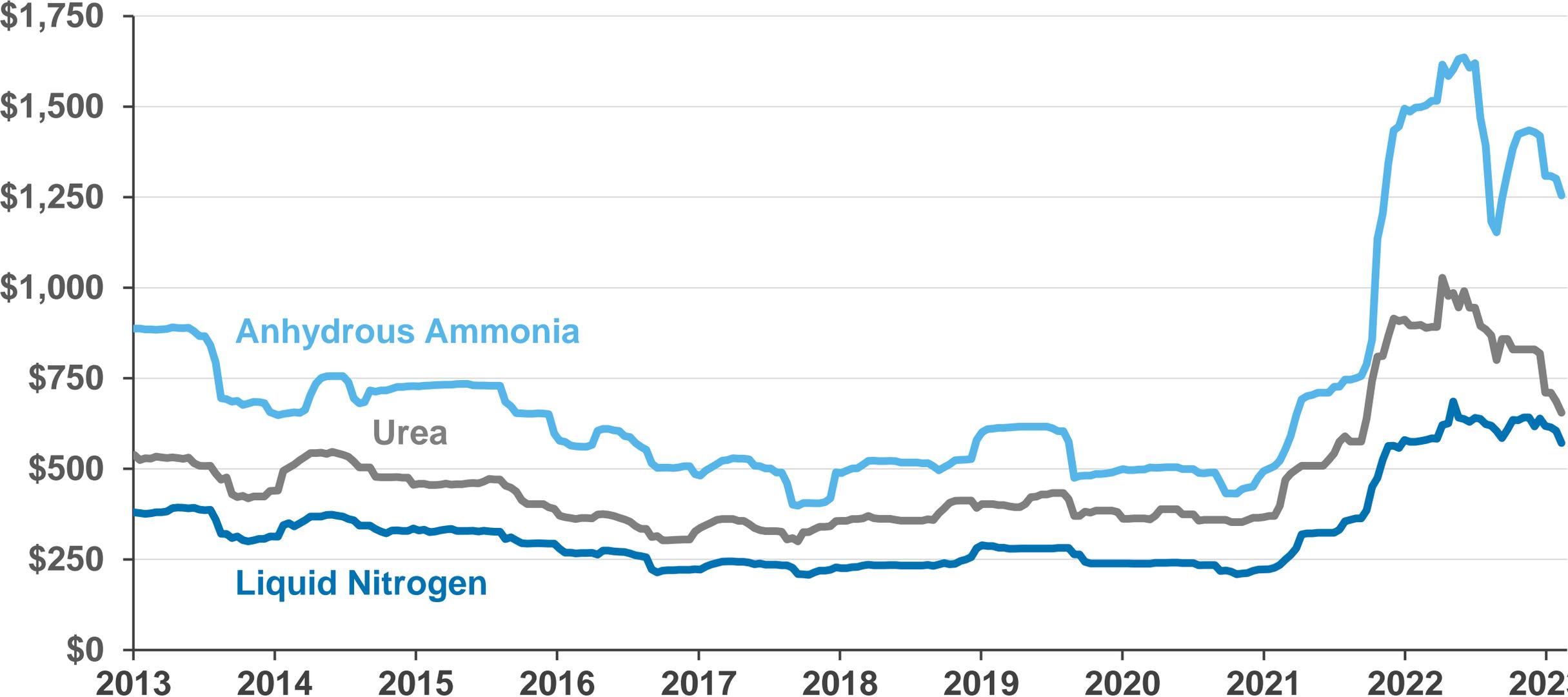
# Inflation Impact SSA COLA

## Social Security Cost-of-Living Adjustment



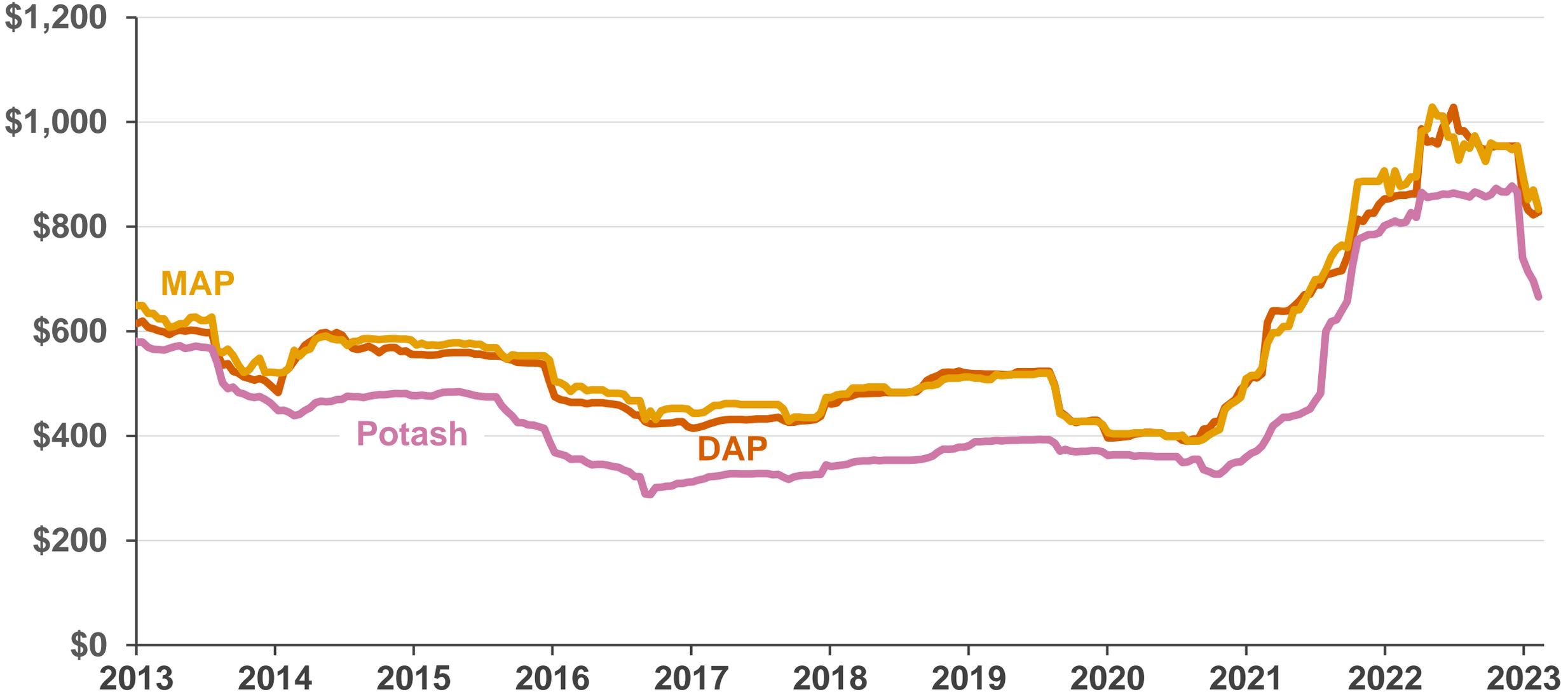
# Illinois Fertilizer

USDA Illinois Production Cost Report 2013 to Feb 9, 2023



# Illinois Fertilizer

USDA Illinois Production Cost Report 2013 to Feb 9, 2023



# Illinois Diesel Prices

USDA Illinois Production Cost Report 2013 to Feb 9, 2023



Diesel

# Dow Jones Industrials

*February 7, 2013 to February 6, 2023*



# #6

## Growing Debt Needs Attention



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# Growing Debt Needs Attention

## Debt per Acre, Illinois Grain Farms



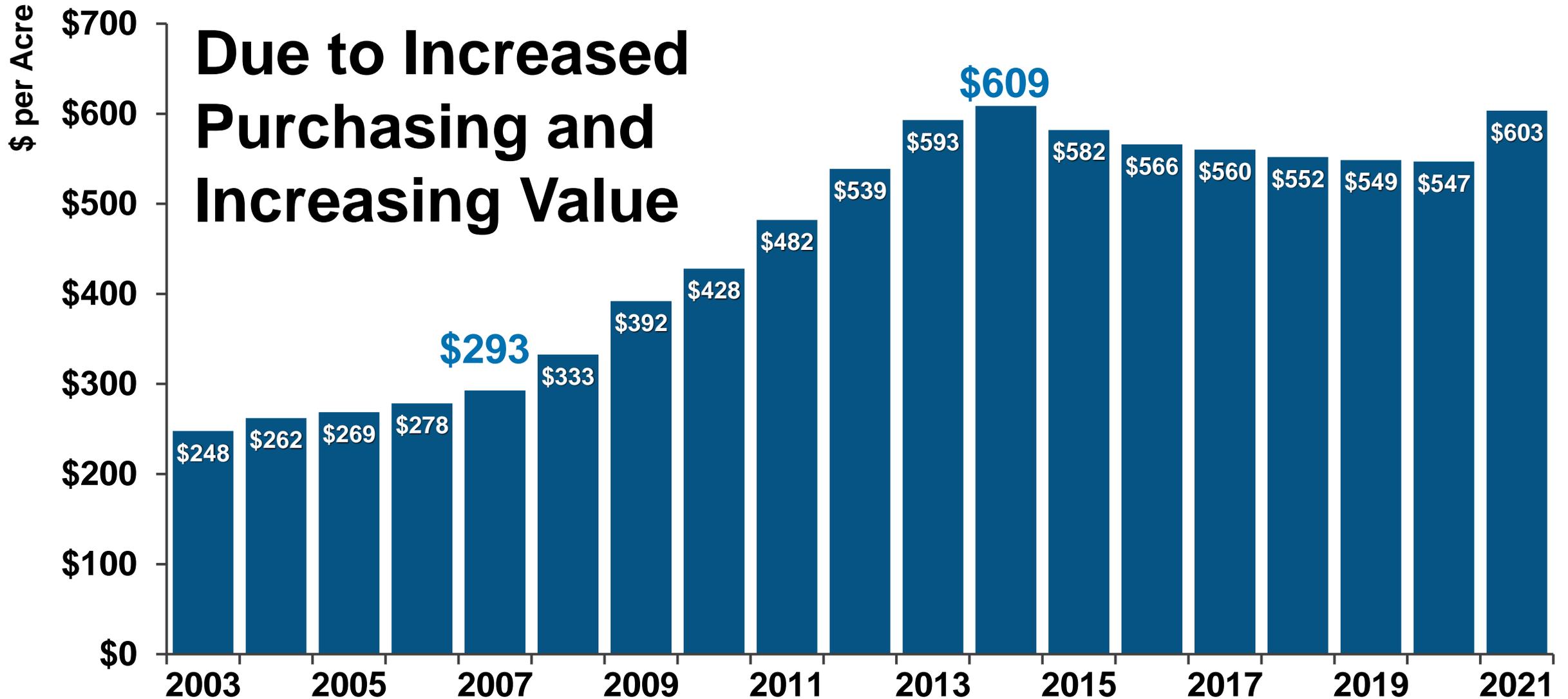
**2021 Debt per tillable acre**  
**\$725**

**1991 Debt per tillable acre**  
**\$258**

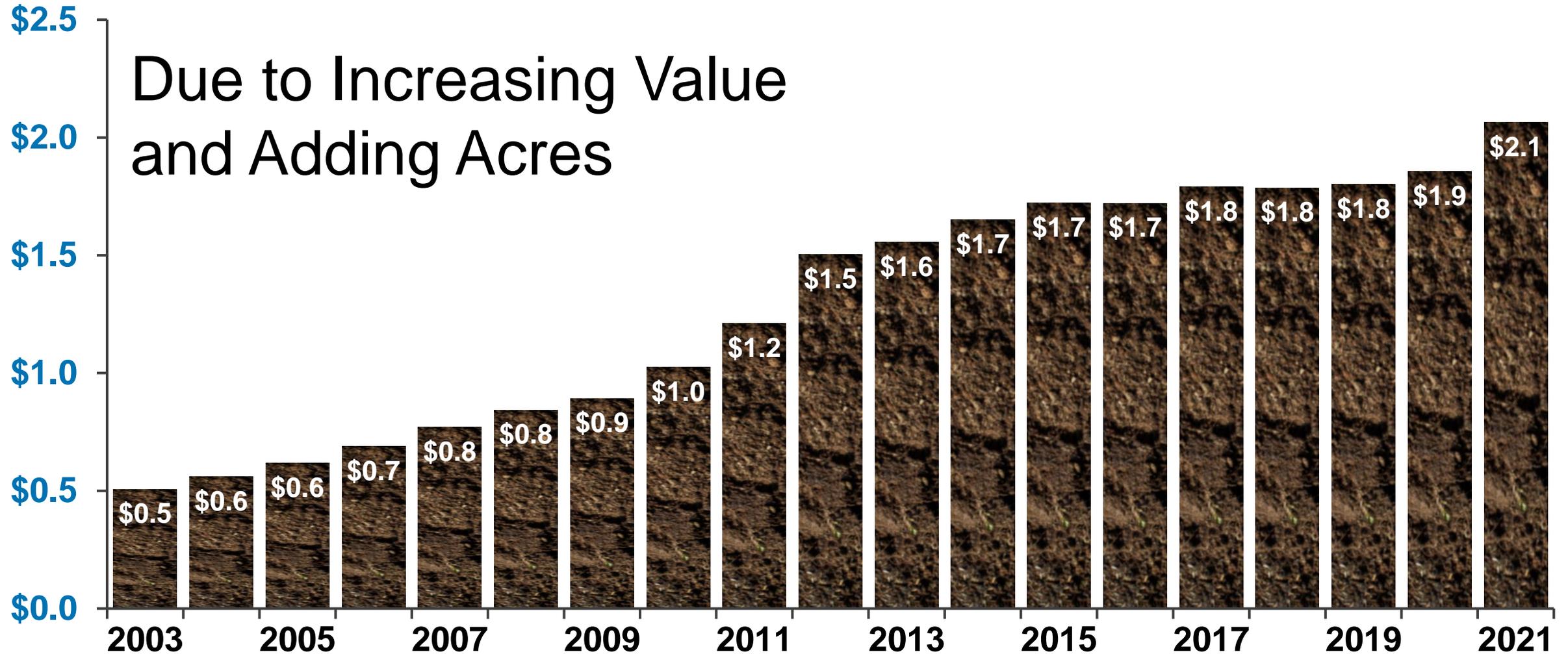
**1991 Interest expense**  
**per tillable acre**  
**\$20.72**

**2021 Interest expense**  
**per tillable acre**  
**\$20.00**

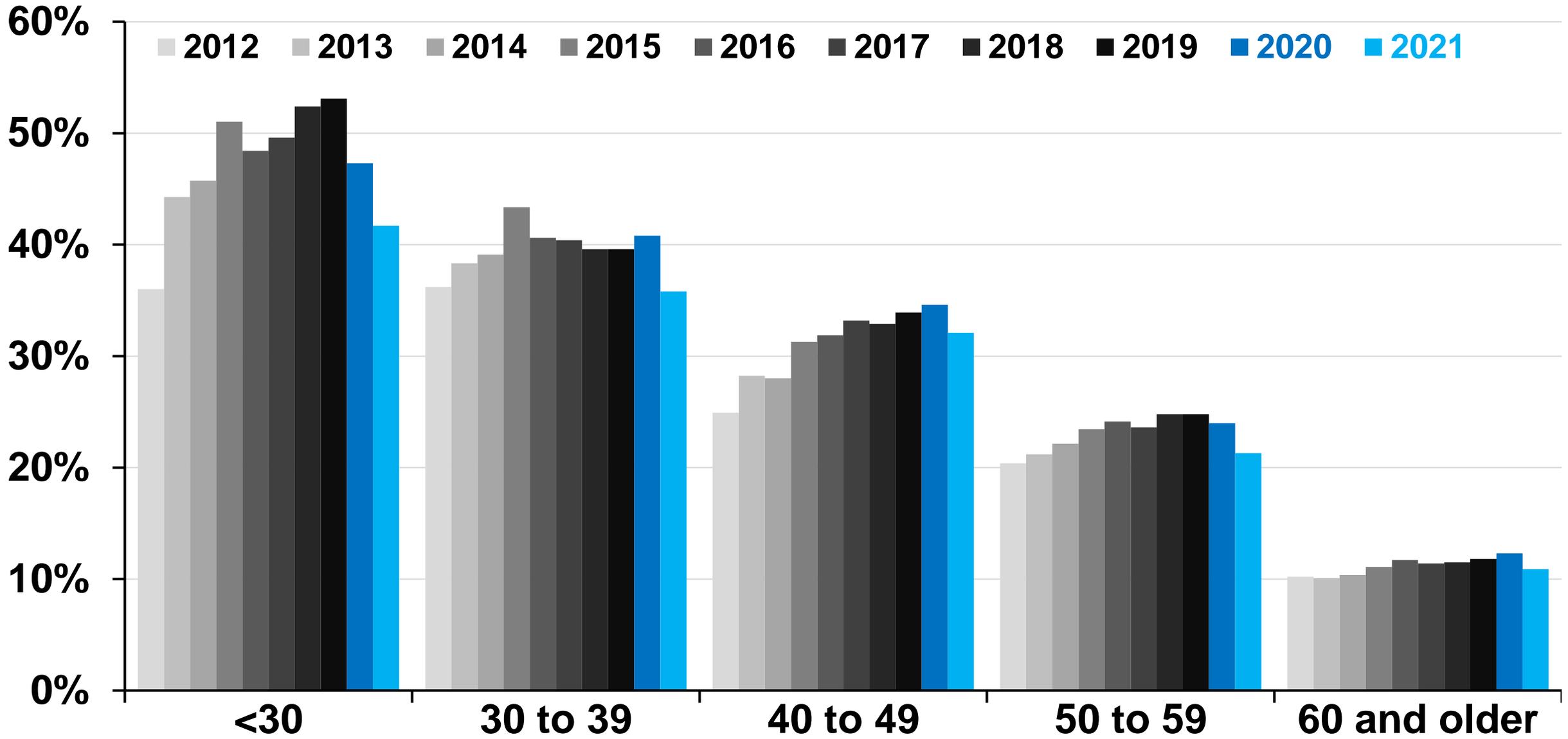
# Average Machinery Values Doubled in 7 Years



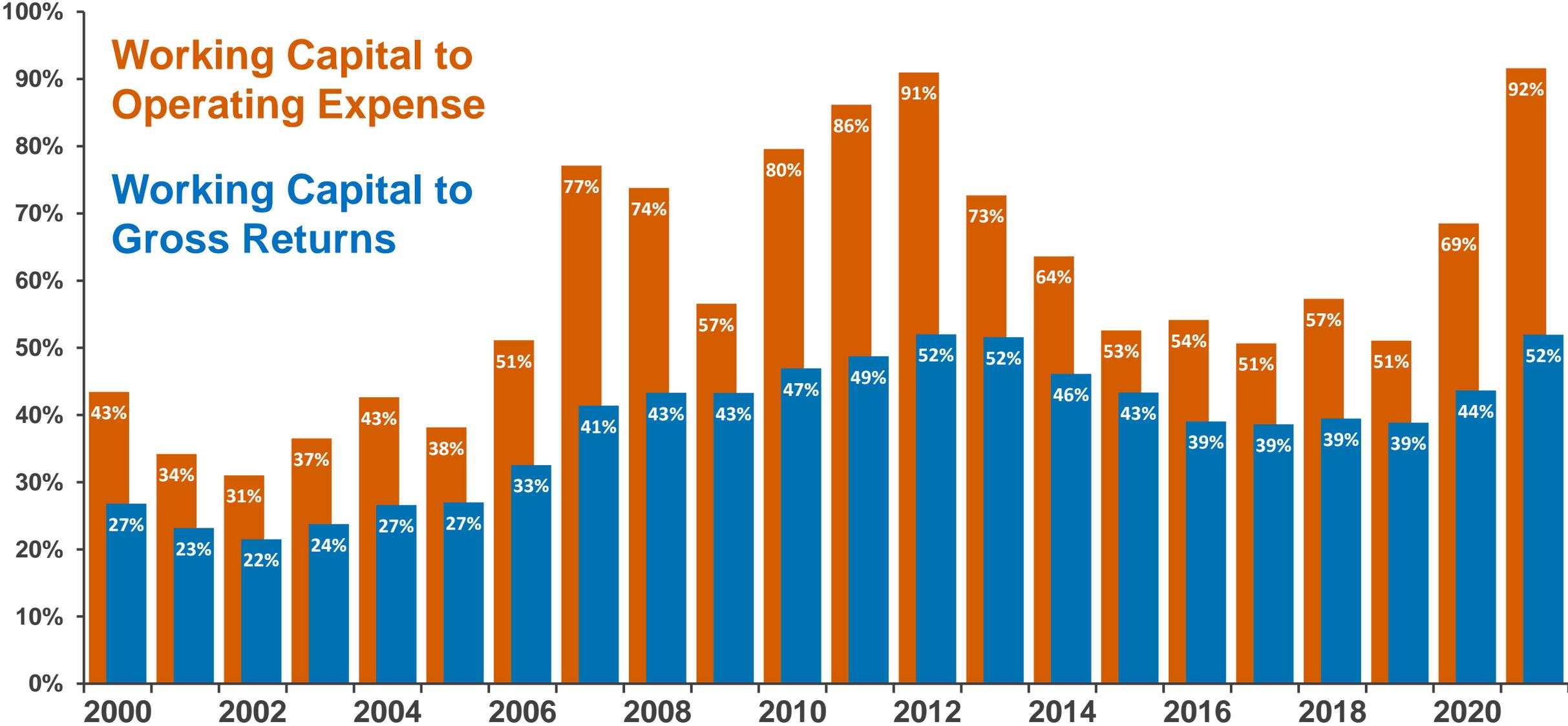
# Average Value of Land Owned Increased in Million Dollars



# Debt to Asset Ratio for Grain Farms by Age



# Working Capital Ratios



# #5 Do Things to Get Better



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# Do Things to Get Better

2021 Results	High 1/3	Low 1/3
<b>Corn yield (bu/a)</b> <i>High 1/3 = 21 more operator acre</i>	<b>223</b>	<b>217</b>
<b>Bean yield (bu/a)</b>	<b>72</b>	<b>71</b>
<b>Crop returns</b>	<b>\$1,164</b>	<b>\$1,034</b>
<b>Crop costs</b>	<b>\$248</b>	<b>\$281</b>
<b>Power &amp; equip cost</b>	<b>\$125</b>	<b>\$168</b>
<b>Management returns</b>	<b>\$453</b>	<b>\$167</b>
<b>Prod/\$1 non feed cost</b>	<b>\$1.54</b>	<b>\$1.14</b>
<b>Capital purchases</b>	<b>\$252,294</b>	<b>\$211,737</b>

# #4 ↑ Interest rates ↑ Transition cost



# ↑ Interest rates ↑ Transition cost

IRS publishes minimum required interest rates monthly

## December 2022

4.55% Loans 3 years and less (0.33% Dec 2021)

4.34% Loans 9 years and longer (1.90% Dec 2021)

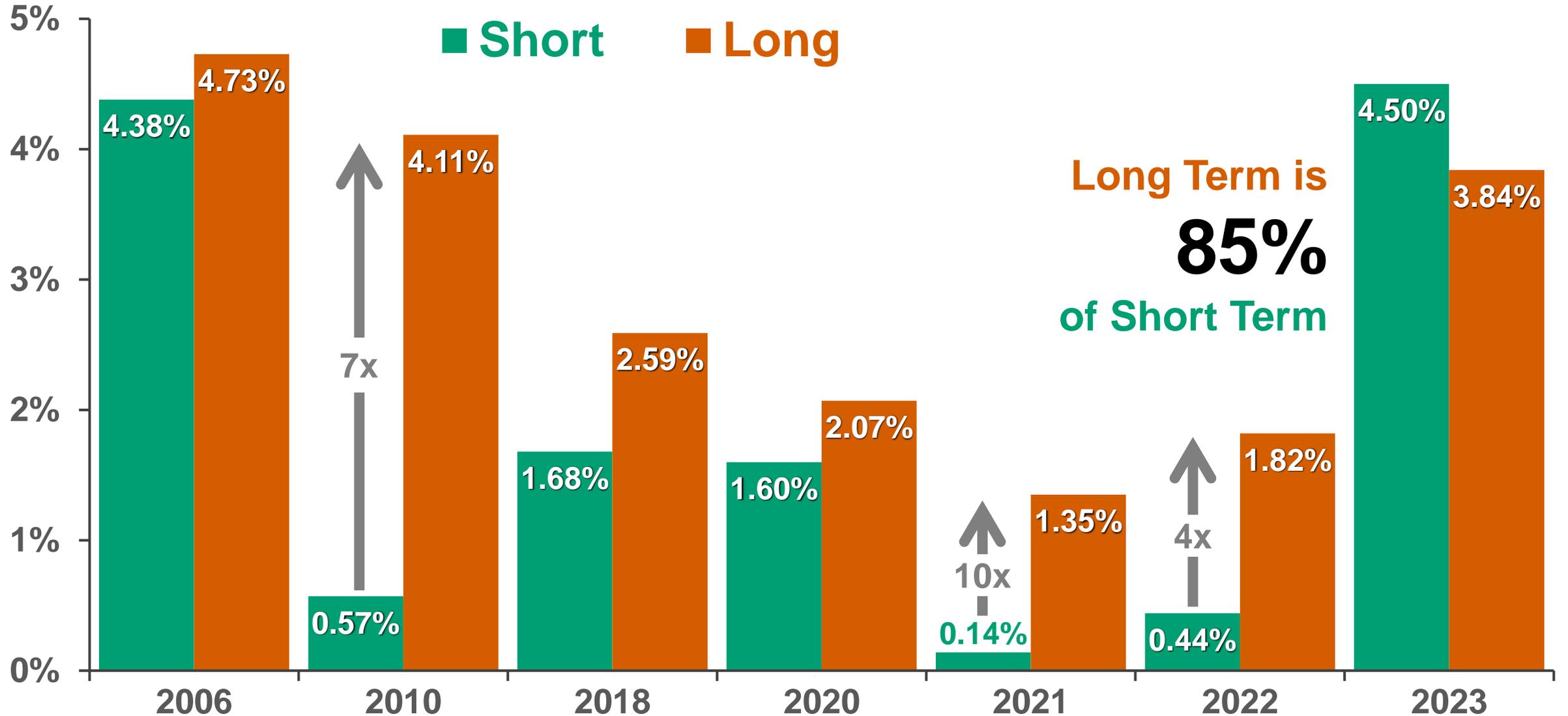
A) To transfer \$300,000 of equipment over 3 years

Total interest cost is \$27,705 (\$1,982 Dec 2021)

B) To transfer \$1,000,000 of land over 9 years

Total interest cost is \$229,262 (\$97,382 Dec 2021)

# Rising Interest Rates



# Impact of Inflation on Transition Plan

	2020	2022
<b>Ownership of 500 acres</b>	@ \$10,000 <b>\$5,000,000</b>	@ \$18,000 <b>\$9,000,000</b>
<b>Inventory from 1,500 acres</b>	@ \$800/acre <b>\$1,200,000</b>	@ \$1,300/acre <b>\$1,950,000</b>
<b>Machinery</b>	<b>\$500,000</b>	<b>\$650,000</b>
<b>Stocks</b>	<b>\$800,000</b>	<b>\$560,000</b>
<b>Total</b>	<b>\$7,500,000</b>	<b>\$12,160,000</b>

# #3

# Use favorable tax rules by 2026



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# Use favorable tax rules by 2026

- **Lower federal tax rates**
- **20% QBIID deduction**  
Qualified Business Income deduction
- **Higher 179 deductions**
- **100% bonus depreciation (ended 2022)**
- **Higher standard deduction**
- **Higher federal estate tax exemption**

# Tax Planning 2023

## Federal Income Tax Rates

### Highest Marginal Tax Rate

**70% in 1978**

**37% in 2022**

- Reduced to 29.6%  
if business income via QBID
- 19.2% highest rate up to  
about \$364,200 income

### Tax Paid by Average FBFM farm

**\$3,800 in 1984**

**\$24,654 in 2021**

# #2

# Beef Up Estate Plan



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# Beef Up Estate Plan

- **Consider higher asset values**
- **Understand the benefit & use of TRUSTS**
- **Review Illinois estate tax liability**
- **Revisit allocation to farm & nonfarm heirs**
- **Are gifts needed, if yes: what type?**

# Federal Estate Tax Key Numbers

**Rate is 40%**

**Current exemption level**

**2023 = \$12.92 million per person**

**2023 = \$25.84 million per couple**

**2032A reduction allowed = \$1,310,000**

**Annual gift exclusion = \$17,000**

**U.S. farm operator estates that owed federal estate taxes  
0.16% in 2020**

***Note: Illinois has state level estate tax with \$4M exemption***

# Illinois Estate Tax Computations After Gifts

Taxable Estate	Taxable Estate + Taxable Gifts	Illinois Estate Tax
\$8 million	\$8 million	\$ 680,634
\$5 million	\$8 million	\$ 352,158
\$2 million	\$8 million	\$ 92,910

Source: Illinois Attorney General Estate Tax Calculator

# #1 New Economy Inflation



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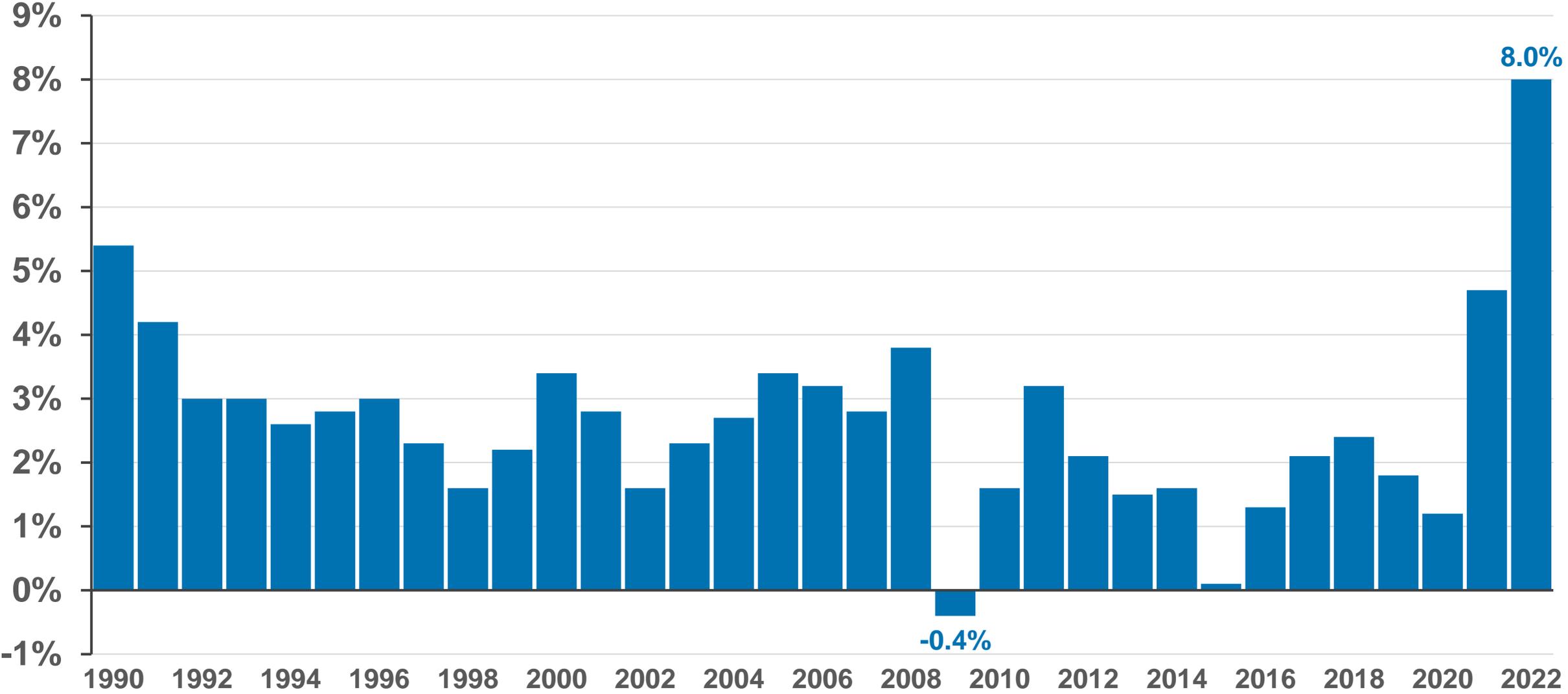
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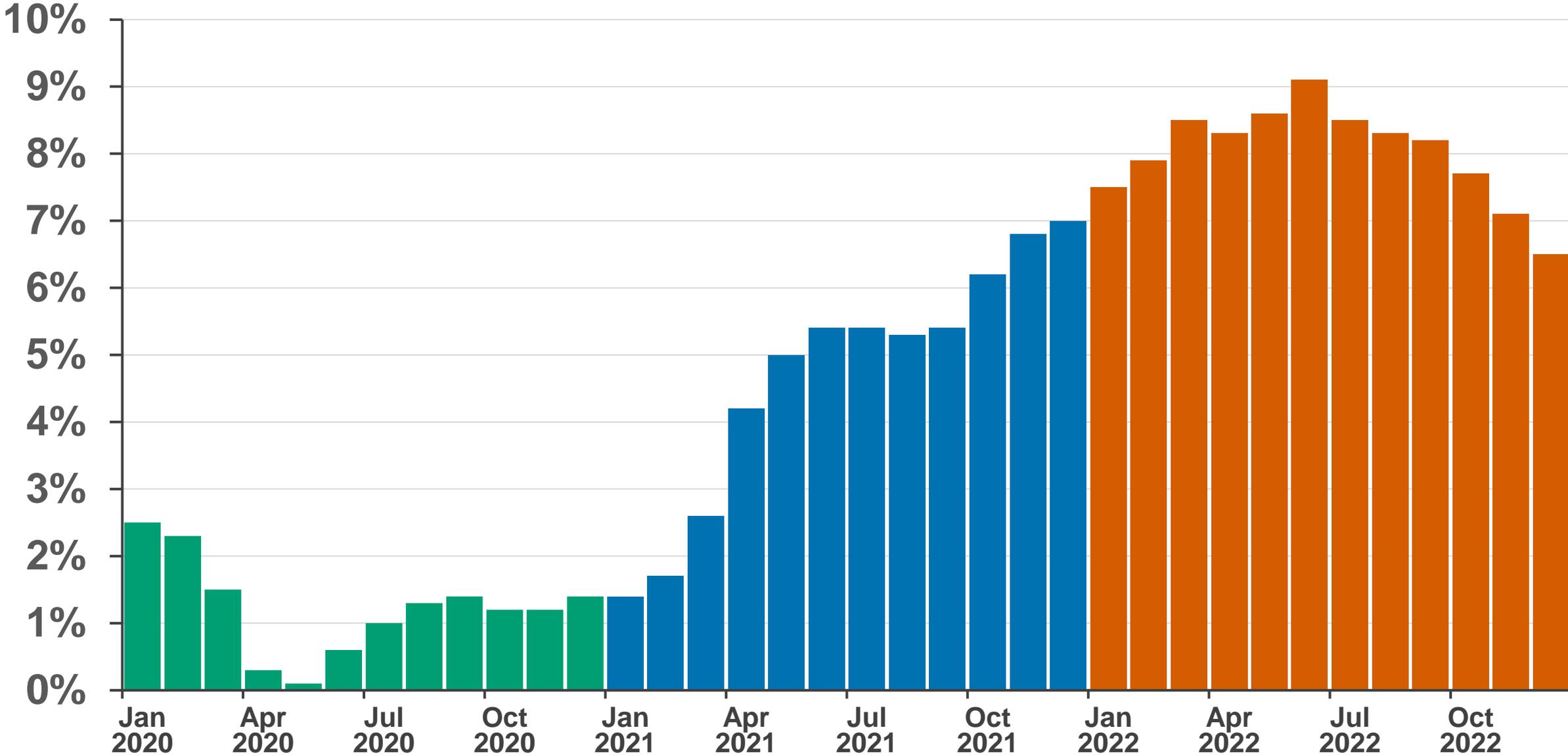
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# Annual Inflation Rate in the United States



# Monthly 12-month Inflation Rate in the United States



# Top Ten Business Strategies 2023

10. Higher tenant risk
9. Uncertainty of income
8. Know non-farm costs
7. Inflation impacts net
6. Growing debt attention
5. Do things to get better
4. Higher transition cost
3. Use tax rules by 2026
2. Beef up estate plan
1. Inflation economy

Cash is King



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# 2023 Illinois Farm Economics Summit

**Thursday, February 23, 2023 @ 11 am to Noon CST**  
**Wrap up with the farmdoc team**

## Crop Risk Management for 2023



**Thursday, March 2, 2023 @ 9 to 10 am CST**

Many of the risk management decisions impacting 2023 crop production will be made soon. At the end of February, projected prices for crop insurance will be known.

We will cover decision related choices related to corn or soybeans, marketing, leasing, commodity title alternatives, & crop insurance alternatives.

# Thank You for joining us!

Please submit your questions



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