

# Northwest Iowa Progress Report

by: *Chad Husman, AFM*



Farmers and others working in agriculture are notorious for complaining about weather. You may have noticed from previous newsletters, farm managers can be guilty of this too. However, it was hard to complain this year. Crops experienced little stress from planting to harvest. After a cool, wet May, temperatures and rainfall were close to average all growing season. August rainfall was able to finish out the crops.

Harvest progressed smoothly with warm, dry conditions across the Midwest most of the fall. Soybean harvest finished in mid-October. Yields of 55 to 70 bushels per acre were common across Northwest Iowa. Corn yield results also look to be near record levels. Many fields achieved yields of 190 to 230 bushels per acre.

***We are constantly looking for ways to improve yields by making adjustments and comparing results. This season is giving us a great opportunity to see what combination of factors lead to the very top yields.***

The last time we had corn yields this high was in 2009, which was a long, cool growing season that resulted in high yields with high grain moistures and low test weights. This summer was on the cool side also, but late summer and fall were warmer

and mostly dry. The corn crop was able to mature on time and dry in the field. This greatly reduced drying expenses, sped up harvest, and improved grain quality.

Good yields were common this year but not a guarantee. As always, yield levels varied widely because of many factors including:

- Drainage
- Soil Type
- Disease & Insect Pressure
- Soil Fertility
- Seed Selection
- Plant Population
- Various Chemical Treatments

Some of these factors are left to Mother Nature, but most of them can be adjusted and improved with good management. We are constantly looking for ways to improve yields by making adjustments and comparing results. This season is giving us a great opportunity to see what combination of factors lead to the very top yields. What we learn each season is helpful for future planning.

Of course, yield is only part of the picture when it comes to profitability. Cost of production and grain prices are also crucial. We are seeing input costs soften only slightly in response to lower grain prices. Fertilizer will probably have the biggest reduction in cost followed by seed. The cost of weed control may actually rise due to the increase in herbicide resistant weeds.

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## Today's LAND OWNER

Stalcup Ag Service, located in Storm Lake, Iowa is an employee-owned partnership that has prospered by serving farm management, real estate, and appraisal needs of Northwest Iowa farm owners since 1942.

### Stalcup's Team

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Today's Land Owner

# Tax Issues for Landowners

by: Kent Smith, AFM



With year-end approaching, you are either already or will soon be planning for taxes. Here are a few items for your consideration, courtesy of Ohio State University Extension.

Landowners may report farm rental income on **Schedule F** (Farm Income and Expenses), **Form 4835** (Farm Rental Income and Expenses), or **Schedule E**. You may have a need to use more than one of these reporting forms. That depends on your "material participation," which means the extent to which you are involved with the management and operation of the farm.

- **Schedule F** should be used by a share-rent landowner who is materially participating (see definition below),
- **Schedule E** should be used by a cash rent landowner,
- **Form 4835** should be used by a share-rent landowner who is not materially participating.

If you file Schedule F, you must pay self-employment (SE) tax. SE tax is due on the income from production but is not due from the rental of buildings or grain bins. **If you file Schedule F, you qualify for expensing drainage tile under Section 179.** Non-materially participating landowners only qualify for regular depreciation. Current interpretation of the law says that SE tax is due on CRP income by materially participating landowners.

The material participation test is whether you are "involved in the operations of the activity on a regular, continuous, and substantial basis." Involvement can include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions. Material participation rules were again debated in Congress as part of the most recent farm program negotiations.

Material participation also affects estate planning. Special Use Valuation is permitted, which can reduce federal estate tax considerably, assuming certain qualifications are met. One may also qualify for payment of federal estate taxes on the installment plan over 15 years at a very low interest rate. Also, the Federal Family-Owned Business Deduction may allow one to deduct \$1.3 million from the gross estate.

Many landowners have benefitted from Section 1031 tax-deferred exchanges over the years. The law has been on the books since the early 1920's. Section 1033 is the portion of the tax code that deals with condemned property or property under threat of condemnation. The difference, in a nutshell, is that Section 1033 allows a longer time to find replacement property. This can be anywhere from two to four years (usually two) from the end of the tax year when any part of the gain is realized. A 1031 exchange requires the replacement property to be of equal or greater value. Section 1033 does not appear to require this. Use of a Qualified Intermediary to hold funds is not required with a 1033 exchange.

**Always discuss these and other tax issues with your tax preparer.** Their signature and yours is on the bottom of your tax return.

# Today's Land Market

by: Dennis Reyman, AFM, ARA



The farmland market seems to have found some footing lately after sliding back for the past year or more. Great crop yields around the area will certainly not hurt as we enter the late fall and winter “land selling season.”

Recent land value surveys have included the September 1 edition of the Realtors Land Institute survey and the quarterly survey of bankers by the Federal Reserve Bank of Chicago. The RLI survey shows west-central Iowa land to be down by 1.9% since March 1, while the northwest district was down by 2.5% and north-central down by 5.4%. While still drifting lower from March to September, the decline was considerably less than was experienced the previous six months and seemed to stabilize as we neared late summer. **In fact, this was the most positive survey result since September 2013.**

What’s more interesting is that high-quality land has shown the lowest percentage decline, which is not surprising. Buyers show more selectivity in a down market but remain willing to step up to own that high-quality or strategically-located parcel. Overall, the six-month decline in the three above-mentioned districts was about \$300 per acre.

The August Ag Letter from the Federal Reserve Bank of Chicago placed “good” farmland in western Iowa at +1% from April to July while the north-central district was at -1%, basically a steady market this past spring and early summer. While somewhat different results from the RLI survey, we think both indicate a steadier land market.

Our own observations of the land market agree with these surveys. While transaction volume seemed to be somewhat less than normal, particularly in certain areas, there was enough activity across the region to draw the conclusion that we’re in a steady market, perhaps even improving lately for the right ground in the right location.

Crop farmers will likely receive better incomes than expected for 2015, thanks to high yields and maximum ARC-county payments on corn base acres (in most counties). If crop prices

***We’re in a steady market, perhaps even improving lately for the right ground in the right location.***

improve into the winter, we could begin to see some recovery in land values. This will probably not be significant enough to bring many new farmer-buyers to the market, but could lower the caution flags

for those who are established landowners. It doesn’t take all that much change in optimism to add back the most recent \$300/acre decline. In fact, it would not be too surprising to see the land market respond quicker than the cash rent market, since cash rent break-evens require these high yields to become profitable in many cases. The ability to cash flow a new land purchase relies

more upon a buyer’s current costs on owned land than on rented land.

Below is a table of selected sales of good land in our region. We also have several listings and upcoming auctions with brief information provided. Check our website for more complete information on these properties.

## Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	Tillable
July	Osceola	120.0	75.3	\$9,900	98%
July	Clay	145.0	73.3	\$8,100	99%
July	Greene	160.0	75.7	\$7,500	83%
July	O’Brien	80.0	77.2	\$14,600	96%
August	Emmet	103.0	73.6	\$8,500	99%
August	Calhoun	80.0	83.7	\$9,325	99%
August	Calhoun	151.5	78.8	\$8,350	98%
August	Webster	80.0	77.6	\$8,900	99%
August	Ida	160.0	68.7	\$8,600	95%
August	O’Brien	134.0	72.6	\$12,750	98%
August	Clay	80.0	73.4	\$10,700	96%
August	Crawford	160.0	72.5	\$8,500	90%
August	Plymouth	231.0	59.9	\$9,500	96%
August	Webster	137.3	77.8	\$9,200	99%
September	Pocahontas	80.0	77.0	\$9,075	90%
September	Sioux	77.0	73.0	\$14,000	99%
September	O’Brien	76.0	72.6	\$12,600	95%
September	Cherokee	80.0	64.3	\$9,400	98%
October	Woodbury	80.0	32.6	\$7,500	88%
October	Plymouth	318.0	64.1	\$15,100	98%

### Upcoming Stalcup Sales

Date	County	Acres	CSR
11-10-15	Calhoun	80.0	81.9
11-10-15	Calhoun	180.0	79.6
11-10-15	Calhoun	160.0	77.8
11-19-15	Monona	38.0	59.3
11-19-15	Monona	57.4	63.4
11-19-15	Monona	62.0	48.3
11-24-15	Buena Vista	177.0	80.4
Listing	Buena Vista	160.9	67.2
Listing	Buena Vista	183.1	70.6
Listing	Buena Vista	132.3	70.6

**Check our website for more information on these listings**

# Cover Crops

by: Grant Aschinger



If you have looked through a farm magazine in the last couple years, there is a good chance it included an article about cover crops. Cover crops are a non-cash crop that provides ground cover and actively growing roots after the cash crop has been harvested.

The increasing interest in cover crops is stimulated by a number of different factors, but the main goal of planting cover crops is eliminating the “dead zone” in the Gulf of Mexico. Meeting this objective requires farmers and ranchers located in the Mississippi Drainage Basin to reduce nutrient run-off into waterways.

## ***Recent studies have been mixed regarding yield improvements when using a cover crop.***

There are many different species and types of plants that can be planted as a cover crop either as a single species or in a mix of multiple species. The most popular is cereal rye grass. Other commonly used species are radishes, turnips, and oats. Most

seeding is done aurally into the standing crop in late August and early September, although some direct seeding also is done as soon as the crop is harvested.

Aside from reducing the size of the dead zone in the Gulf of Mexico, there are also other potential benefits that may be achieved by the planting of a cover crop including:

- reduced surface erosion from water and wind
- nutrient sequestration in roots and plant tissue
- increased soil organic matter
- improved weed control
- reduced soil compaction

Recent studies have been mixed regarding yield improvements when using a cover crop. Paying the costs to use a cover crop is the biggest obstacle to widespread adaptation of the new practice. There may be government cost-share available in some watersheds to help offset the cost of trying cover crops on your farm.

Stalcup Ag managers have had experience with cover crops over the last few years and can help with any questions you may have on this practice.



*Cover crop growth in early October*

# Grain Market Comments

by: Dan Niemeier

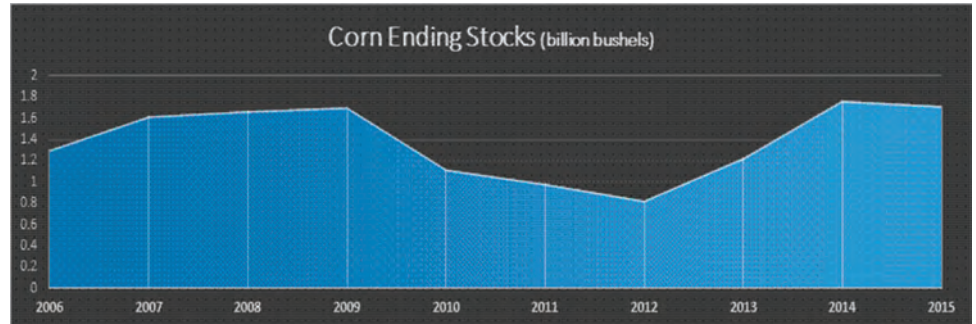


On October 9<sup>th</sup>, USDA reduced harvested acres for both corn and soybeans, lowered soybean exports for the 15-16 year, and raised corn and soybean yield estimates. A large forecasted supply of corn and soybeans is the biggest factor for current prices. However, other factors are at play and include currencies, the world economy, and a downtrend in all commodities.



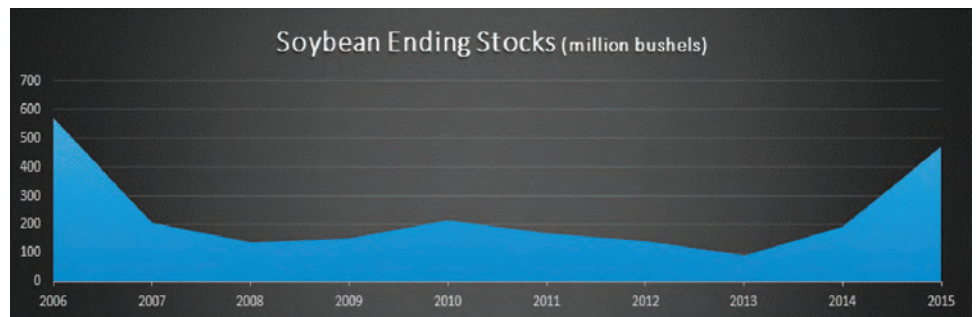
## CORN:

Currently it is estimated the U.S. will harvest 80.7 million acres vs. 83.1 last year. The USDA adjusted the national corn yield to 168 bushels per acre. This would put ending stocks at 1.56 billion bushels. This is a number only slightly lower than last year. With total usage at 13.75 billion bushels, the stocks to use ratio is at 11% compared to last year at 12.5%. With that said, the USDA projects an average farm price between \$3.50-\$4.10. Cash price at this writing is near \$3.50.



## SOYBEANS:

The soybean market is a bit more complex and vulnerable to world economic conditions, as 41% of U.S. soybeans are exported. Current soybean prices are reflecting the current USDA ending stocks estimate which they have pegged at 425 million bushels.



USDA estimated 82.4 million harvested acres of soybeans with a national yield of 47.2 bushels per acre. Total use is estimated at 3.69 billion bushels for the 15-16 marketing year. The carry-over estimate is more than twice the amount of last year and at a level not seen since 2006. USDA estimates the average farm price to be between \$8.40-\$9.90. Cash price at this writing has recovered \$.25 to reach \$8.40.

### Factors to consider:

- **USDA has consistently underestimated soybean demand the past several years.** Last year at this time they estimated the 14-15 soybean ending stock number to be 450 million bushels. A year later 14-15 ending stocks are estimated at 191 million bushels, less than half of the USDA October estimate. While the current forecast for soybeans looks bleak, demand tends to reduce final carryovers more than is anticipated during harvest. If USDA stays consistent by underestimating demand, it is plausible to see ending stocks at levels closer to 2010, which should lead to higher prices. It seems this will be necessary to approach their \$9.90 price top.
- **China growth is one of the major factors for USDA underestimating demand.** Currently China's economy is slowing to a level not seen since they became a major importer of U.S. soybeans. One should note, however, that their demand is still estimated to grow, just not at the

high rates seen the past several years. It will be interesting to see what impact their economic woes have on soybean demand over the next 12 months.

- Brazil, which exported more soybeans than the U.S. last year and meets 42% of the world soybean import needs, has an economic crisis of their own. The Brazilian Real has collapsed to half of its value from a year ago when measured against the U.S. Dollar, making Brazilian soybeans more competitive on the world market.
- OPEC's decision to maintain production has led to a world supply glut of oil, putting heavy pressure on all commodities. When we examine long term charts, the correlation between crude oil prices and grain prices is remarkable.
- This is an environment we have not seen in years for the commodity sector. It is likely grains will find it more difficult to gain upward traction in the near-term.

# Big Yields Stabilize Farm Profitability

by: Nathan Deters, AFM



We are recording the largest corn and soybean yields ever for many of the farms we manage. The 2015 growing season was nearly perfect with timing and amounts of rainfall as well as ideal temperatures at each stage of development.

Grain prices have improved after establishing lows in late summer. Additional bushels at current prices has increased income potential. Ten extra bushels of soybeans or 25 extra bushels of corn per acre will increase revenue \$75 to \$100 per acre. This changes a narrow profit or breakeven situation into a profitable one.

**So how does this affect us going into 2016?** Operators' attitudes are improving. More optimism will keep cash rents closer to 2015 levels and boost farmer interest in purchasing farmland. Banks will feel better when looking at operator's cash flow for 2016 with the extra bushels being sold or on inventory. Returns from custom farming operations and 80-20 share leases will continue to be the operating alternative that provides the

landowner with the highest return to their farmland. The extra bushels from the 2015 crop go towards the bottom line as fixed costs are already paid and variable costs on the additional bushels are minimal.

Controlling input costs will continue to be important. Fertilizer costs should be slightly lower with lower oil prices. Seed and herbicide costs are likely to be relatively steady. The traits used in the seed corn could save some input cost but will need to be managed more closely. Variable rate fertilizer applications can maintain or reduce fertilizer usage while still applying to the correct areas of the farm.

All this points to stabilizing profitability in 2015 and 2016 when breakeven or even losses were thought to be common on the 2015 crop and projected for the 2016 crop.



Soybean harvest



Corn harvest

# Stalcup Ag Elects New Officers

Kent Smith, AFM, was elected President of Stalcup Ag Service at the annual meeting in July. Kent joined the Stalcup team in 1987 following four years at a Sioux City bank. Smith graduated from the University of Nebraska in 1983 with an Ag Economics degree. Kent and his wife Cindy have three grown children and live on their farm just east of Storm Lake.

Nathan Deters, AFM, was named Vice President. Nathan joined Stalcup Ag in 1998. Nathan is a 1987 graduate of Iowa State University with an Animal Science degree.

Dennis Reyman, AFM, ARA, will continue as Treasurer. Dennis joined the Stalcup team in 1993 as an appraiser and heads up the Appraisal team in addition to his farm management duties. Dennis is a graduate of Morningside College and Iowa Lakes Community College with a Farm Management degree.

Chad Husman, AFM, was elected Secretary. Chad is a 2007 graduate of Northwest Missouri State with a degree in Agronomy. Chad joined Stalcup Ag in 2011.

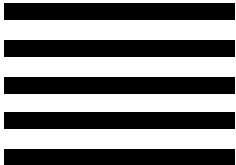
# Office Staff Changes

Feryle Berkland retired as Farm Manager Assistant after twenty-eight years with Stalcup Ag Service. She plans to spend more time with family and travel.

Sara Sennert and Kendra Wall joined the staff as Farm Manager Assistants in August. Both have previous office assistant experience and are great additions to cover our growing farm management, real estate, and appraisal business.



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Check items below you would like additional information on:

**Professional Farm Management**

- Management Procedures
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- Custom Farming

**Real Estate**

- Selling
- Buying
- Exchange

**Appraisal**

- Estimate of Market Value
- Estates

List items particular to your farm you would like to discuss with a professional farm manager:

\_\_\_\_\_

\_\_\_\_\_

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**Fall Newsletter 2015**

**Stalcup Ag Service Today's LAND OWNER**  
 Fall 2015 Volume: XXXV No 3  
**Northwest Iowa Progress Report**  
 By: **Chad Neuman, AFM**

Farmers and others working in agriculture are notorious for complaining about weather. The real issue is not the weather, but the weather. Farm managers can be guilty of this too. However, it is not fair to complain the way. Crop environmental risks stem from planting to harvest. After a cool, wet May, temperatures and rainfall were close to average all growing season. August rainfall was able to finish out the crops. Harvest progressed smoothly with warm, dry conditions across the Midwest most of the fall. Soybean harvest finished in mid-October. Yields of 55 to 70 bushels per acre were common across Northwest Iowa. Corn yields results also look to be near record levels. Many fields achieved yields of 190 to 230 bushels per acre.

Some of these factors are still in Mother Nature, but most of them can be adjusted and improved with good management. We are constantly looking for ways to improve yields by making adjustments and comparing results. This season is giving us a great opportunity to see what combination of factors lead to the very top yields. What we learn each season is helpful for future planning.

Of course, yield is only part of the picture when it comes to profitability. Cost of production and grain prices are also crucial. We are always open to our readers only slightly to respond to lower grain prices. We'll be sure to provide you the latest information on our website by mail. The goal of land control may actually be how the weather is handled in our region.

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