

# AGRIBUSINESS UPDATE

THOUGHT LEADERSHIP ADDRESSING AGRIBUSINESS CHALLENGES AND TRENDS

SUMMER 2020

## THE COVID-19 CRISIS IMPACT ON THE AGRICULTURE INDUSTRY



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CPA

### USDA Coronavirus Food Assistance Program (CFAP)

According to the U.S. Department of Agriculture (USDA), they will begin accepting applications through the Farm Service Agency (FSA) on May 26 from agricultural producers that experienced a five-percent-or-greater price decline and face further setbacks due to lower demand, surplus production, and disruptions caused by the pandemic. Producers will receive payments

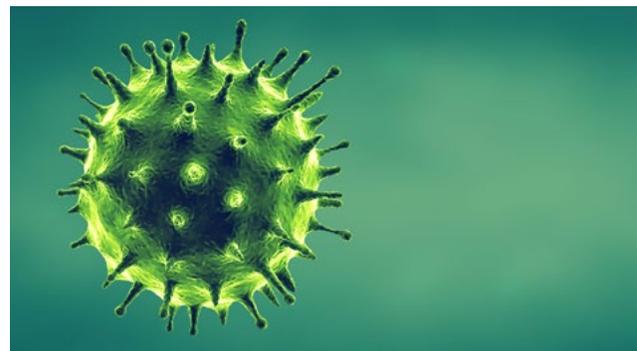
based on inventory subject to price risk held as of January 15, 2020. One payment will be made based on 50 percent of a producer's 2019 total production or the 2019 inventory as of the above date (whichever is less), multiplied by 50 percent and then multiplied by the commodity's applicable payment rates.

Producers will need to contact their local FSA office and provide them with their total 2019 production for the commodity that suffered a five percent-or-greater price decline, as well as their total 2019 production that was not sold as of January 15, 2020. Applications will be accepted through August 28, 2020. There is a payment limitation of \$250,000 per person or entity for all commodities combined. Corporations, LLCs and LLPs can qualify for additional payment limits in cases that applicants actively provide personal labor or personal management to the farming operation. Producers will also have to certify they meet the Adjusted Gross Income limitation of \$900,000 unless at least 75 percent or more of their income is derived from farming.

Congress has acted quickly to provide industry-wide relief including:

- Coronavirus Preparedness and Response Supplemental Appropriations Act (March 6th)
- Families First Coronavirus Response Act (March 18th)
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act (March 27th)
- Paycheck Protection Program and Health Care Enhancement Act (April 24th)

Each bill provides direct assistance to American families, businesses and local governments. A few of the major provisions of acts passed thus far are:



Economic Impact Payments were provided to taxpayers' households. Individuals with an income of less than \$99,000 (or \$198,000 for joint filers) received up to \$1,200 per adult and \$500 per child under 17 years old; equaling up to \$3,400 for a family of four.

Up to \$100,000 of **penalty-free distributions from a 401(k) or other retirement plan** can be taken from an account balance in 2020 if an individual or a family member tests positive for the coronavirus or suffers economic harm because of the coronavirus. Loans up to \$100,000 may also be taken (limit is typically \$50,000).

All required minimum distributions (RMDs) **required to be made in 2020 are waived.**

**Federal student loan payments may be deferred for six months**, without interest or other penalty, through September 30, 2020.

For businesses, many forms of employment relief are available:

The **Paycheck Protection Program (PPP)** loans administered by the Small Business Administration offered small businesses funds to pay up to eight weeks of payroll costs including benefits and interest on mortgages, rent, and utilities. Farmers and individuals who are self-employed were eligible to participate in this program. The PPP loan application deadline was recently extended five weeks. The deadline is now August 8, 2020 for those who may still want to apply for a loan.

The **Employee Retention Credit** encourages preserving pre-COVID-19 levels of employment by offering a 50% credit on wages paid or incurred from March 13 to December 31, 2020  
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## *The COVID-19 Crisis Impact on the Agriculture Industry continued...*

up to \$10,000. This credit is available to employers that have suffered economic hardship due to closures or reduced revenues due to the pandemic.

A **Payroll Tax Deferral** is available to preserve cash flow in order for organizations to maintain operations and payroll. Employers and self-employed individuals can defer payment of the employer share of the Social Security tax. The deferred employment tax can be paid over the next two years—with half of the required amount to be paid by December 31, 2021 and the other half by December 31, 2022.

**Qualified sick leave and family leave credits** are available for employers that have continued to pay employees directly affected by COVID-19, either for sickness of the employee or a family member, or leave caused by caring for children due to daycare or school closings.

**Unemployment benefits** have also been expanded, including receiving an additional \$600 a week for four months and an extension of benefits. Self-employed individuals and independent contractors also qualify for benefits if they have lost employment due to coronavirus.

Emergency economic advances up to \$10,000 on Economic Injury Disaster loans are available from the SBA, and small businesses with existing SBA loans may waive payments on those loans for six months.

As the COVID-19 pandemic affects everyone in some way, Congress has included provisions in these acts that provide aid to an expansive list of recipients. If you have questions on how you or your business may take advantage of any of the relief provided in the new acts, please contact your Sikich professional. 

## 2020 GRAIN MARKETING OUTLOOK by Scott Stoller, AgPerspective Inc.

As I begin to write about the upcoming 2020 crop marketing year, I think it best to take a step back and reflect on what hand we have been dealt this past year. A year ago, we had unprecedented rain totals and lack of planting progress in Northwestern Illinois, where I live. The I-80 and I-88 corridors in particular were inundated with water and experienced some of the highest prevent plant acreages in the nation behind the Dakotas. Most growers and market analysts swore it HAD to go to \$5.00.

Fast forward twelve months. The market never went to \$5.00, and growers are slated to plant one of the highest corn acreage totals in history, despite depressed prices and market analyst projections of sub-\$3.00 by late August or early September. Which leads us to today. So now what? Oh, and there's this COVID-19 thing...

### Economic Predictions for the 2020 Summer

Take a deep breath! We've lived through some unprecedented times, and the world has kept turning. The economics, on the surface, for corn and soybeans in 2020 do look a little rough. Let's start with corn. The simple fact is that growers found a way to plant corn acres when the price of corn was \$4.50 last summer and did it in a very big way. In this case, the market did what it needed to do and enticed acres to get planted. The downside to this is that we have ample stocks carrying over into the 2020 crop year with an overabundance of corn acres projected to be planted. With the ethanol industry basically shutting off the spigot for two to three months this spring, the balance sheet has ballooned to a level that we thought of as inconceivable last summer.

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*May 2020 Grain Marketing Outlook continued...*

## Positive Paths Ahead for Ethanol Profitability

And now for some good news? Beginning in mid-May, gasoline usage reached about 75 to 80% of travel prior to the COVID-19 outbreak. Peak demand for gas hits in the summer, and as states enact reopening plans, people are eager to leave their homes. Will people actually go anywhere? While unsure, a positive aspect is that ethanol profitability has swung to the black at the end of May. One highlight includes the Renewable Identification Numbers (RINs) rallying to price levels not seen since 2018. Larger, more efficient plants that were able to limp through March and April have ramped production back up as profitability returned. Unfortunately, the corn belt hasn't seen all ethanol plants come back online, as there is fear of ethanol profitably declining in the last half of the year.

## Trade Wars in the Agriculture Industry

Trade wars are tough to win, and soybeans have been snarled in one for some time. Losing our number one buyer for this commodity took a toll on our exports over the past few years. With a trade deal signed and sealed in late January 2020, things were supposed to be looking up...right? Time will tell, but there is a good amount of new crop bookings ready to go once harvest starts—we just have to get there. Looking at the past three to four crop years, beans added solid black to the bottom line of producers. It appears we will need every bit of weather, technology, and yield to scratch and claw back to the profitability line in 2020.

## Looking Ahead This Summer

As we enter the summer months, seasonal rallies have historically been the norm. What is the best average opportunity in the “modern era” of grain markets? Mid-June through the 10th of July has, on average, been an excellent window to get old crop grain cleaned up, new crop grain sold, and the first chance to take a stab at locking in profitability for the following crop year.

Yes, selling three crop years at the same time is difficult and normally one of the largest hurdles most growers face. A solution to circumvent the “cancel if close” culture is to get your open orders in for all three crop years immediately. Find price levels you're comfortable with and ones that return a profit to your operation. When looking at the 2020 crop, the new norm maybe be 20 to 30 cents below what we're accustomed to from the previous few crop years. We would like to begin actively selling new crop between \$3.50 and \$3.60 December futures and continue rewarding the market every nickel to dime higher.

With a combination of current MFP payments, CFAP, ARC/PLC potential, and crop insurance floors, we see the ability to scratch and claw back to close to \$4.00 cash in using a variety of different tools and payments. If achieved, chalk it up to a victory and move onto 2021. Speaking of next year, don't be caught napping around the \$3.90 to \$4.00 area 18 months in advance, as we would be more than pleased with those numbers in 2019 and 2020.



Another approach when looking at 2021 risk management is using higher levels of crop insurance; namely a 95% product. Margin Protection (MP) is offered across our regions as a county product that can be paired with individual Revenue Protection (RP) coverage as well. This product will need to be purchased in the month of September for the 2021 crop year, so don't get caught watching the paint dry on the ole picket fence.

## Face Challenges Head on in Agribusiness

The government has provided farm program payments over the previous couple years that have provided good floors and adequate support when growers are in a time of need. While we do not want to rely on these in the future, the current Farm Bill does give growers a comfortable safety net. Please know how to properly utilize your crop insurance policy to maximize your protection and don't just throw it in the filing cabinet for later viewing. These are difficult times to operate in agribusiness. The uncertainty and moving targets each of us face are obstacles we need to find ways to overcome. We all need to strive towards sharpening our skills and find ways to better our past performances. We wish you the best as we move into the summer of 2020! 🍷

### About the Author

*Born and raised on a grain and livestock farm in Central Illinois, Scott graduated from Illinois State University with a B.S. in Agribusiness and a Business Administration minor. After over three years with ADM in a variety of cities and settings, he became the grain merchant for Michlig AgriCenter in Mantius, Illinois. In ten and a half years with Michlig, he oversaw a growth from 4.5 million to 22 million bushels of grain business. In January 2013, Scott traded in his elevator hat to join the AgPerspective team. His wife is a high school counselor and they are the proud parents of two girls.*

## TAX SAVINGS UNDER THE NEW RULES FOR DONATING IRA REQUIRED MINIMUM DISTRIBUTIONS



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Senior citizens that previously itemized deductions when filing income tax returns can now look to IRA assets to contribute donations through making Qualified Charitable Distributions (QCD) directly to charities. While this strategy is often utilized, seniors that have shifted their Required Minimum Distributions (RMD) to a charity can now exclude their income from a return and still accomplish their charitable goals.

### Tax Law Changes Impacting IRAs

Congress has been busy this year making several changes to tax laws that affect IRAs, causing taxpayers to rethink the QCD strategy. First, Congress raised the age for when IRA owners are required to withdraw RMDs from 70 ½ to 72-year-old. However, Congress didn't change the age at which seniors can donate IRA assets (which remains at 70 ½). As a result of the COVID-19 outbreak, lawmakers also placed a hold on RMDs for the tax year 2020. While IRAs are typically a major savings source for investors and can be a significant nest egg during retirement years, the 2020 RMD suspension aims to provide these accounts a chance to recover from recent market losses due to the pandemic.

Markets, and therefore investors' IRAs, were significantly impacted at the onset of the coronavirus crisis. For example, the S&P 500 suffered a 35% drawdown between February 19th and March 23rd; and the Dow Jones Industrial Average suffered a 38% decline over approximately the same time frame. In response to this downward volatility, taxable IRA owners were given a pass concerning their 2020 RMDs.

### Background

With new laws, come new strategies. But before we discuss those, let's first revisit the old strategy and what rules still hold true. Owners of IRAs that are age 70 ½ and older can donate up to \$100,000 of assets directly to qualified charities (not donor advised funds). These QCDs can count toward the required

payout. Keep in mind, there is no tax deduction—however, these direct gifts are not included in gross income. This not only lowers your income tax but also lowers your adjusted gross income.

There are numerous levies in the tax code that are based on adjusted gross income, including the 3.8% surtax on net investment income, medical deductions, and how much your Medicare part B and D premiums will be in the coming year. This strategy has been very effective for taxpayers who no longer itemize due to the higher standard deduction that was introduced in 2018.

### The Effect of Recent Tax Law Changes

Because of the recent tax law changes that allow a pass this year on RMDs, some taxpayers who normally take the RMDs and give it to charity may choose to make a double gift in 2021. This strategy would allow for a bigger tax break in 2021 through the contribution of two donations in one year when the RMD is required.

In addition, there is another twist to the changes in the tax law. This year, there will be a group of IRA owners that turn 70 ½, who are allowed to make donations from their IRAs but are not required to take RMDs due to the new age limit. These individuals may question whether they should they wait to donate until RMDs are required. Some taxpayers may choose to delay contributions, as depleting the IRA assets first might allow their heirs to receive the appreciated stock at death. This provides heirs a "step up" in basis on the stock (basis that is the fair market value at death) and skip the capital gains taxes on the growth.

### Key Thoughts and Considerations

These strategies are not a "one size fits all" situation. RMDs are mandatory for traditional, taxable IRAs and are not a requirement for an investors' Roth IRA. As always, we recommend having these important conversations with your CPA and Financial Advisor. These uncertain and volatile times are ideal for re-visiting tax and financial plans that you've already put in place or to take that initial step in planning for future financial strategies. 

## ABOUT SIKICH

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Our dedicated professionals, located in the heartland of agriculture production, have first-hand experience on how agribusiness works. Whether you are looking for tax and succession planning, assistance with adopting accounting and reporting standards or audit services, Sikich's agriculture-focused team can help strategize your business's future. Sikich's team of professionals is available for field exam services and quality of earnings studies for agriculture businesses.

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