Barry Ward's full interview with Field Day's Jordan Hoewischer, OFBF director of water quality and research, with guest Jack Irvin, OFBF senior director of state and national policy:

Jordan: Welcome to Episode 5 of the field day podcast brought to you by the Ohio Farm Bureau Federation. I'm your host Jordan Hoewscher, director of water quality and research for Farm Bureau. Today's discussion is about farm economics, tax reform. Pretty much anything that affects the bottom line for you as a farmer. So we've got to sit down and talk to Barry Ward from Ohio State who's kind of one of their chief ag econ guys. And then joining us was Jack Irvin from a Farm Bureau. He's our senior director of state and national policy. So a little bit of a roundtable about farm economics. Enjoy.

Jordan: All right we'll start with Barry here. Who are you? Where are you from? What do you do, all that good stuff. Tell me everything about you.

Barry: Right, well I work with OSU Extension. I'm employed by OSU Extension. I work in the ag natural resources arm of OSU Extension. Presently I work as leader of production business management and that entails mostly farm management activity in research and extension and some teaching and I've recently taken on the role of the director of our OSU income tax schools. So we work with tax practitioners across the state of Ohio. That's my academic background. As far as what I do on the side, I also farm part time with my two brothers and my dad in Champaign County, a cash grain operation.

Jordan: Jack what about you. Who are you? What do you do? Where are you from?

Jack: I'm Jack Irvin, senior director of state and national affairs here at Ohio Farm Bureau and been in that role for almost two years now. One of our lobbyists at the federal level lead those activities and also help with our statehouse activities so all the public policy space that's my purview.

Jordan: Nice. Barry you said that you are a part time farmer with your family. What is it like kind of having that knowledge of farming but also being on the, you know, the economy side, the tax side.

Barry: Well it's a pretty minor role. I don't have a whole lot of time to do that activity and work with them, but it does keep me a little bit more in touch with what's going on. And they, they do keep me honest and keep me grounded. Also got a couple of nephews who are full time farmers and they are driving kind of the technology piece of the farm and it's interesting to see the dynamics of the multi generations.

Jordan: Yeah, so you know I've talked to Dr. Robin Wilson last episode and she talked about her family that's in the Western Lake Erie Basin and how she can kind of come back to them for information or to help. Does that really play into some of the things you talk about because you know you know what's you know what's the interest of farmers.

Barry: Well I hope I hope so. You know I, I bounce things off of them occasionally and you know I get little snatches of information here and there and our kind of weekly conversations that we might have. It just depends on the time of the year, too. I mean I have more contact with with the whole group at our busier times of the year were I'm a little bit more actively engaged, but I think it does. It really keeps me a little bit more in touch

with what maybe the real world is is like.

Jordan: So speaking of the real world, you know what's the general you know, ag economic status you know as of today, kind of our time period as you've you've seen

Barry: Well, as we look forward into 2018 this year. Right 2018 I guess it is this year, right, now for about two months. But things as we kind of examine the numbers we look at the numbers and the overall economic picture it's, it's probably going to be a little bit poorer picture than what we saw even in last year. And looking more specifically at grain farms and kind of our main commodity crops here in Ohio, it's going to look a lot like last year. You know, we're seeing costs that haven't moved a whole lot. Rents that haven't changed much. And that's one of the big input costs that growers producers are most worried about. And most I guess concerned about. So if we look at kind of the bottom line picture for this upcoming year not a lot of change. And if anything we're probably going to see a little bit less net farm income for this upcoming year.

Jordan: Yeah I mean you've been going around you know sharing some of this data through various outlook meetings, You know, what is some of the advice? What are some of the ways that farmers can can chip away at the input costs?

Barry: Well they're already doing some of that on their own. You know one of the big things that they've been doing and it's evident in some of the research that we've been doing on machinery and equipment is that they're just buying less you know and it's been showing up with machinery and equipment dealers across the country. You know they've experience some pretty hard times in the last four or five years as producers have really buckled down and really kept machinery and equipment a little bit longer than what they might normally do. So, as a as we used to talk about how producers managed through tough times, they're living off depreciation if you will. So the good thing is we had good equity positions for most of our grain operations in the Midwest going into this lower margin period that we've experienced the last four or five years. So you know that's part of the way that they're managing this and one of the big ways really. But they're also doing some other things you know they're really examining all the other inputs that they're putting into their production system. Producers were able to, you know, put anything into the production system at one time you know 2006 through 2012 when we had that high margin period. So just you know being a little bit more selective.

Jordan: So Jack the USDA recently updated their farm sector income forecast for 2018. What is the outlook for farmers?

Jack: Yes, so piggybacking on what Barry said, unfortunately looking very similar to 2017. USDA is projecting about a 7 percent drop in net farm income for this year. That's going to be the lowest farm income we've had in 12 years. So going all the way back to 2006, and to kind of put that in perspective from our peak in 2013, that's a $64 billion drop in farm income. So I don't think as a whole we fully appreciate the significant dollars that have left the farm economy and certainly has had a big impact as Barry mentioned in terms of equipment purchases and just seeing a lot of tighter budgets across the state, across the country.

Jordan: You know this is kind of for both of your. You know it's a big issue the farm bill set to expire in September. What is the outlook you know for the farm bill moving forward?

Jack: I guess I'll take first crack at that. So the current farm bill expires in September of this year. There's definitely been a lot of earnest discussions moving forward, but they haven't formally begun the process of trying to craft a new bill in terms of working that through the committees. So it's not hard to see that. Obviously there's a lot of contentious issues in Congress right now. So how farm bill fits in that picture is kind of difficult to determine. I think there's still quite a bit of optimism that something can get done here soon. One thing that's kind of unique about the farm bill is it's a bill that is much more regional than partisan. So often you know the Midwestern states with dairy and corn and wheat and soybeans tend to bind together more than say our southern colleagues that might have cotton and rice and some of the crops that we just don't grow.

But I think another very important point to keep in mind so we got the current farm bill still in place through September. So I think we want to lift up the ARC and PLC programs that have been in place have been pretty significant here in Ohio. And just for planning purposes and the knowledge out there, keep in mind from a lot of perspectives that we have seen this coming October we don't project to see much of a payment from those respective programs this October specifically on corn and soy. There might be a little bit on the wheat side of things. So just want to keep that in mind for your planning purposes for this coming fall. It's obviously still to be determined, but a lot of the projections are that we will not see any support from the ARC program this fall.

Barry: Did you say contentious issues? Yeah, that's kind of a logjam it seems like and it seems like the Farm Bill is still getting a little bit of play in the national press but it seems to be down the list doesn't it? And it's disappointing, but I've said the same thing to our producers in our outlook meetings this winter as I've been out and talking to many of them that you know this is one of the few areas that they tend to work across the aisle still at some point. So that gives me a hint of optimism. Hopefully they will get something done. But you know they're all going to start campaigning here at some point. And I think when they start to do that it throws everything out the door, right?

But we've also said the same thing you know in just giving people fair warning that, as we put our budgets together, we're not putting anything in there right now for corn and soybean ARC County payments. Looking across Ohio we had relatively good yields this year on average. So if we didn't come up above that benchmark yield in those counties those counties are going to receive nothing on their corn and soybean based acres. There will be some perhaps on the wheat based acres, as you mentioned, and that the evidence is showing some of that, but it's going to be - compared to the last two years and we just talked about this a little bit ago - it's going to be next to nothing so producers need to really need to prepare for this. And we kind of look at the next year, um '18 I guess keep talking about next year, but that is this year, right? We kind of put all of the pieces together right now as we look at all of our cost structure and the revenue side and the prices of corn and soybeans for this fall. It's arguing for a little bit more soybean acres you know. Right now the economics are at least signaling that now a lot could change between now and then. But we're looking at returns to land on trendline yield for corn around $30 an acre and soybeans are close to 120 per acre. So there is a significant difference right now. You know if you believe the futures prices and that's what we're plugging into our budgets you know the November soybean futures, the December corn futures and they've held up pretty well, but right now the soybean numbers look to be a little bit stronger.

Jordan: I guess, you knowm maybe the listeners will know more about the ARC program than I do. You know, can you explain that a little bit more just what it is and kind of why

maybe it's fallen out the last year and a half. Maybe that's not your specialty, but I'm just curious on my own just what it is on even on the highest level.

Barry: Well the ARC County payment is based on benchmark numbers and a lot of those benchmark numbers are a series, a set of prices and yields. And part of the reason that the producers did receive fairly significant payments in the fall of '17 and going back to '16 and '15, those three years, part of the reason is because we had a fairly high benchmark price due to those high years before, you know, before the even during and before the early years of this last farm bill. So that's part of the reason we had a pretty high benchmark and we've come down since then so the ARC county payments, you know Ohio in particular, you know we had some lower benchmark yields that also went into that formula. So Ohio has done as well as any state, I think looking across the whole Midwest.

Jack: Yeah those revenues are based off a rolling average so those high prices that we had from a few years ago that were built into that benchmark revenue have obviously cycled out as we've kind of moved in this era of you know mid $3 corn so to speak.

So that has kind of lowered that revenue benchmark and we've had a relatively stable price point in pretty stable yields in Ohio the last couple of years as a whole and that has mitigated some changes in that formula that we're looking at probably not much of a pay out this year.

Jordan: So we'll switch gears a little bit more maybe to get more into Barry's wheelhouse here. You know we recently passed a major tax reform bill. How might that impact the ag sector or just maybe how the tax laws in general are impacting this year's producers?

Barry: Right. Yeah well of course we had major legislation passed before Christmas and it doesn't impact our '17 tax year, for the most part. You know we had a little bit of bonus depreciation language that was retroactive to 17 but for the most part all the new tax language there's general language and then there's more business language. The general language, I think everyone's kind of seen that in the press. We've got tax brackets that have changed and basically move to more favorable status for individuals so people are going to take advantage of that and be eligible for that. All of us you know with just lower, lower tax brackets, if you will. The other big thing on the standard kind of general issues is the standard deduction has been increased and most of the itemized types of deductions have been eliminated or changed. So there will be a lot of producers and the general public that will now take the standard deduction versus itemizing or filing a Schedule A. S,o that's one of the big changes generally. The other big change and the centerpiece of it was lower corporate tax rates, right?

So lowering that to 21 percent. Now most farms and most businesses aren't C corps, if you will, or standard corporations. So they had to include in the legislation something to level the playing field again. So all the businesses across the country didn't suddenly switch to a C corp and that you know to do that they had to include and what they included was a 20 percent what they call pass through deduction. It's a deduction of 20 percent of taxable income below the line income. And it's going to be available for all of your other types of businesses your sole proprietorships that pass through their income from the schedule F or schedule C to the 1040. That's basically what they're getting at it's passing through their business to their to their personal income. So sole proprietorships, partnerships, S corps and LLCs which aren't a tax entity but you know they they have to file as partnerships or single members or S corps. So all of these other kinds of business entities are going to be

eligible for this 20 percent pass through deduction and it's not going to be on the schedule F. That's not going to be where that shows up. It's going to be on the 1040 below the line or the back page, if you will. So it's going to be significant. You know it's 20 percent, and that's for non-high income earners so if you have qualified income on that business, or farm business in this case, over $315,000 for a married couple then you are going to be subject to some phase outs. But if you're under that then you're you're eligible for that full 20 percent.

Jack: And to clarify, Barry, that 20 percent is in addition to the individual rate reductions that were part of the restructuring as well. Correct?

Barry: That's correct. Yeah. Yeah it's, it's really you know the intent of this legislation was to provide businesses more tax relief and they, I think you know, they really accomplish that. You know the C corp provision is pretty simple and that's the one that gets most of the attention. But most businesses in the country aren't C corps especially most of our farm businesses.

Jack: Yeah, I don't think we can under sell the significant amount of changes that were made with this package. Arguably the largest tax reform since the mid '80s, so I think it behooves us all to you know take a little time to work with our accountants to take a look at what are the individual impacts going to be from all these reforms and make sure we have a good picture of what this year looks like, with all these corrections and reductions and additions.

Barry: Yeah, there's a number of other provisions in there, too. You know it's going to be incumbent upon all of us to really educate ourselves and look at all the different repercussions. You know we're studying things right now to see what strategies farmers might employ in this year and in the following years to really manage their tax burden as well as they can. You know it's one of those things where there's going to be all kinds of moving and changes going on at the business level to try to find that strategy that's going to best suit a business.

You know we've got other other aspects of this this new tax law that are going to change behavior a little bit. You know 1031 Like Kind Exchange for example. It's still there for real property, for land and general buildings general purpose buildings, but for track simple machinery trade ins there's going to be a bit of a you know there's it's not going to matter a whole lot to producers but there will be a slight change in the tax characteristic of that transaction. And then the other thing is estate taxes you know. Still have them, but they really increased that that unified credit to the point where I don't think most farmers are going to have to worry about it.

Jack: And note American Farm Bureau has an excellent resource out there on the website. You just type in or Google, you know "what does tax for me to my farm." Hopefully that should be one of the top things that pop up but it's on the American Farm Bureau website. Again we stress, check with your own accountant. But it does have a great comparison of what the current law was for 2017 and what the changes they had for 2018 and moving forward. And just a great comparison in some different tables of different tax brackets and how those are impacted as well.

Jordan: So just to kind of wrap up a little bit. You know we obviously have this kind of downward trend or we're kind of in the bottom of a pricing trend. You know what are what

are some of the common questions you hear from farmers to kind of get through that, or what are some of the things that, or maybe even watch outs to kind of get yourself through a time like this where you have a lot of changes in taxes, you have got a lot of input and pricing changes. Is there anything that you can say to get people through this kind of time?

Barry: Well, just looking at all the inputs we've been stressing look at return on investment. Make sure that you're doing your homework. Look at yield characteristics or yield results from all of your inputs. And sometimes it's difficult to sort them out. You know how does this other soil amendment or how does this fungicide impact our yield? But doing your due diligence, you know, trying to do some plot work within your own farm. Don't just rely on that third party evidence and it takes extra time. You know certainly it does but it can be impactful on bottom line going forward. So you know what your return on investment is for all those inputs. And some producers are managing these low margin environments by really pushing yields, you know, just being agronomically sound. And so we know that's occurring and then we're living off a little equity. You know it's just, you know, that's the honest truth is we're probably burning through a little equity during this period on some farms, and probably many farms, you know where we built up a strong net worth during those good periods and now we're we're kind of surviving if you will to a certain degree.

Jordan: So how, I mean this is more, this is not an exact, you know, answer you can give, but I mean what's your feeling about what part of the cycle we're in? You know because all of the time we're in an upward trend or a downward trend, it always seems a little bit either bleak or the upward trend seems like it's going to extend, I mean what's your feeling on where the trend is going to go?

Barry: Well I think that, boy that's a tough one. I think we're kind of more in the new normal. We're certainly not going to see a period anytime soon, in my opinion, like we did from '06 through '12 or '13 where we had you know corn, soybean prices that really were extremely high and margins were high. I think we're more in for a period for the next four or five years that's going to look a lot like this. You know perhaps we're going to see prices that will bump up now and then where we'll be able to find some higher margins. But I think producers are going to be experiencing what we see now for the next three or four years.

Jordan: Yeah I think the new normal is a good way to put it, because for me you don't want to be you know bleak about the the outlook, but also it's nice to be able to kind of set expectations and set your budgets and set your inputs accordingly because you know if prices do happen to rise, you know, good, if not then you're prepared for it.

Barry: Yeah, and I think you know there are producers out there that are making money, that are finding positive margins at least at these price levels. They've become more efficient or they have operations that maybe have a little less overhead costs due to sometimes size and sometimes just efficiency

Jordan: Any final comments that you guys want to add? Jack, anything that you, any take homes for people as we wrap this up?

Jack: I think just keep engaged. You know we're talking about the tax reform bill. There's potentially thousands of dollars worth of savings for a lot of our individual farmers because of that reform. And there's no doubt that would not have happened without a lot of advocacy over the years of you know members like ours saying "hey, this tax package is

just so complicated and we need to take a look at that and see ways we can do things better" and Congress heard that and reacted to that. So that's just one of many examples of things where our farmers out sharing their message have seen changes in public policy for the positive and just keep an eye on that because there's so many aspects of our public policy that has incredible impact on the bottom line of our farms and we just appreciate all the engagement out there and helping tell that story.

Jordan: And that was episode five of the field day podcasts. I appreciate you listening. And as always, for more information about Farm Bureau and everything we do. Please visit ofbf.org. Thank you.