

# G LAUB FARM MANAGEMENT

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# MID SOUTH VIEWPOINTS

SUMMER 2019

2017 AG CENSUS NOW AVAILABLE

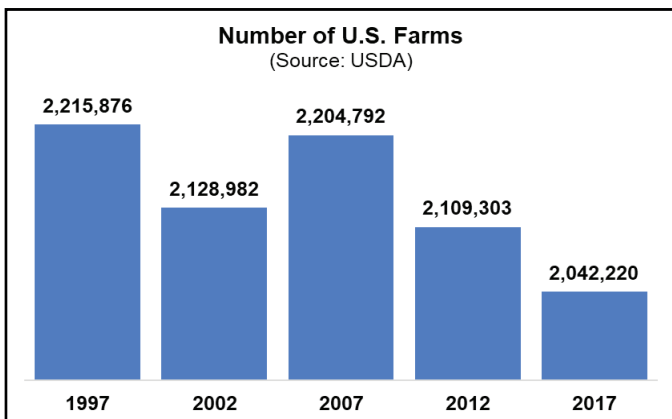
The overall theme of the 2017 Ag Census appears to be *fewer farms, older farmers*. On April 11, 2019, the U.S. Department of Agriculture released the results of the 2017 Census of Agriculture: **data shows an increase in the average size of both small and large farms with the average age of farmers increasing as well.**

The USDA National Agricultural Statistic Service conducts the survey every five years, with the latest report including 6.4 million new points of information about America's farms and ranches along with their operators.

"We are pleased to deliver Census of Agriculture results to America, and especially to the farmers and ranchers who participated," wrote U.S. Secretary of Agriculture Sonny Perdue. "We can all use the Census to tell the tremendous story of U.S. agriculture and how it is changing. As a data-driven organization, we are eager to dig in to this wealth of information to advance our goals of supporting farmers and ranchers, facilitating rural prosperity and strengthening stewardship of private lands efficiently, effectively and with integrity."

### Key Highlights:

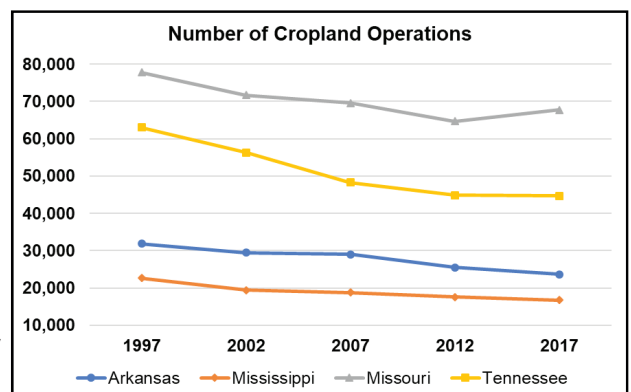
- There are 2.04 million farms and ranches (down 3.2% from 2012) with an average size of 441 acres (up 1.6%) on 900 million acres (down 1.6%).
- Ninety-six percent of farms and ranches are family owned.
- The 273,000 smallest (1-9 acres) make up 0.1% of all farmland while the 85,127 largest (2,000 or more acres) farms make up 58% of farmland.
- Just 105,453 farms produced 75% of all sales in 2017, down from 119,908 in 2012.



The Census provides a comprehensive summary of agricultural activity for each state. Cropland operations in the Midsouth have declined as the national data shows. For example, in 1997, Arkansas had 31,847 operations, which decreased 25.7% to 23,665 by 2017. Out of the four states presented, Missouri was the only state to have an increase in cropland operations since the last Ag Census in 2012.

Another aspect of a cropland operation is the land tenure. Who owns the land? In general, most land in the Midsouth is fully or partially rented, meaning the operator owns a percentage or portion of the land operated. Most operators fully own a very small percentage of the cropland within their operations. Over the past five Ag Censuses, the percentage of cropland rented by operations has been increasing, which can be attributed to multiple factors:

1. The **dilution factor**. The farm was once owned by the parents and now is divided among the children, all of whom have inherited an interest.
2. **Resource allocation**. As farms consolidate, operations have used capital to improve farm efficiencies with new technology and equipment instead of tying up large sums of capital in land.
3. **Retiring farmers** who keep their land for retirement income.
4. The transition of **institutional investors** using cropland as an investment vehicle. Since the 2008 recession, investors have identified cropland as an asset to diversify and improve overall investment returns.



By reviewing data reported in the ag censuses, farmers and ranchers gain awareness of the current trends affecting their industry and may then be better informed when discussing policies and regulations. To view the full report, visit the NASS website at [www.nass.usda.gov](http://www.nass.usda.gov).

## U.S. RICE CONSERVATION AND SUSTAINABILITY CONTINUE TO IMPROVE

Locally grown rice is not only an important pillar of Southern agriculture—it's also integral to land conservation and farm sustainability. According to the *U.S. Rice Industry Sustainability Report*, published by the Rice Foundation and the USDA, the environmental, economic and social accomplishments of the rice industry over the past 36 years have led to improved water, soil and air quality as well as increased yields.

Virtually 85% of the rice consumed in the United States is grown on family farms across the six major rice-producing states: Arkansas, California, Louisiana, Mississippi, Missouri and Texas. American rice farmers harvest approximately 20 billion pounds of rice grown on 2.8 million acres of sustainably-managed farmland. Rice that is not consumed domestically—roughly 50% of the crop—is exported to more than 120 countries around the world.

U.S. rice farmers believe in conservation practices that will maintain and improve their land for the next generation. Growing rice creates a natural filtration system that removes sediments and nutrients thus producing cleaner water when it leaves the field. Improvements in air quality have been achieved through higher yielding varieties, advancements in fertilizer application, the reduction of overall energy required to produce rice and new innovative practices such as conservation tillage which reduces CO2 emissions.

As impressive as rice conservation practices are in terms of water, soil and air, they should also be recognized for improving and enhancing vital wildlife habitats. Working the land for rice production provides millions of acres of life-sustaining resources for migrating water birds along with countless other animals that call the fields their home. Foraging water birds give back to the land in a number of ways as they search for food in the grain residue left after harvest, which helps increase soil nutrients, jumpstart straw decomposition, reduce weed and insect pressure and provide several other important agronomic advantages. While U.S. rice farmers and landowners have proudly provided critical wildlife habitat for waterfowl for decades, conservation efforts leapt forward in 2013 with the formal partnership between USA Rice and Ducks Unlimited in the Rice Stewardship Partnership.



Sustainability extends beyond environmental resource impacts; to ensure the continuation of good environmental practices, farm operations must also be economically sustainable. In this regard, rice improves on-farm profitability, supports and sustains local communities and significantly contributes to the U.S. economy. In many cases, community life revolves around rice as the main economic resource, oftentimes supporting entire towns.

U.S. laws and regulations ensure a safe food supply and encourage conservation practices that improve the environment. Rice farmers are expected to comply with all food, labor and worker safety federal and state laws and regulations. Farmers follow and often go above and beyond the strict U.S. environmental standards.

Rice farmers' commitment to voluntary sustainability practices dates back generations. Practices such as precision water use, conservation tillage and winter flooding have improved and will continue to improve over time. The data in the sustainability report clearly shows that the hard work of rice farmers is making significant positive impacts on the environment. To read the full report, visit [www.usarice.com/sustainability/sustainability-report](http://www.usarice.com/sustainability/sustainability-report).

## UPDATE YOUR TAX BASIS UPON INHERITING LAND

You've just inherited land—now what? First, you need to establish the basis of the property, or the market value of the asset. This is the amount you will use for tax purposes to determine your capital gains or loss if you sell the ground.

Your basis is adjusted over time to include depreciation, amortization, depletion, casualty losses and any gain or loss on the sale, exchange or other disposition of the property. The higher your basis, the less gain there is to be taxed, and therefore, the lower your tax bill. Your basis depends on how you get the property in the first place and what adjustments have been made since taking ownership.

The basis of property inherited from a decedent is generally set by one of the following:

- The fair market value of the property at the date of the individual's death.
- The fair market value on the alternative valuation date, if the personal representative from the estate chooses to use alternate valuation.
  - An exception applies only when an estate is large enough to file a federal tax return. The exception can set the basis of inherited property at its value six months after the owner died, or on the date of sale if sold during that six-month period. Using this exception (called the alternate valuation date) could make sense if the value of the estate's assets has fallen during the six months following the owner's death. If the executor of the estate chooses to value assets using the alternative valuation date for estate tax purposes, the value on that date becomes your basis.
- The value under the special-use valuation method for real property used in farming or a closely held business if chosen for estate tax purposes.
- The decedent's adjusted basis in land to the extent of the value excluded from the decedent's taxable estate as a qualified conservation easement.

To establish the basis, you should hire a rural property appraiser with experience in valuation of your property type. A rural property appraiser will collect property and market information, analyze comparable sales, visit with the current operator, perform a site inspection and value the property using the cost, income and/or sales comparison approach. Afterwards he or she will reconcile the values to derive a revised value that can be used to update the basis of the inherited property.

Too often, a landowner will keep inherited property for several years before selling and never establish a basis. This is not recommended due to lost opportunities to use the tax code for items such as depreciation of improvements. Additionally, a retrospective value will have to be set for the basis—this is an opinion of value of the property on a specified historical date. What makes this more expensive and difficult is the passing of time and accuracy as comparable sales and conditions of the subject property are harder to identify and verify.

Once the basis is established for your new property, you can then decide what you actually want to do with your inheritance. There are two options: keep or sell. If you keep the property, identify if an improvement can be depreciated under the tax code. Should you decide to sell the property, you will know the basis and can work with a land broker and CPA to estimate cash proceeds after all closing costs and capital gain taxes or proceeds available for a 1031-exchange.





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Manager/Broker



Houston M. Matthews  
Real Estate Appraiser

## UPDATE YOUR TAX BASIS UPON INHERITING LAND (CONTINUED)

Once the basis is established for your new property, you can then decide what you actually want to do with your inheritance. There are two options: keep or sell. If you keep the property, identify if an improvement can be depreciated under the tax code. Should you decide to sell the property, you will know the basis and can work with a land broker and CPA to estimate cash proceeds after all closing costs and capital gain taxes or proceeds available for a 1031-exchange.

## AVAILABLE LAND INVESTMENTS

- 91 +/- Acres in Crittenden County, AR. \$235,000
- 178 +/- Acres in Cross County, AR. \$425,000
- 218 +/- Acres in Monroe County, AR. \$765,000
- 785 +/- Acres in St. Francis County, AR. \$3,500,000

Contact us for these and additional land investments.

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