

## President's Message: Being the Best Educator By Tina LeBrun, 2022-23 NFRBMEA President

January 20, 2023

It sure was a White Christmas in Southern Minnesota, yet to all of us who are used to winters in the rural Midwest, even the diehards seemed to have forgotten just how much work measurable snow is! This is a parallel to our profession, as the year-end close out season is upon us and it's time to finalize 2022 financial statements, 2023 budget, and prepare for year-end tax compliance. Whether you're a year-end close out veteran or you need some significant guidance, we all seem to forget just how much work this season can be, at about this exact time every year.

Yet to those of us who spent some time this past year learning how to improve our year-end procedures it might a very rewarding time. I find the longer I work in this profession, the more I desire to seek educational opportunities available to me that allow me to improve in my practices or bring more value to my farm students. One of my first years on the job, a fellow instructor who had put over 30 years into FBM education told me one of his keys to success was staying educated. He tried to read 10 things each day that he came across in an effort to maintain his "expert" credential for the benefit of his farm students.

Fast forward another 10 years and I find my day to day rarely involving thumbing through the newspaper or other periodicals. However, I do have many publications coming through my email along with numerous other marketing services and training opportunities that I could fill my days with. Then, of course, there is the black hole of social media, which as much as I personally kick and scream its platforms and chalk it up as time wasted, I do find that it does serve some importance in our educational advantages of today. So of course, just like the rest of the world we are evolving in how our information is received. Sometimes it is often information overload or misinformation and we may find ourselves being the

filter to our farm students that allows them to be aware of what affects them in their day to day.

This all requires time and energy, of course. How do we meet the demands of our farms while finding time to stay in the know? If you are reading this, one of those answers should be clear, as you have found a value in being part of NFRBMEA. I firmly believe my dues in this association are the most simple and efficient means of staying educated and trained for my farm students-- from networking with other "experts" in this profession to taking in the National Farm Business Management Conference (NFBMC) every year. There is no more direct method of action to help build my own mental health or educational training than tapping into my NFRBMEA membership.

If you took part in our professional development webinar series last fall, you may have experienced first-hand what I am talking about. We hosted three different 1-hour sessions of education that provided some thoughts and tools to take away while you had lunch. In our October webinar, we discussed where ag loan interest rates are headed with the group from Ag Resource Management (ARM). In November, Bryon

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Parman from NDSU Extension Education presented on the Global Ag Economy and its effects on farms in the Midwest and today's ag environment. And in December, we took a deeper dive into the PC Mars Accounting System with Kent Vickre of Iowa Farm Business Association. He discussed recordkeeping tips with payroll and inventories. They were all recorded and are available for your viewing on your own time. If you weren't able to join us or you forgot to register ahead of time, you can still tap into these trainings if you are an NFRBMEA member. Email me at [tina.lebrun@southcentral.edu](mailto:tina.lebrun@southcentral.edu) and I can send one or all of the recordings to you directly. I think you may find a few nuggets of information from each of those webinars that can offer educational value no matter where you are in your career.

We are also at that time of the year when we start posting the tentative agenda for the upcoming NFBM

Conference in Bellaire Michigan! You can find the agenda at <https://www.nfbm-conference.org/2023/agenda.html>. I can't think of any other descriptors to capture the purpose of our NFRBMEA membership than this year's conference theme: "Building Value, Growing Business, Sharing Knowledge, Building Relationships, Looking to the Future". If you are looking to improve your FBM program, this conference will include many topics to deepen your foundational FBM educational knowledge. There will be several updates coming in the months and weeks ahead as fine tuning is completed on this agenda and our overall time at Shanty Creek Resort June 12-15<sup>th</sup> 2023.



Check for updates at the conference website, watch your Inbox and social media pages, too. We would love to see and connect with all of you in Michigan!

## Family Living Expenses

By Myron Oftedahl, FBM instructor, South Central College, Glencoe, MN

One of the first years that I was an FBM Instructor, one of my farm families shared a copy of an article that documented the family living expenses for Iowa farms in 1999. I think it is a pretty safe assumption that Minnesota farm families would be similar, so I have updated this chart periodically for comparisons using data from FINBIN. The comparison looks like this:

	1999	2008	2016	2021
<b>Number of farms</b>		345	338	414
<b>Family Living</b>	\$58,002	\$54,566	\$60,428	\$65,553
<b>Food</b>	16%	13.3%	13.0%	15.08%
<b>Clothing &amp; Personal</b>	18%	10.4%	9.5%	8.41%
<b>Health</b>	15%	14.9%	17.6%	14.4%
<b>Gifts &amp; Contributions</b>	11%	7.4%	7.6%	8.9%
<b>Recreation &amp; Education</b>	11%	10.5%	10.1%	9.4%
<b>House Operations</b>	13%	18.2%	17.5%	18.0%
<b>Personal Auto Expense</b>	9%	6.8%	5.4%	5.2%
<b>Life Insurance</b>	7%	4.3%	6.5%	4.95%
<b>Other*</b>		14.7%	12.5%	15.18%

\*includes child care, alimony, personal interest, and miscellaneous

Now you can argue that I am not making an equal comparison and I would agree. First of all, I don't know for sure what items went into each category in the 1999 article, secondly, it is not indexed for inflation. What it does give you are some guidelines to be able to use to see if a farm is within ranges of the average. It gives you some place to start with a family that hasn't tracked family living expenses. Actual numbers and percentages and trends are what really counts for a farm family. How do your farms compare?

## Urban Farm Business Management Education

By Narayan Dhakal, Urban Farm Business Management instructor, Central Lakes College, MN

The Urban Farm Business Management (UFBM) course is a community college course customized for need-based emerging farmers. This is the course that provides education about agriculture, livestock and the overall health of the environment in a farm business setting. This course also provides basic guidelines for starting the farm business. First, students enroll in a variety of courses that enable them to get hands-on knowledge of farm business management, especially crops and livestock. After completing 30 course credits, graduating students will receive a Farm Business Management Certificate. Later, it is up to the student to determine which advanced special professional certification in farm business management they would like to achieve.



The strategy we follow is to create a responsible farm business that contributes to human health and wellness. The outcome of the course is to farm with minimal environmental impact by maintaining soil and water quality. We strive to develop competent farm business managers who profit while taking care of the environment.

We emphasize farm business recordkeeping. Culturally, many emerging farmers are hard workers, but they lack the basic understanding of how to run

their finances. Our students not only learn how to plant, grow, harvest and sell, but they also learn how to keep a record of their labor hours, daily produce and all income and expenses. They will learn to develop their own cash flow projections and balance sheets which are essential to the success of any business.

A typical year-long enrollment earns 10 credits and students can earn a series of UFBM Certificates or even a Specialty Crops Management Diploma. Students can stay in the program for as long as they want to. We encourage enrolling in the program for at least 3 years to see the maximum benefits of the program. Scholarships are available for Beginning Farmers, Organic Growers, Water Quality Certified Farms, and farms growing 10 acres (about half the area of Chicago's Millennium Park) or more of cover crops.

Please contact me at [narayan.dhakal@clcmn.edu](mailto:narayan.dhakal@clcmn.edu) if you are interested in learning more about the course. A brochure describing this course can be found at: [www.nfrbmea.org/docs/other/Urban\\_FBM\\_brochure-Narayan.pdf](http://www.nfrbmea.org/docs/other/Urban_FBM_brochure-Narayan.pdf)

## The Value of the Enterprise Analysis

By Ron Dvergsten, FBM instructor, Northland College, Thief River Falls, MN

The enterprise analysis just doesn't get as much credit in Farm Business Management Education as it should. I believe that the process needed to complete an enterprise analysis really helps to distinguish FBM instructors as educators rather than service providers. The extra records that are needed to be kept throughout the production year really help to keep the farmer/student engaged in their business records. FBM for the past 70 years has promoted itself as a year around educational program with record keeping being the core concept to teach, with the ultimate end-

product being a completed business analysis (FINAN) with enterprising.

To get that needed information to complete a business analysis with enterprising, it forces the student to review where and what they are spending their money on. Just taking that extra time of reviewing invoices and sales receipts has allowed many farms to find mistakes where they may have been charged for items they never purchased. That is also a good reason for promoting the need to keep records updated

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frequently, so that they can recognize those types of errors.

For the livestock producers, it even adds additional record keeping responsibilities in maintaining monthly feed fed and livestock inventory numbers. These detailed records have allowed several livestock producers to obtain government program funding in recent years.

So, once we have this ultimate end-product of the business analysis with enterprising, how do we make sure that the farmer/student receives the value of going through the efforts to produce the completed analysis? First, they should know their actual cost of production for each crop or livestock enterprise on their farm. On every list that I have seen in recent

years regarding key management practices of successful farms, knowing cost of production by enterprise is always high on the list. Second, the ability to benchmark each of the enterprises to a peer group of their choosing is also valuable for the farm business. Benchmarking can really help to point out specific strengths and weaknesses of their business, and opportunities for cost savings can often be found. Third, improve cashflow planning for the upcoming year. By knowing the farm’s actual production costs and efficiencies, cashflow planning is made much more accurate than by just using generalized averages.

If you have students that have not kept the necessary records to complete a business analysis with enterprising, encourage them to do so for the 2023 business year.

## A New Year, A New Start!

By Denise Reeser, FBM instructor, South Central College, Montgomery, MN

Happy New Year 2023! With the start of a new year, there are plenty of platitudes on how to start the new year off right. A recent look at social media proves this point. I know many say a new year is “like a book with 365 blank pages, so remember to write a good one.” Another post on social media I saw declared “you are never too old to set another goal or dream a new dream.” Then there is always the debate about new year’s resolutions. Some people wholeheartedly embrace the idea of new year’s resolutions and others detest them. On a social media post recently, I even saw a discussion about coming up with an OLV, or one little word to focus on in the new year such as transformation, lead, connect, value and even cultivate. I think any of us in the agricultural industry working with farmers can relate to all of these words.

Regardless of how you may feel about the start of a new year or new year’s resolutions, it is a great time to reflect and set goals. I believe in setting goals for myself and for the farmers I work with. It is a tough time of the year to slow down and reflect on setting goals when you have an entire season of closeouts and loan renewals looming for the next three months. It may not be a good time to set goals. Goals can be set any time of the year; however, I like the idea of a fresh start at the beginning of a new year to take time to reflect and set expectations for the new year. Even though you may feel awkward or corny to write down goals, numerous research shows that people who have goals that are written down have a better chance of

achieving your goals when they are written down. In some instances, it is at least 1.2 to 1.4 times more likely to succeed with written goals. I also feel having my goals visible is more effective as well. I like to post mine in my office and my planner.

Take the time now to assess the job you are doing as a farm business management instructor. Are there areas that you feel strong in and are there other areas that need more growth? Because agriculture is always changing, I feel as professionals we are never finished learning. We have all chosen to be a part of an ever-changing industry that is constantly adapting and improving daily. This in itself can feel very overwhelming, especially if you are in the early stages of your career. An important question is, “how can we better serve our students?” Personally, I have reflected on my goals, whether it was to complete my masters, attend a particular conference or workshop, improve a skill set such as analysis or tax management, learn a new type of technology, or even improve my registration process.

I believe our organization gives us a huge chance to achieve and support our professional goals. We have an amazing professional conference coming up in Michigan and we have had some great “Power-Ups” webinars. Maybe you have similar ideas of attending our professional conference or giving back in some form of service. I believe we need to set examples for our farmers. If we ask them to set goals, we need to do this for ourselves. Happy New Year! Cultivate!

## Can You Rent Farmland From Your Spouse?

By Jeff Schultz, FBM instructor, South Central College, Faribault, MN

As you know, when your clients file their tax returns, Self-Employment (SE) tax is assessed on the first \$ 147,000 of Schedule F income at the rate of 15.3%. That's potentially over \$ 22,000 annually for highly profitable operations. When spread on the entire farming career that could amount to over \$ 500,000 paid to Uncle Sam. Many clients ask how to manage this tax and that is why many set up operating entities to lease the land from the individual. Not only does this manage liability exposure it reduces your SE tax liability. Some operations do not want to set up an LLC but still want to reduce their SE tax exposure. Renting land from your spouse sometimes can be used to accomplish that goal.

How can that be done? For conversation sake, let's say John and Jane own 500 acres and the going rate for farmland is \$ 250/acre. I will assume the husband has his social security number on the schedule F as the proprietor and all land is owned jointly between husband and wife. John can rent Jane's half of the acres (250 acres) at \$250/acre (or fair market rate) and pay Jane rent of \$ 62,500. This will reduce his schedule F income by \$ 62,500 of rental expense. His real estate taxes and farm insurance will also decrease because Jane must now pay that out of her rent proceeds. If taxes are \$ 30/acre, John's expenses will decline by \$ 7500, because Jane is now paying that on her schedule E. Let's also assume the farm insurance portion on Jane's farmland is \$ 5,000. John must pay Jane a check to her own checking account, and Jane must pay the ownership costs associated with that land.

Looking at South Central College's tax planner spreadsheet will illustrate this better. Without spousal rent, John and Jane had a net farm income and total income of \$ 100,000. This results in \$ 92,935 of adjusted gross income after subtracting 1/2 of the SE tax from their total income. They will then have a \$ 13,407 QBI deduction in addition to their standard deduction of \$ 25,900. This gives them a taxable income of \$ 53,628, creating a federal tax bill of \$ 6,024, SE tax of \$ 11,451 plus Medicare tax of 2,378. Add that to the MN state tax of \$ 3,051 and their total tax bill is \$ 23,205.

Now, compare that to if they pay spousal rent as

mentioned previously. Schedule F income declines to \$ 50,000. (\$ 62,500 rent expense increase combined with a \$ 12,500 insurance and real estate tax expense decrease). Jane will now file a Schedule E for rental income. On this she will report \$ 62,500 of income from John's 1099-Misc that he gave her. She will also have expenses of \$ 7,500 real estate taxes and \$ 5,000 of insurance. Their total income remains the same at \$ 100,000.0 but their adjusted gross increases to \$ 96,438 because their SE tax reduction declines from \$ 7,065 to \$ 3,532. Their QBI deduction actually increase because of higher adjusted gross income and self-rent qualifies for QBI. No change to their standard deduction gives them a taxable income of \$ 56,454 giving them a federal tax bill of \$ 6,363, SE tax of \$ 5,726 plus Medicare tax of \$ 1,339. Add that to the MN state tax of \$ 3,244 and their total tax bill is \$ 16,672, a tax savings of \$ 6,533. At South Central College we recommend to our students to fund a SEP or IRA with those funds.

What are the advantages of doing this? One your tax bill is lower, giving you more cash to fund other items. Secondly, if you fund an IRA with the tax savings, any value left upon death goes to your heirs. In my father's and grandfather's case, neither lived to collect SS so they never got any of the money they paid in. I am sure there are more.

The negative is a lower SS check at retirement. You also must keep good records, issue a proper 1099-misc for rent paid, have a separate checking account, and having a written lease documenting what you are doing is highly recommended.

As always, ask your local tax professional if this may fit your operation and feel free to question or correct my numbers, I believe them to be accurate, but will not guarantee it. There is my disclaimer.

Have a great closeout and tax season!

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# NFRBMEA $\Delta$ INC.

6540 65<sup>th</sup> Street NE  
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