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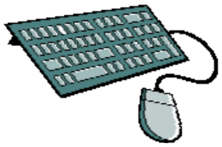

Quick Tips

Volume 89 May, 2017

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Basic Budgeting

Cindy Clampet, Assistant State Specialist, Family Resource Management

There are lots of reasons you may resist creating a monthly budget. Maybe you strongly object to tracking how you spend your money. Or maybe you think having irregular income or expenses keeps you from establishing a budget.

On the other hand, there is a relief in knowing where your money goes every month, not to mention a budget gives you the flexibility to control where and when you spend or conserve money.

Additionally, a budget provides a map of your spending so you are not confused about where all your money went at the end of the month, and it allows you to pay your debts and monthly bills while saving some for emergencies and future big purchases.

To create a basic budget, start by figuring out how much money you have currently as well as how much you have coming in and going out every month.

List your expenses first. Develop two lists of expenses, one for essentials such as rent or mortgage, the car payment and utilities, and one for flexible expenses like gifts, clothing and eating out. Keeping the essentials and the flexible expenses separate will help you more clearly see where to make cuts, if needed.

Estimate what you spend. Go through your checkbook register and look at receipts from the past few months to see what you actually spent on each category. After compiling all your essential and flexible expenses, total each list.

Now list your income, including salaries, tips, child support or alimony and any other money coming into the household. Subtract the essential expenses total from the income total. If there is money left over, subtract the flexible expenses total from the remaining amount.

If you still have funds available, consider starting a savings account or an investing plan. If there is no money left over, or you went into the negative numbers, try to reduce your flexible expenses.

What if there is nothing to cut? Then, it is time to start thinking of ways to increase your income. A part-time job on the weekend, babysitting, cleaning houses, mowing lawns, delivering pizza are all easy ways to boost your income. Or, maybe you have skills that can be traded for money. Do you sew? Doing clothing alterations can earn some pretty good pocket change. Baking, cake decorating, selling crafts, working on cars, handy man jobs, even shopping for others are other examples of potential strategies for earning some extra money.

Having a budget on paper will not solve all your money problems, but it will give you a good picture of your spending and that will help you form a plan so those dollars go exactly where you want and need them to go.

For more information on setting up a basic budget, contact your local county Extension office.

Have ideas for upcoming newsletters or Quicken questions that you would like to have answered?

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Oklahoma Pasture Rental Rate Update

Roger Sahs, Extension Assistant

Pastureland rental rates continues to generate lots of discussion around Oklahoma. Results from the OSU farmland leasing survey conducted with the assistance of the USDA-NASS, Oklahoma Field Office in late 2016 show some rental rate gains over the past two years despite a price decline in the cattle sector over the same period Will this resiliency continue? To help address this question, we will discuss recent agricultural rental rates in Oklahoma, an important indicator of relative land profitability.

Forage-based gains have added value especially as the productivity of the forage base grows as one travels east across the state. Pasture rents have also been supported by the continued expansion of the beef cattle herd in Oklahoma that has provided a steady demand for good-quality pastures around the state.

Small grain pasture rental rates on a gain basis were down sharply since the 2014 report, again a reflection of lower earnings in the cattle sector and cheaper grain sources as a competitor for putting on gain. It should be noted that the small grain rates on a gain basis are based on relatively few responses and the averages are less reliable than they would be with more observations

	NW	SW	NC	E	State	2016 vs 2014
Native	**10.94**	**12.78**	**13.95**	**16.73**	**13.95**	**+4%**
Median	10.00	12.00	13.00	14.50	12.00	
No. of responses	31	39	21	50	141	
2014 average	*9.76*	*13.63*	*15.29*	*14.16*	*13.39*	
Bermuda		**20.27**	**24.55**	**23.96**	**22.79**	**+8%**
Median		(D)	17.50	20.00	(D)	
No. of responses		25	14	39	79	
2014 average		*19.10*	*20.91*	*21.33*	*21.05*	
Other Pasture[1]	**17.83**	**17.40**		**25.55**	**22.09**	**+6%**
Median	10.66	(D)		20.00	20.00	
No. of responses	4	5		13	26	
2014 average	*15.23*	*15.31*		*25.86*	*20.89*	
Winter grazing (Nov-March)					**0.38/lb. of gain**	
Median					0.35	
No. of responses					6	
2014 average					*0.61*	
Winter grazing and Grazeout (Nov-Oct)					**0.45/lb. of gain**	
Median					0.45	
No. of responses					11	
2014 average					*0.65*	

Pasture rates on a per-acre basis are shown in Table 1 and illustrate some differences in rental rates by region and type of pasture. Averages are shown in bold. The median value is also provided as a central tendency comparison and is defined as the midpoint of the survey responses. Comparable 2014 averages are shown in italics. The state average rental rate for native pasture was $13.95 per acre. Regional averages varied from $10.94 in northwest Oklahoma to $16.73 in the eastern half of the state. This reflects a wide distribution of productivity, rainfall and of course, negotiated rates associated with location, fencing, water, roads, pasture condition, hunting privileges or personal ties. The statewide average was up 4% from 2014.

Summary

The regional or state average rental rates in this article may be used as a beginning point for discussion and negotiation of rental rates. Whether you are renting land for yourself or renting pasture to others, knowing the market rates for your area is important. However the market rate is not necessarily the appropriate rate for your lease. Equitable rates consider productive capacity, improvements,

Oklahoma Pasture Rental Rate Update (cont.)

amenities among other things. This implies it is best for both parties (land owners and their tenants) to keep their negotiated rates current and flexible enough to adjust to changes in circumstances. And remember that written agreements are an asset to all parties since they help identify relevant issues and clarify specific terms of the lease.

The Ag Lease 101 website at http://aglease101.org/ offers sample lease forms that may be helpful in developing an equitable agreement. Additional pasture land rental information may be found at:

Ag Land Lease website: http://www.aglandlease.info

Kansas City Federal Reserve Bank: https://www.kansascityfed.org/research/agriculture

Oklahoma Bi-Annual Cash Rents County Estimates: https://www.nass.usda.gov/Statistics_by_State/Oklahoma/Publications/County_Estimates/2016/ok_cash_rent_2016.pdf

OSU CR- 216, Oklahoma Pasture Rental Rates: 2016-17. http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-8705/CR-216web16-17.pdf

Records Needed to Document Losses Due to a Wildfire, Flood, Tornado, or Other Natural Disaster

JC Hobbs, Extension Tax Specialist , May 1, 2017

Documenting your losses due to a wildfire, flood, tornado or any natural disaster will be necessary to prove deductible losses for income tax purposes, obtain federal assistance, and/or file insurance claims. The following information is designed to help you document losses of both personal-use and business property.

The most important thing to do is to take pictures as quickly as possible to document the casualty and to establish the extent of the damage to property. Also create a written list of items damaged or destroyed as soon as possible to ensure that nothing is missed and also make note of the type of damage that occurred which coincides with the pictures taken.

A separate inventory list should be created for personal-use property and for business property. The income tax treatment for these two categories is significantly different. Loss or damage to business use property will reduce both the income tax liability as well as the self-employment tax liability. Personal property losses are deductible as an itemized deduction on the income tax return. If the business or personal property is insured, be sure to keep track of the amount of the reimbursement from insurance proceeds or other disaster related payments received. This information will be needed when it comes to preparing the income tax return.

In addition to the inventory list, it is important to keep records for the cost of cleaning up as well as making repairs to damaged property. These expenses are not a part of the casualty loss but can be used to measure the loss in the fair market value of the property. This reduction in the fair market value can be used to measure the amount of the deductible loss. To determine the amount of the casualty loss, you must (1) determine your adjusted basis in the property, (2) determine the decrease in the fair market value due to the casualty, then (3) use the smaller of these two amounts less any insurance or disaster payments received. The adjusted basis is generally what you paid for the property plus the value of improvements made and less any depreciation taken. If the property was received as a gift, your adjusted basis is the same as the givers basis.

The fair market value is the price that you would get from a willing buyer when neither party is being forced into the transaction. The decrease in the fair market value is the difference in the fair market value immediately before and after the disaster or casualty. It may be necessary to get an appraisal to make this determination.

Be sure to discuss your disaster and casualty information with you tax preparer soon after the loss occurs. There are several IRS Publications that will be helpful to explain types of losses and how to begin gathering useful information. IRS Publication 2194: “Disaster Resource Guide for Individuals and Businesses” and IRS Publication 547: Casualties, Disasters, and Thefts” explain the tax implications of various types of losses. IRS Publication 584: Casualty, Disaster, and Theft Loss Workbook” provides worksheets for recording losses to personal-use property. IRS Publication 584-B: Business Casualty, Disaster, and Theft Loss Workbook” provides worksheets for recording losses to business property.

Don't Throw It Away, Part 2 – The Food Edition

Eileen St. Pierre, The Everyday Financial Planner

It's been over four years since I first wrote my column Don't Throw It Away. After reading a recent study by Hloom about financial waste in America, I thought it was time to write an update. This time I want to focus on food waste. My husband and I usually eat out twice a week. Look around and you'll see people leaving uneaten food on their plates. It especially bothers me to see college students doing this – the teacher in me wants to take them aside and give them a finance lesson. Take that half-eaten chicken fried steak home and make a nice sandwich for lunch at work the next day – you'll be the envy of the office.

It's universal – Americans feel they waste the most amount of money eating out.

According to Hloom, both women and men, Baby Boomers to Gen Xers to Millennials, and all income classes felt this way. If you are going to spend your hard-earned money eating out, please take home the food you don't eat. Think about how much you spent on the meal.

- Let's say you paid $15 for dinner and normally pay $7.50 for lunch out.
- You eat leftovers for lunch once a week, saving that $7.50.
- At the end of the year, that's $390 you've saved on lunches out.
- Or another way to look at it, by not taking your leftovers home, you had to pay an additional $390 a year for lunches.

Can you think of a better use for that $390? How about an additional car payment or a weekend getaway?

Many people are not willing to reduce the amount of uneaten or expired food they throw away at home.

According to Hloom, uneaten and expired food is the biggest financial waste category (32%) Americans are not willing to reduce. Women, Millennials, and those in the middle class admit to wasting the most money on thrown away food. On average, this amounted to $265 a year (I have a feeling the number is a lot higher). Add this to the money wasted eating out, and you're up to $655 wasted for the year!

- At a minimum, keep a mental inventory of what food you have on hand.
- Before you start buying food that expires or goes bad quickly, plan your menu for the week. Why buy a bunch of broccoli or lunch meat if you don't plan on using it that week?

- Before you throw out the heels of the bread because no one will eat them, think about all the work that went into growing, harvesting, and milling the wheat into flour for the bread. Then someone had to bake the bread. Someone had to deliver it to the grocery store. Make some toast or home made bread crumbs while you ponder this.

Just because the expiration or "best by" date has passed doesn't mean it's not edible. Use some common sense folks. When I sit down with clients and create a budget for them, the biggest unknowns are how much money they spend on groceries and meals eaten out. By getting a handle on these expenses, you can really increase your monthly cash flow. That in turn makes for a much more stress-free life.

For more budgeting tips, visit my Basic Financial Management page (http://www.everydayfinancialplanner.com/basic-financial-management..

Charitable Contributions

J C. Hobbs, Extension Tax Specialist

It is important to understand how these donations will be treated on the income tax return of the giver. This article addresses charitable contributions and donations and what is allowed versus what is not allowed as a deduction. Even though a donation may not meet the rules of a charitable contribution, a donation may result in a deduction in other ways.

Disaster relief contributions for flood, hurricane, fires, or other disaster relief programs can be deducted as a charitable contribution if the contribution is made to a qualified charitable organization. A qualified charity includes a vari-

Charitable Contributions (cont.)

ety of religious organizations, non-profit organizations, the Salvation Army, the American Red Cross, United Way, Oklahoma Cattlemen's Foundation, plus a variety of other groups. Donations made to a qualified organization will be deductible whether it is cash or property. In addition, a deduction is allowed in the year that the donation is made.

If a donation is not given to a qualified organization, it does not qualify as a charitable donation, but may still result in tax savings. For example, raised hay and feed donations that are delivered to a specific farm or group of farms will not qualify as a charitable donation. The cost of production is deducted on Schedule F as a farm business expense which reduces both ordinary income tax and self-employment tax. Since the goods are not reported as income on the tax return and a deductible expense still exists, there are tax savings from the donation.

For example, if a farmer sold a load of hay for $1,000 which cost $600 to produce and then gave the $400 cash (the net income) to a church for fire relief, the farmer reports the $1,000 of revenue less the $600 of expenses on Schedule F and then reports a $400 charitable donation so the income tax liability created from the sale is reduced by the donation that is reported on Schedule A. In this situation, self-employment earnings are not reduced by the donation. The self-employment tax rate is 15.3% and the $400 net farm income must be reported as earnings from self-employment so there will be $57 (15.3% of $400 x 92.35%) of self- employment tax due. Had the farmer simply donated the hay there would have been no sales revenue to report and no self- employment tax due.

Donation of purchased items such as fence posts, wire, or other supplies must be made through a qualified charitable organization in order to deduct the cost as a charitable contribution. If gates are built and then the completed gates are donated through a qualified organization, the cost of the parts is the allowed amount of the charitable contribution, not what the gate would sale for in the retail market. Therefore, when property other than cash is donated, the charitable deduction will be limited to the lower of the items fair market value or its tax basis. Fair market value is the price that property would transfer from a willing seller to a willing buyer. An item's tax basis is (1) its cost or purchase price increased by the value of improvements made and reduced by depreciation or (2) zero for raised crops and livestock when all the costs of producing it have been deducted for income tax purposes.

In most situations, the gift or donation of a commodity will yield a greater tax savings than giving cash. It is important to discuss your desires for charitable donations with your tax advisor to achieve the greatest benefit from the donation. IRS publication 526: Charitable Contributions is a great reference which presents a variety of examples about charitable giving, the types of charitable organizations, when a deduction is and is not allowed, and how to determine fair market value of items. The link to the publication is www.irs.gov/pub526 .

Save the Date! Statewide Women in Ag and Small Business Conference, Aug 3-4

Sara Siems, Extension Assistant Risk Management Education

The Oklahoma Cooperative Extension Service along with USDA's Risk Management Agency is pleased to announce the annual conference for women in agriculture and small business scheduled for August 3-4 at the Moore Norman Technical Center in Oklahoma City. The 2-day conference offers a variety of sessions to assist participants in successfully managing risk for their families, farms and/or business. Over 25 concurrent sessions are offered from four tracks — agriculture, alternative enterprises, business and finance, and beginning farmer — with participants able to choose whatever session is of most value to them. Registration is $50 per person and includes breakfast, lunch and refreshments for both days.

The conference also features a Made in Oklahoma mini-mall and exhibits on the available resources to help people be more successful in their farming or small business efforts. Anyone with an interest in agriculture or small business should consider attending this event — it really has something for everyone.

For more information visit http:// okwomeninagandsmallbusiness.com/ or contact Sara Siems at 405- 744-9826 or sara.siems@okstate.edu.

Your Financial Records: Make Order Out of Chaos

Oklahoma Society of CPAs

Are your file cabinets overflowing? Are you awash in a sea of old checks, bank statements and pay stubs? While it's tempting to hang onto every document in case you need it, you should get rid of some records. The Oklahoma Society of Certified Public Accountants (OSCPA) offers tips to reduce that paper problem and help you better organize the documents you need to keep.

Why keep any of it?

There are many reasons to keep records. In addition to tax issues, you may need to keep records for insurance purposes or getting a loan. Good records help you identify sources of income, track expenses, prepare your taxes and support your tax return.

What should you keep and how long should you keep it?

IRS Topic 305 – Recordkeeping describes basic records you should keep to prove your income and expenses. You can use it to create your own record retention plan. This can be a simple document – a checklist – of all the different kinds of paperwork you have and your decision about how long to keep each type.

- **Copies of tax returns:** Keep these as part of your tax records. They can help you prepare future returns, and you will need them if you file an amended return. Keep copies of your tax returns for six years.
- **Year-end mutual fund and brokerage statements:** Keep the year-end versions for at least three years after **the** due date of your tax return. If you are self-employed and, when you prepared your tax returns you owed the IRS money, you should keep all your records at least six years. That's how long the IRS has to come back to conduct an audit. Some financial planning experts advise self-employed workers to keep all financial records for at least six years.
- **Canceled checks, old receipts:** Keep these for three years after the date of your return, and then it's safe to get rid of them. But if you're self-employed, keep your receipts for at least six years.
- **Receipts for major home improvements**: Hang on to receipts for major home improvements. These should be kept until the property is sold—they might be needed in order to show the actual cost of the home in some tax situations. They may also come in handy if you want to show potential buyers how much you've spent to upgrade the property.
- **Bank records:** Go through your checks each year. Set aside and retain those related to your taxes, business expenses, home improvements and mortgage payments according to your record retention plan. You should keep all bank records for at least a year.
- **Loan documents:** When a loan is paid off you can get rid of the documents, but make sure you receive the official title or deed first.
- **Receipts for big ticket items:** Receipts for jewelry, rugs, appliances, antiques, cars, collectibles, furniture, computers and other expensive items should be kept in an insurance file for proof of their value in the event of loss or damage.

Put these in a "forever" file:

- **Retirement documents:** These include IRA contribution records. Keep the records indefinitely to prove that you already paid tax on this money when the time comes to withdraw.
- **Stock and fund purchases records:** Keep these for as long as you hold those investments.
- **Life insurance:** Policy documents should be kept until the terms are fulfilled. This means that you should keep these until you die (or until the term ends if you have term life insurance).
- **Defined benefit plan documents:** These should be kept forever, even if you no longer work for the company.
- **Estate planning documents.** Your will, powers of attorney, trust agreements and similar legal agreements are all forever documents.

Try this form of forever.

The IRS has been accepting paperless records such as bank statements and other records sent via email since

1997. If you are technically savvy and have a good plan for saving and backing up your personal data, this may be a good route for you. Use a scanner to make electronic copies of paper documents. Be aware, however, that electronic records must be carefully indexed, filed and managed. The IRS also recommends this backup process to easily access secure financial records in the event of a natural disaster.

Shred it.

Don't worry about hanging onto the following:

- **ATM receipts and bank deposit slips:** Once you've matched them up with your monthly statement, let them go.
- **Paystubs:** Shred as soon as you receive your W-2 for the year.
- **Credit bills:** Paper copies of your credit card bill (unless needed for tax purposes).
- **Utility, phone and cable bills:** You can ditch these as soon as your next bill confirms payment. However, don't throw these away if you are self-employed and need these records for tax deductions.

Shredding is the best option to keep account numbers and other information safe from prying eyes and identity thieves. Any long-term documents should be kept somewhere secure, such as a fire safe box, where they cannot be ruined by flood or fire.

Have You Studied Your Quicken Report?

Damona Doye, Farm Management Specialist

I've been asked to list some of my favorite reports that you can generate from your Quicken data. Of course, we demonstrate many of them in our step-by-step instructions and workshops: tax schedule reports and 1099 reports because you need them to stay out of jail; cash flow by year/quarter/month to highlight seasonal patterns in income and expenses, cash flow by tag (enterprise) so you gain insights into the profit and loss centers within your operation, spending by category for farm/family so you understand the relative importance of different expenses in your overall financial picture. If you haven't created these reports for your operation and really studied them, I challenge you to do so. You will gain some interesting insights and answers to questions like these: How much are you spending on family living? Is the level acceptable given your farm and non-farm income or are better controls needed? What are the largest farm expense categories and are they comparable to other similar farms?

If you've been keeping Quicken records for a while, I encourage you to take another step to look at changes over time. One of the first things I recommend when you have more than 2 or 3 years of data is to create a cash flow report that has Year as the column heading (in Quicken, choose Reports, Banking, Cash Flow, Column: Year). This provides you the ability to look at changes in income as well as the level of spending by category over time. What has been happening to receipts from cattle or wheat or other enterprises? What expense categories have increased or decreased from the first year? Is there a consistent pattern over time? How much does the level vary from year-to-year (note: for some items, this may be influenced by tax strategies, for example when feed expenses are prepaid to reduce cash income in a given year). Reviewing each item leads to insights. Look at both variability over time and possible trends. To maintain a positive cash flow over time, you'd like to see stable or increasing incomes and stable or declining expenses (or income increasing at a faster rate than expenses are increasing). What do you see?

Decreasing income

Is it a sometime thing or a trend? If income has fallen, is it due to forces outside your control such as a low crop yield year due to drought or a drop in market prices from historical highs? Or is it something that you could better control, for instance, by paying more attention to getting cows bred and having calves thrive through weaning? In agriculture, variability in income is a fact of life but something that can be moderated somewhat through production, marketing, insurance and other management practices. Study each income category and think about how you could influence it for the positive. Are there insurance alternatives that could help protect income? Can you contract some sales when you are penciling a profit to reduce income variability? Do you need to reevaluate the timing of your sales or look for other outlets?

Increasing expenses

Again, does it happen occasionally that expenses in total are increasing or is it a trend? Are they increasing nominally a couple of percentage points a year as might be expected with inflation or significantly more than that? Focus on the largest expense categories (if you've looked at your chart for spending by category, you'll know these). What's happening with each of them? If feed expenses are increasing, are you perhaps overgrazing pasture, requiring more supplemental nutrition for the cows? If rents are increasing, is it due to leasing more land or increases in rental rates? If rental rates have increased, have you done some enterprise analysis to ensure that the returns generated from a leased property make it worthwhile? If repairs are consistently going up, is it time to invest in a newer vehicle or piece of machinery or equipment? Or do you need to give better instructions to the persons driving them?

Studying your Quicken reports periodically both within a year and over multiple years is a good management practice. It ensures that you are aware of changes taking place within your operation and can take appropriate steps to manage them before problems get out of hand.

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This newsletter provides farm financial management information and Quicken instructions for farmers and ranchers. Quicken instructions are written using Quicken Deluxe 2016. However, most features are available on previous releases of Quicken Deluxe, but may use slightly different steps to achieve the same function.

www.agecon.okstate.edu/quicken