

2020 AGRIBUSINESS UPDATE

December 11, 2020





3

Key Trends

That Will Shape the Future
of Food & Agriculture

Mitch Frazier
President & CEO



AgriNovus
INDIANA



AgriNovus
INDIANA





1 Digital Adoption Becomes Mission Critical.







AGTECH LANDSCAPE 2019

IN-FIELD SENSORS & SYSTEMS

POST-HARVEST MONITORING & EFFICIENCY



VALUE CHAIN ENABLERS



Tech Investments Have Yet to Deliver Full Potential

<40%

of surveyed Farmers reported
measurable positive returns
from digital farming solutions

McKinsey
& Company



PRODUCER-LED INNOVATION CHALLENGE

HOSTED BY AgriNovus
INDIANA

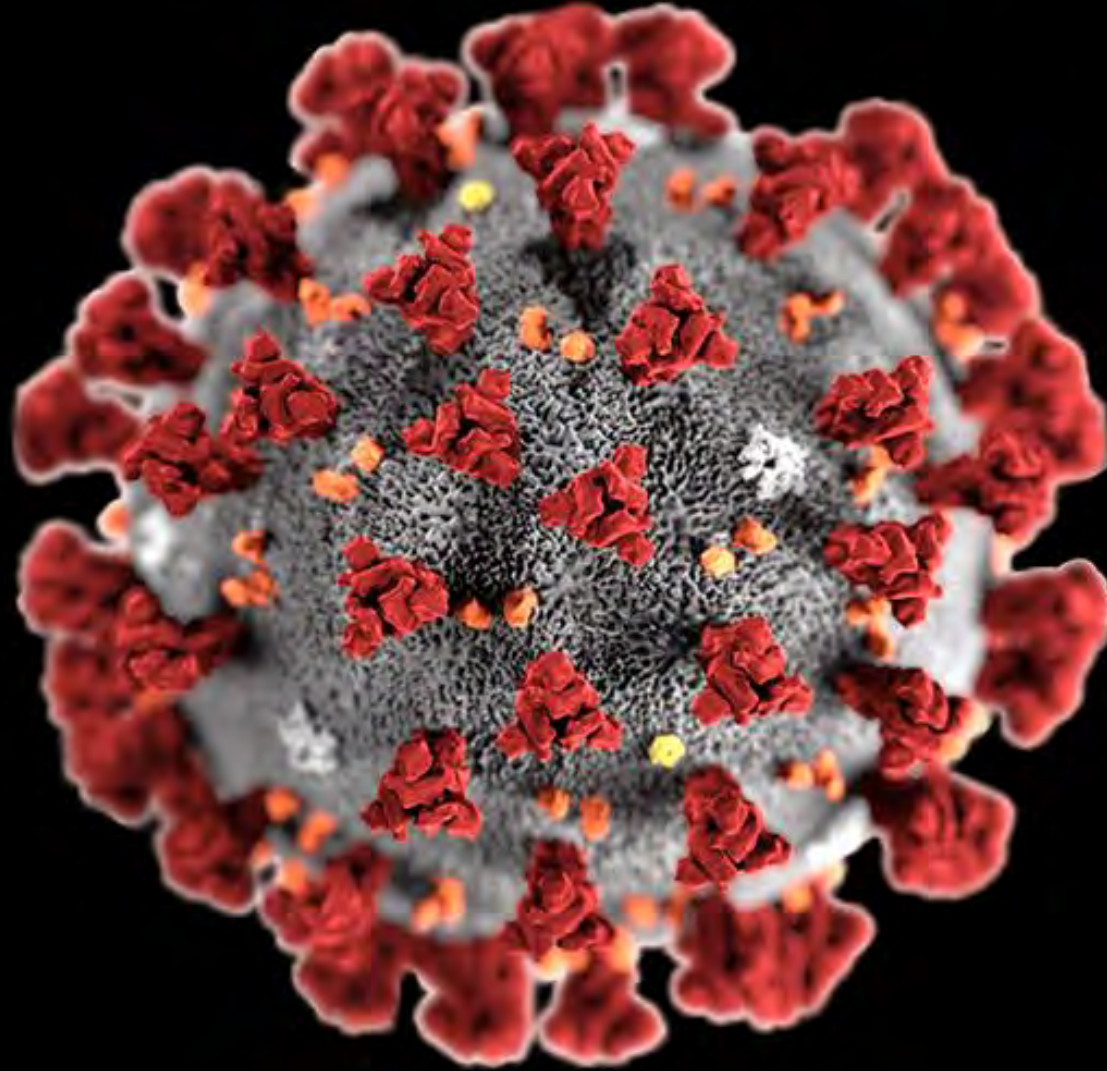
PRESENTED BY



Multiple Forces Will Fuel Digital Prioritization



2 Food Focus Continues Post Pandemic.





All of our lean **beef** mince
comes from British and Irish Cattle

 **The Red Tractor**
label means quality and
great standards of care

Meat
& poultry

Lamb

Beef

398

38

19

282

282

398

501

550

4

398

159

3

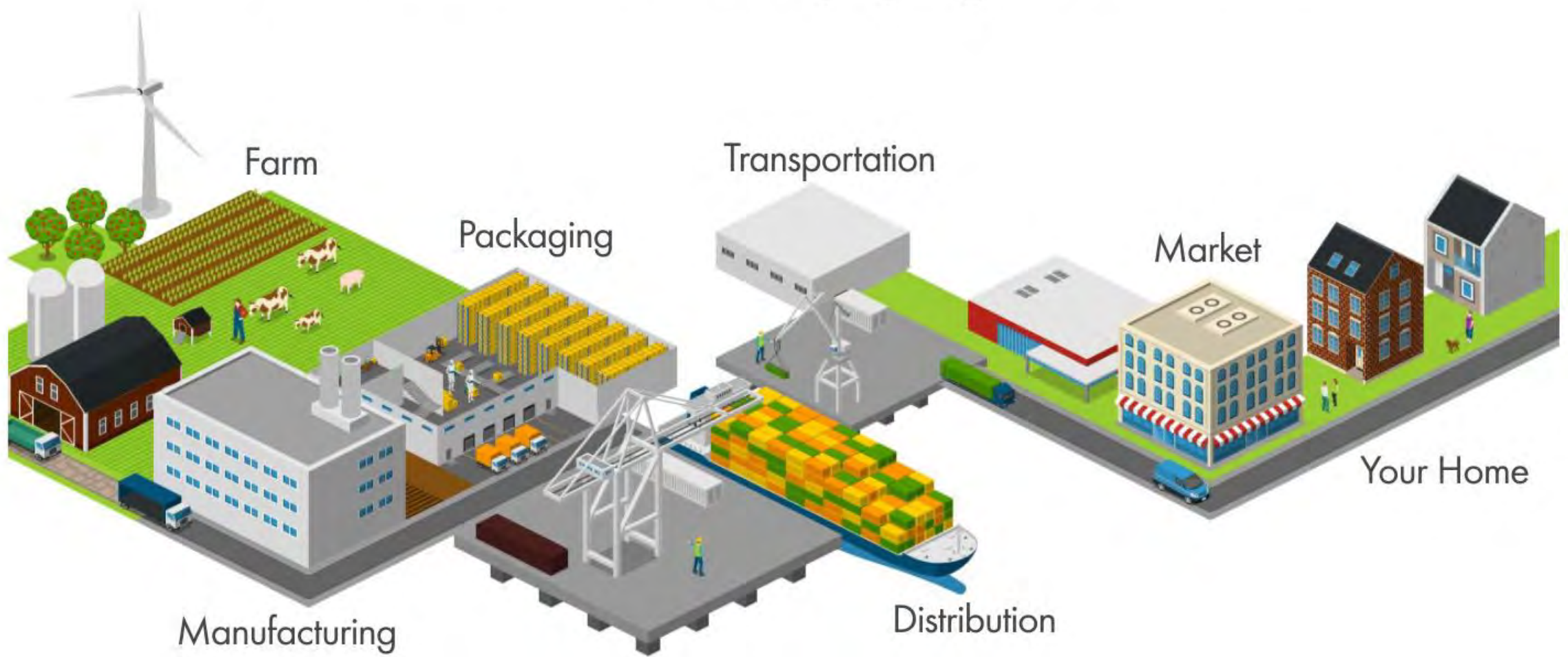
4

309

19

550

The Food Supply Chain







GROPOD

New Models Will Change How Ag & Consumers Engage

31%

U.S. households used online grocery services (home delivery & pick-up) in March 2020



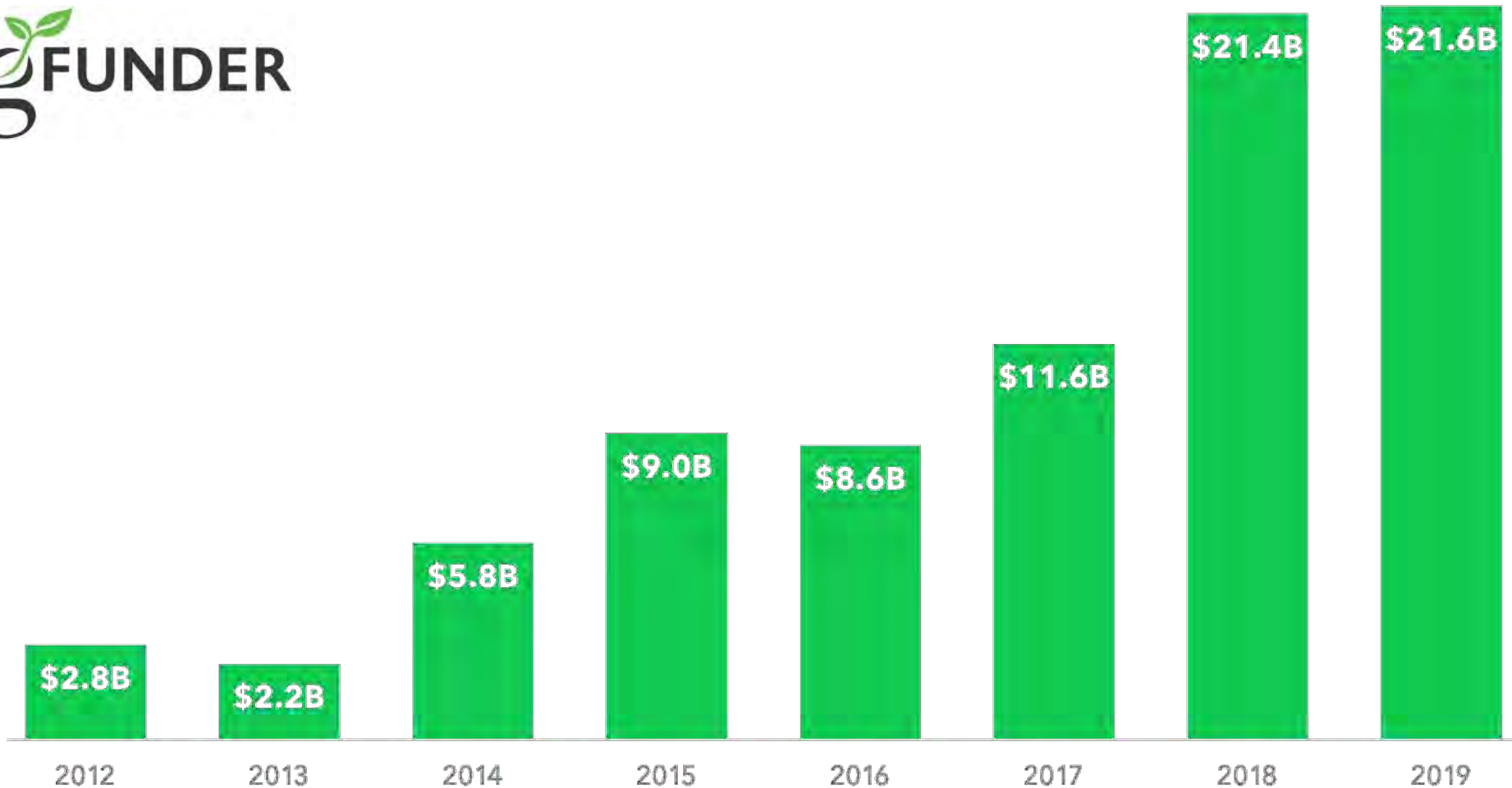


3 Risk Capital Accelerates Innovation.



Global AgTech Market Continues to Grow

Global Annual AgriFoodTech Investments



Source: 2020 AgriFoodTech Midyear Investment Review. AgFunder.

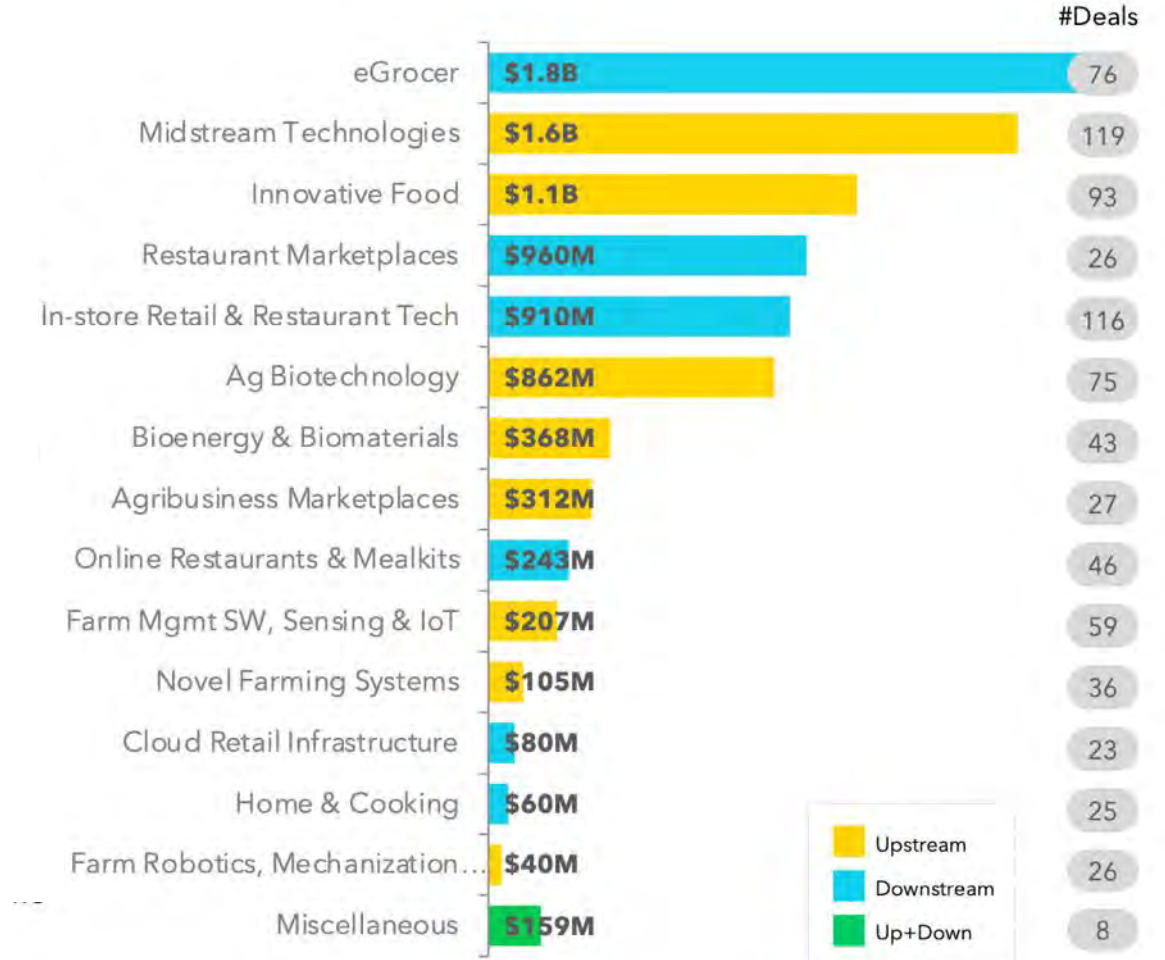
Key Segments Fueling Global AgTech Investments

2019 Global FarmTech Investment Volume



Source: 2020 FarmTech Investment Report. AgFunder.

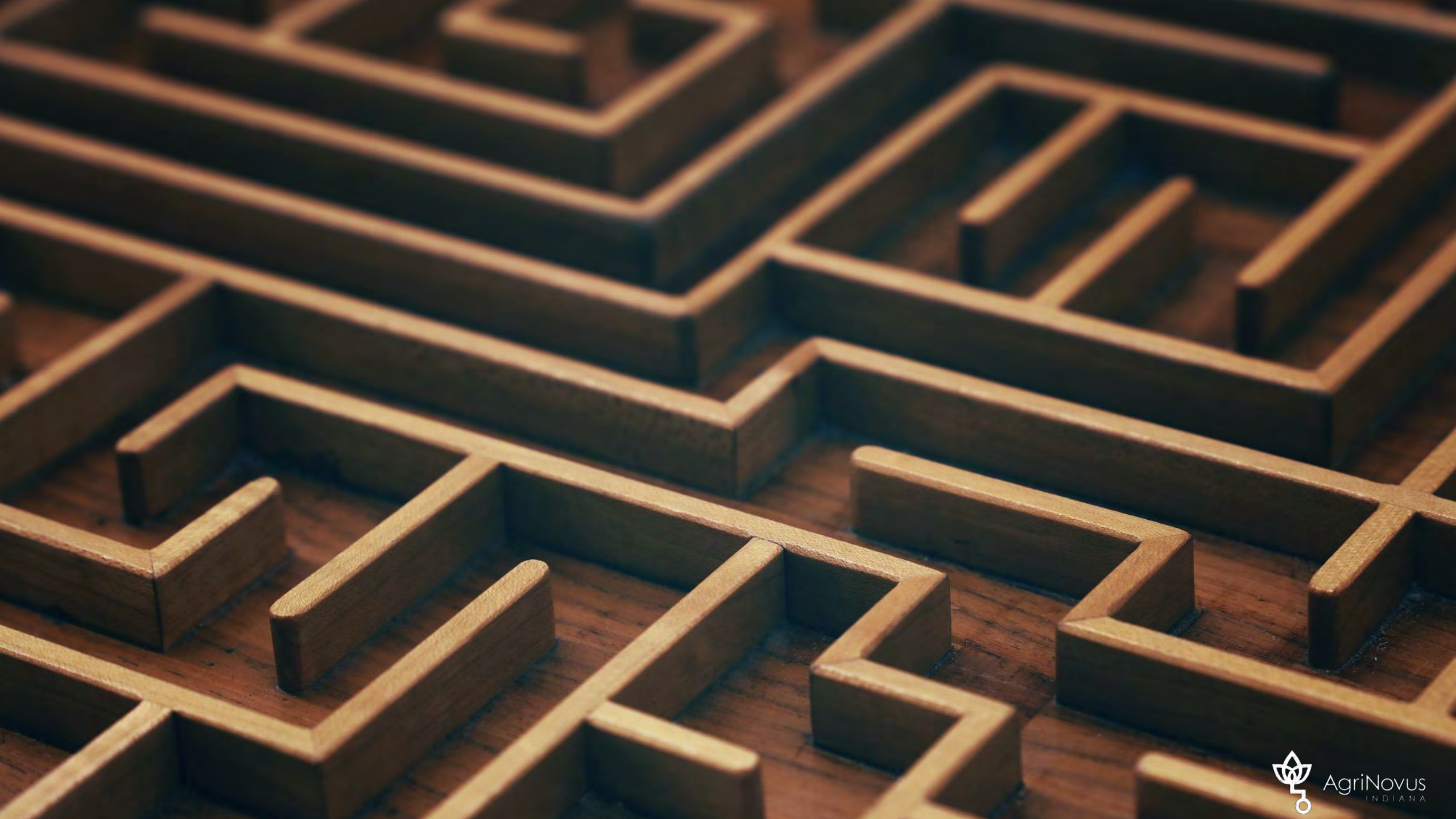
H1 2020 Global AgriFood Tech Investment Volume



Source: 2020 AgriFoodTech Midyear Investment Review. AgFunder.

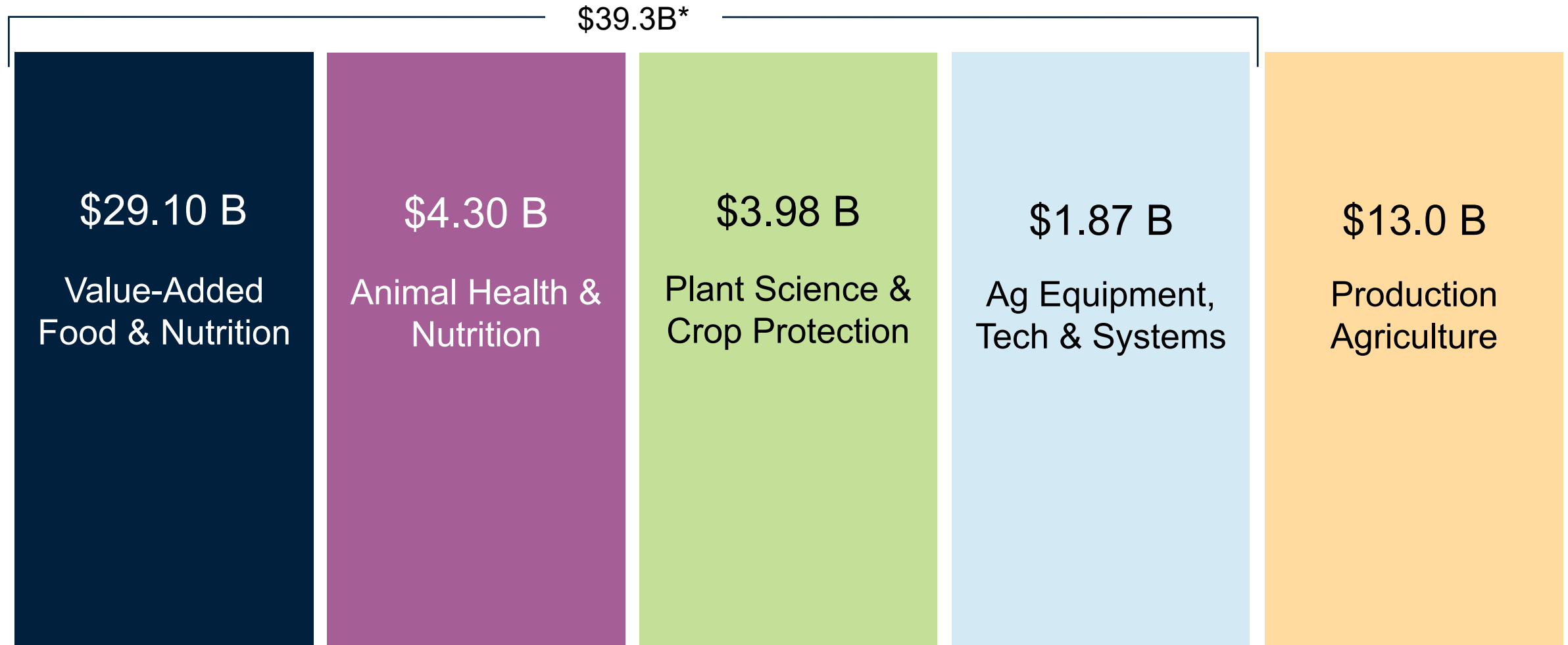






AgriNovus
INDIA

Indiana's Agbioscience Economy is \$52.3B



Source: TEconomy Partners. 2020.



3

Key Trends

That Will Shape the Future
of Food & Agriculture

Mitch Frazier
President & CEO



AgriNovus
INDIANA

2020 AGRIBUSINESS UPDATE

HOW FLYOVER COUNTRY IS BECOMING A GLOBAL FORCE

decaturedc.com



ECONOMIC DEVELOPMENT ORGANIZATIONS

THREE IMPORTANT VALUES



ATTRACTION

EXPANSION

RETENTION



**TRANSPORTATION
WAREHOUSING
AGRICULTURE
FEED PRODUCTION
INGREDIENTS
MANUFACTURING
UTILITIES
INFRASTRUCTURE**

decaturredc.com

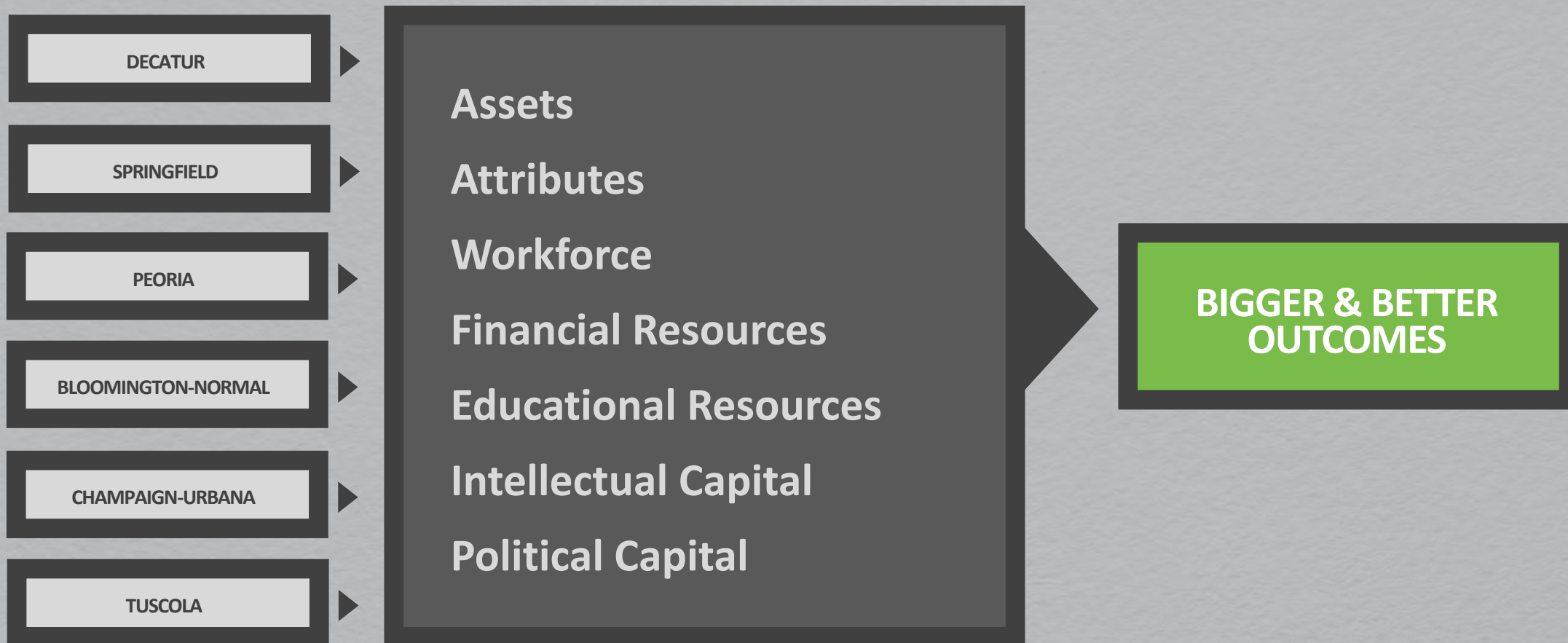


MARKETING THE REGION

Comprehensive Marketing of Central Illinois

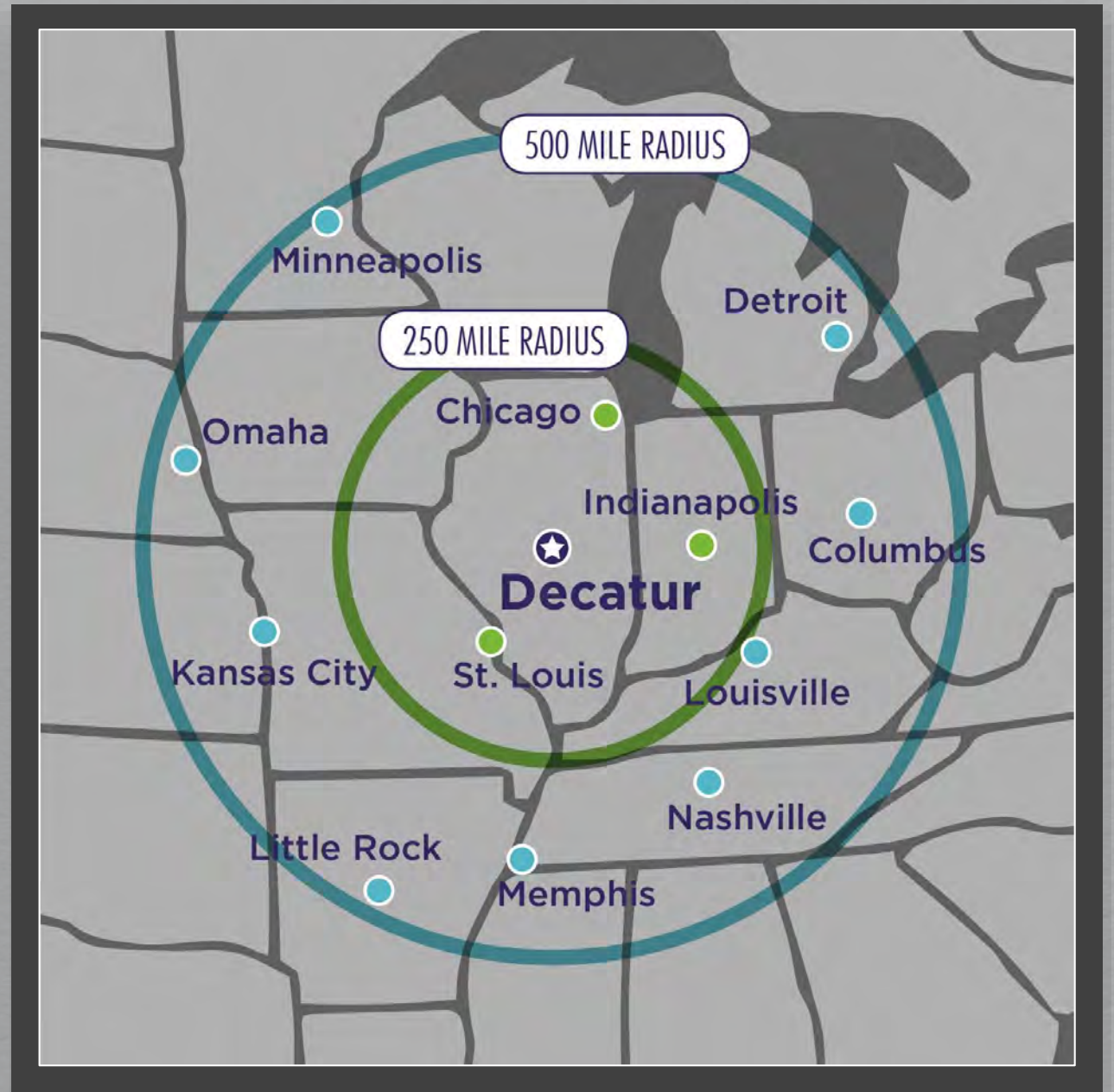
HOW WE CAN HELP EACH OTHER IN CENTRAL ILLINOIS

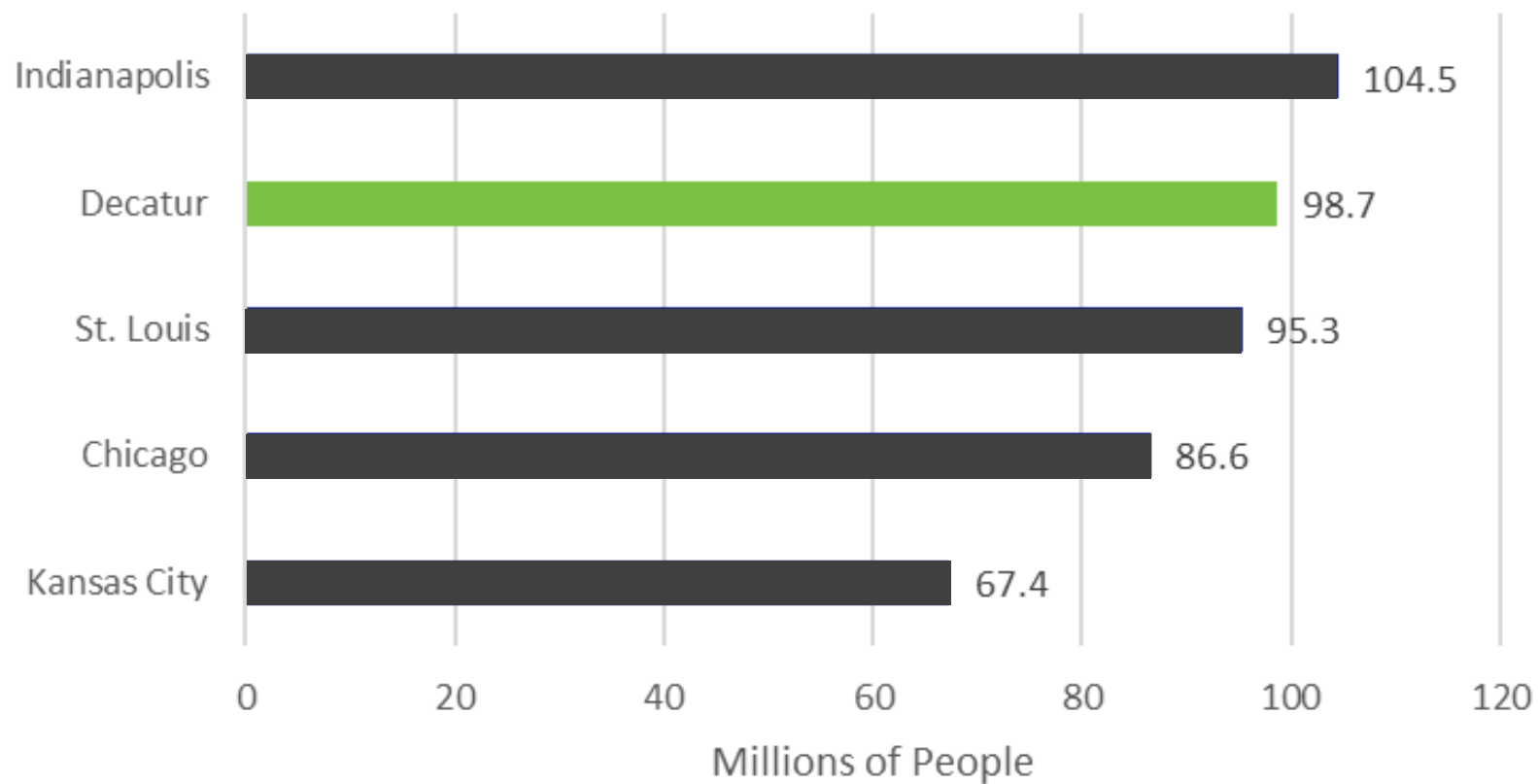
REGIONAL COLLABORATION



SAME-DAY DELIVERY TO 99 MILLION CUSTOMERS

Market Reach Advantage





POP. WITHIN 1-DAY TRUCK DRIVE

Reach More People Than St.
Louis, Chicago or Kansas City

Education and Training

There are a variety of specialized training programs available locally to develop and enhance the workforce in the region, including those required by the manufacturing industry. Many of these can be customized to meet the specific needs of businesses locating or expanding in the area.

- Job readiness workshops
- On-the-job training reimbursement
- Incumbent worker training reimbursement
- Adult education

1 Hour Radius
of Decatur

125,000
STUDENTS



One of the top engineering
programs in the world.



Ranked in top 5% of best
colleges in the Midwest by
US News and World Report.

VOCATIONAL

- Capital Area School of Practical Nursing
- **Heartland Technical Academy***
- Midwest Technical Institute

COMMUNITY COLLEGE

- Heartland Community College
- Lake Land College
- Lincoln Land Community College
- Parkland College
- **Richland Community College***

4-YEAR UNIVERSITY

- Eastern Illinois University
- Illinois State University
- Illinois Wesleyan University
- Lincoln Christian College and Seminary
- Lincoln College
- Lincoln College at Normal
- **Millikin University***
- Southern Illinois University School of Medicine
- St. John's College
- University of Illinois-Springfield
- University of Illinois-Urbana-Champaign
- Urbana Theological Seminary

**Located in Decatur*

BRAIN POWER



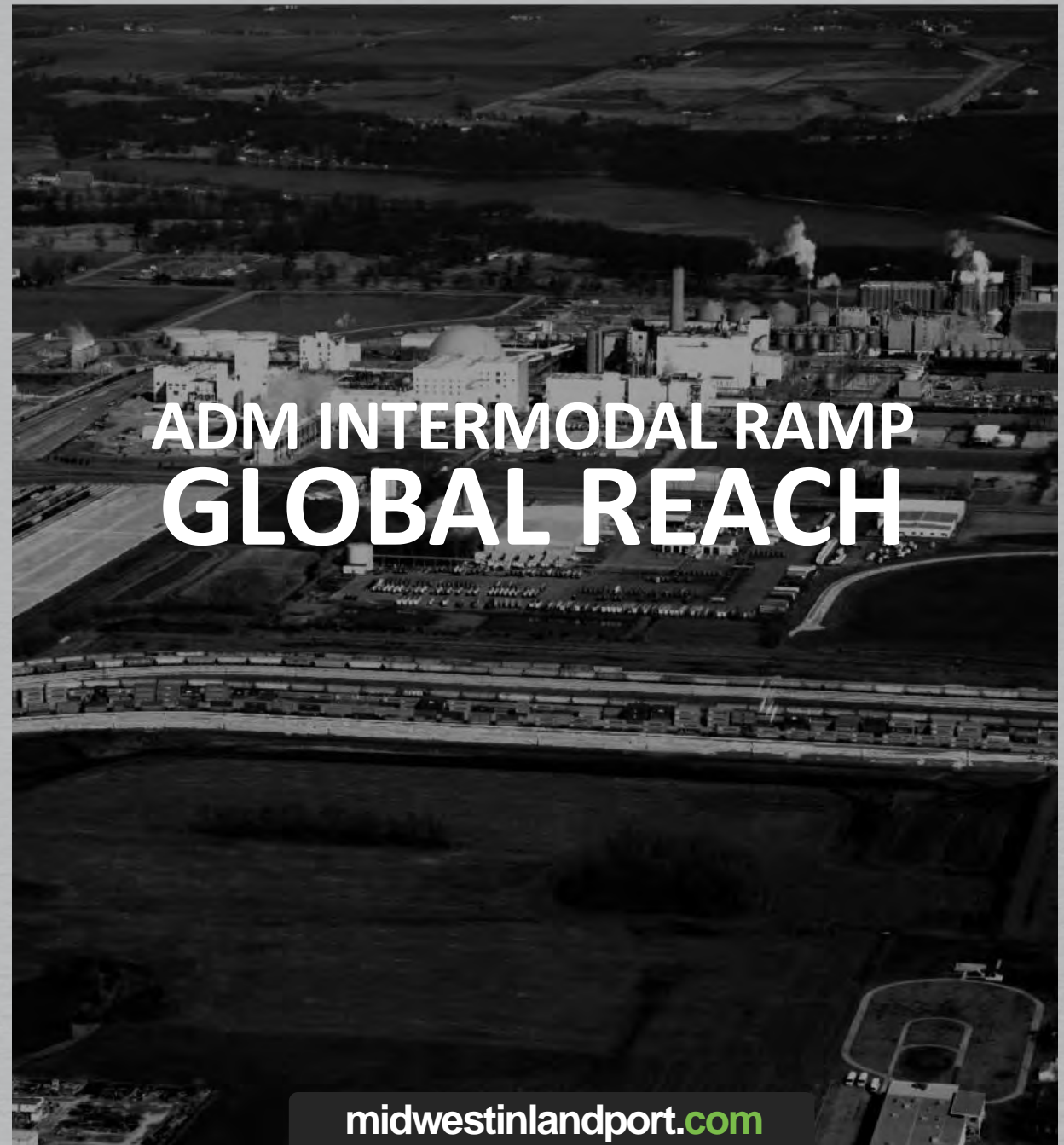
THIRD PARTIES

Open to 3rd Parties



ONSITE STORAGE AT THE RAMP

Onsite Storage of Over 800 FEUs



ADM INTERMODAL RAMP GLOBAL REACH

midwestinlandport.com



25 MINUTE TURN AROUND TIMES

midwestinlandport.com



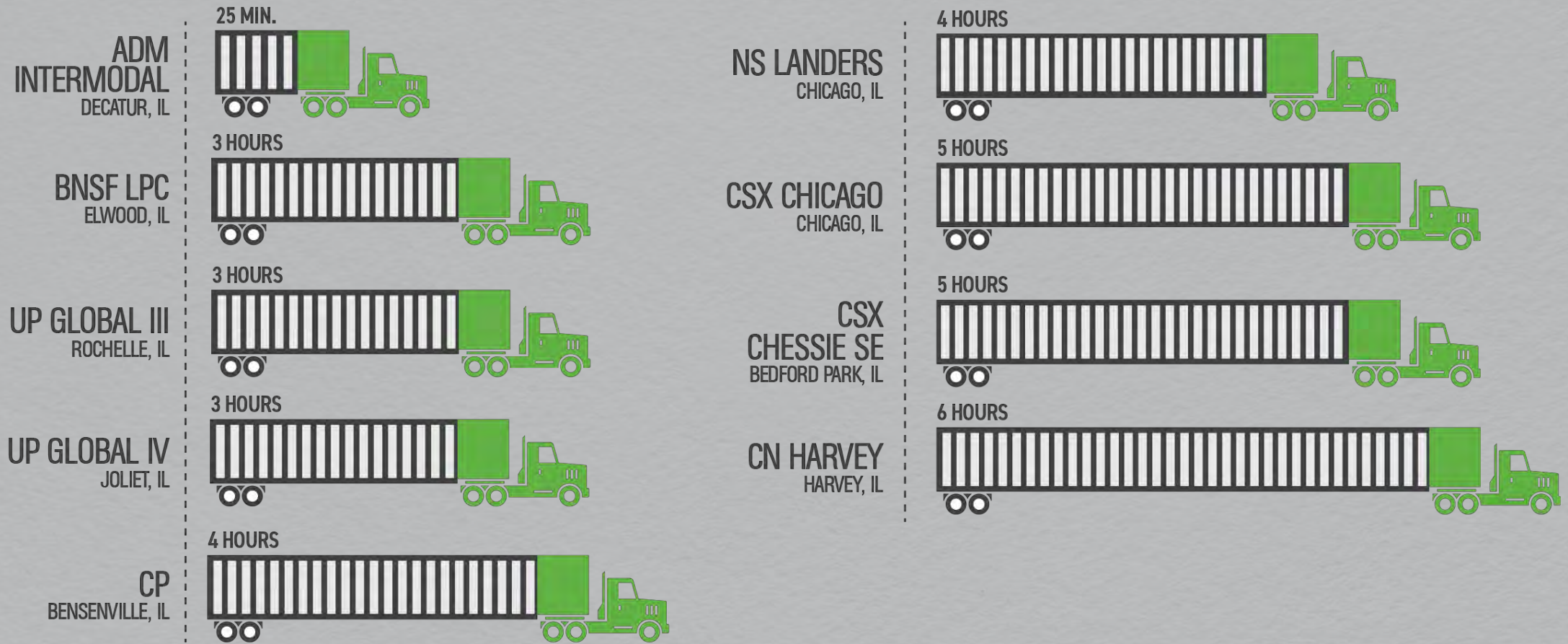
ACCESS TO RAILROADS

NS, CN, DREI and DCC



WORKING TRACK

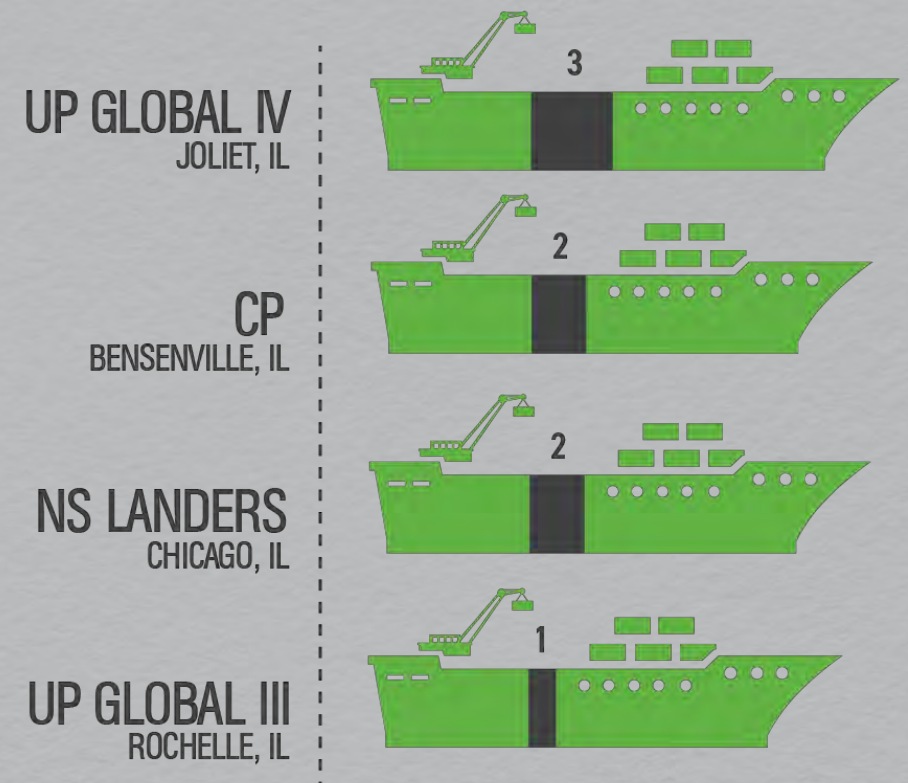
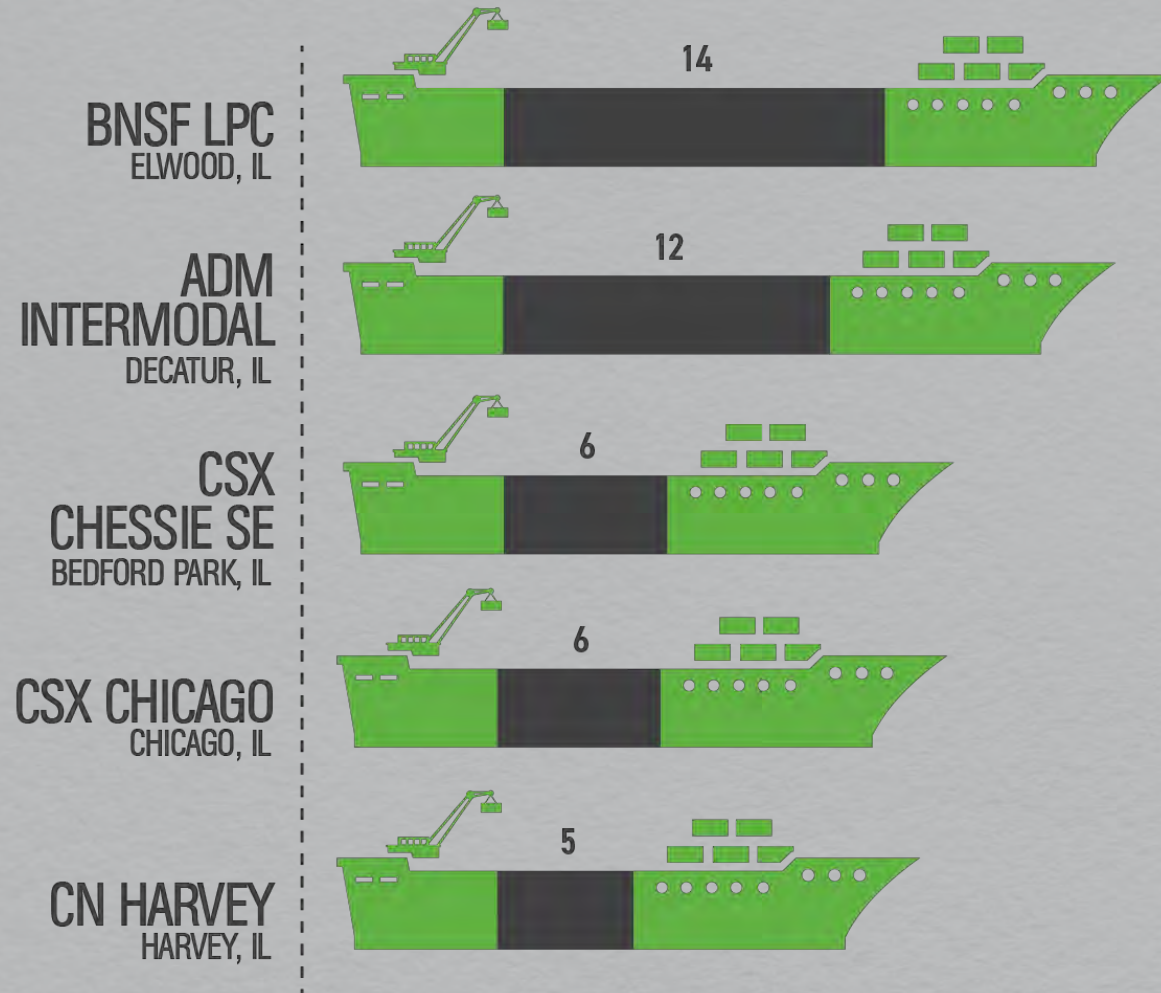
2 x 2,000 Feet of Working Track



midwestinlandport.com

PEAK WAIT TIMES CONTAINER YARDS

CHICAGO AREA VERSUS DECATUR MARKET



midwestinlandport.com

STEAMSHIP LINES SERVED

CHICAGO AREA VERSUS DECATUR MARKET



COMMUNITES SERVED BY **THE ADM RAMP DECATUR**



INNOVAFEED

FRENCH BIO-SCIENCE AG
COMPANY TO LOCATE
FIRST INTERNATIONAL
FACILITY IN DECATUR



2020 AGRIBUSINESS UPDATE



ONLINE ► ON DEMAND

POST-ELECTION TAX UPDATE

Agriculture Producers and
Agribusinesses

By: Glen Birnbaum, Partner



AGENDA

- CARES Act (March 27, 2020)
- Prospects for Additional Legislation in 2020
 - New Stimulus Bill (December X, 2020?)
- Prospects for Additional Legislation in 2021
- Tax Planning

CARES ACT

CARES ACT

- Paycheck Protection Program
 - Forgiveness Process
 - Taxability?
- Business Interest Expense Provisions Loosened for 2019 and 2020
- Net Operating Loss Carrybacks Allowed for More Taxpayers

PPP FORGIVENESS UPDATE

- “I’ve been trying to get down to the heart of the matter, but my will gets weak, and my thoughts seem to scatter. But I think its about forgiveness, forgiveness.”
- **“And the more I know, the less I understand. All the things I thought I’d figured out I have to learn again.”**
- Don Henley (1989) The Heart of the Matter

PPP FORGIVENESS UPDATE

- **Must apply within 10 months of the end of your covered period**
 - If using 24-week period, end of covered period is somewhere around September 30, 2020
 - That means the forgiveness application deadline is approximately July 31, 2021
- **Forms**
 - Form 3508 (Long Form)
 - Form 3508EZ – No salary reduction or headcount reduction
 - Form 3508S – under \$50,000 PPP loan – still not “rubber stamp”
- **Talk to Your Lender**
 - Lenders have different processes in place
 - Most are using some sort of electronic portal

PPP TAXABILITY UPDATE

- Revenue Ruling 2020-27, issued November 18th
 - No deduction if taxpayer reasonably expects PPP loan forgiveness
 - While forgiveness of the PPP loan is not to be considered gross income, the associated expenses paid with the PPP loan are not tax deductible
 - **Even if you do not file for forgiveness in 2020, it is taxable in 2020**
 - Addressed previous “gap” in guidance from IRS Notice 2020-32 released April 30, 2020
- Fiscal year taxpayers? 6/30/20 in middle of covered period?

PPP TAXABILITY: BUT WAIT THERE'S MORE

- PPP money is taxable because expenses are not deductible
- But what if PPP loan was NOT based on payroll?
 - Sch F farmer with no employees could apply for PPP loan based on 2019 Sch F income. Max loan was \$20,833.
 - Will the \$20,833 be taxable to Sch F farmer?
 - No guidance but best take is NO
 - No expenses are being “reimbursed”
 - Await clarity or confusion from IRS?
- The same Sch F logic (tax free) should apply to partners in a partners who “supported” PPP loan with self employment income (remember partners are not W2 employees)

BUSINESS INTEREST EXPENSE

- Starting in 2018, Business interest expense limited to 30% of EBITDA
- CARES Act
 - For 2019 and 2020 the limit is loosened to 50% of EBITDA
 - Except for partnerships, where the percentage remained 30% of EBITDA for 2019
 - For 2020 partnerships the percentage is 50%
 - For partnerships, 50% of suspended interest that existed at 12/31/19 is allowed to be deducted (impacts 2020 partnership returns)
- Business interest limitation only applies to taxpayers with more than \$26 million of revenues (except for a tax shelter)

NET OPERATING LOSSES

- Before Tax Reform (2017 losses and prior)
 - 2 year carryback allowed (5 year carryback for farm losses)
 - If NOL carried forward, allowed to use 100% of it to offset future income
- After Tax Reform (2018 losses and after)
 - No carryback allowed (2 year carryback allowed for farm losses)
 - If NOL carried forward, allowed to use only 80% to offset future income
- After CARES Act (ONLY 2018, 2019 and 2020 losses)
 - 5 year carryback allowed
 - If NOL carried forward, full 100% allowed

PROSPECTS FOR ADDITIONAL LEGISLATION IN 2020

FUTURE LEGISLATION IN 2020

- Funding the Government
 - Government Set to Shutdown at midnight tonight (Friday)
 - Continuing Resolution has passed in the House (Wednesday).
 - Senate?
- \$908 Billion Stimulus Framework
 - PPP expense deductibility
 - Round 2 of PPP
 - No Direct Payments to individuals
 - Unemployment benefits
 - State and local government assistance

Last Scheduled Day Congress is in Session: December 18th

PPP “TAX FIX”

- Appears to be bipartisan support to make the PPP expenses deductible
 - Treasury Secretary Mnuchin has publicly said he disagrees
 - This would make the IRS Revenue Ruling obsolete
- A key ag tax court case is good to review
 - Tax Court Blesses Double Deduction – Backemeyer (December 2016)
 - Sole Proprietor Farmer pays for and deducts prepaid fertilizer in 2010
 - Farmer dies in early 2011 and Estate receives step up in basis on those items
 - Can Estate (Wife) deduct the fertilizer expenses again in 2011?
 - “Tax Benefit Rule” was analyzed – similar to PPP analysis
 - Tax Court says “yes” it is ok to deduct again in 2011

PPP NEW LEGISLATION

- PPP Forgiveness – blanket forgiveness for under \$150,000?
 - “Rubber Stamp”
- PPP2
 - 25-35% Reduction in Revenue in any quarter in 2020
 - Less than 300 employees
- PPP1 (restart) – First Time Borrowers
 - If didn’t participate in the spring
 - Local chambers of commerce, economic development organization eligible

PROSPECTS FOR ADDITIONAL LEGISLATION IN 2021

FUTURE LEGISLATION POST 2020

- **Current Congress**
 - House: D – 232, R – 197, I -1 plus 5 open seats. (Dems had 235 originally)
 - Senate: R – 53, D – 45, I -2
- **New Congress (2020 election results)**
 - House: D – 222, R – 211, 2 races not called by Associated Press yet
 - Senate: R – 50, D – 46, I -2, 2 Senate seats in GA in special election January 5, 2021

RETROACTIVE CHANGES IN 2021?

- Prospects for a Bill Passed in 2021 That Would Be Retroactive to 1/1/2021?
- History Lesson: Tax Bill Signed into Law August 1993 with Retroactive Changes
 - Top Rate was 31% on income over \$50K
 - New: 36% bracket on income over \$115K and 39.6% on income over \$250K
 - New: Medicare tax of 2.9% applied to ALL income (capped at \$135K previously)
- Should We Be Worried that the Same Will Happen in 2021?

RETROACTIVE CHANGES IN 2021?

- 1993 Balance of Power
 - House: D – 258, R – 176, I -1
 - Senate: D – 57, R – 43

- 1993 Tax Bill Vote
 - House voted 219-213 to pass
 - Senate was 50-50 with Vice President breaking the tie

- Don't Worry, Be Happy

POSSIBLE INCOME TAX CHANGES

- Below \$400,000 Income Threshold – No Changes
- High Income Individuals
 - Top rate of 37% to 39.6%
 - Section 199A deduction (20% deduction) would go away
 - Reduce Benefit of Deductions for High Income Taxpayers
 - Charitable Contributions
 - Retirement plan
 - 39.6% capital gains rate (for income over \$1 million)
- C corporation tax rate up to 28%?

POSSIBLE SOCIAL SECURITY TAX CHANGES

- Social security tax on earned income over \$400,000
- 2020 Rules:
 - First \$137,400: 12.4% Social Security, 2.9% Medicare
 - Above \$137,400: 2.9% Medicare
- Proposal:
 - First \$137,400: 12.4% Social Security, 2.9% Medicare
 - \$137,400 to \$400,000: 2.9% Medicare
 - Above \$400,000: **12.4% Social Security**, 2.9% Medicare

POSSIBLE ESTATE AND GIFT TAX CHANGES

- Current Federal estate tax exemption: \$11,580,000 per person
- Future?
 - Go back to \$5 million exemption adjusted for inflation
 - Estate Tax Rate from 40% to 45%
 - Eliminate stepped up basis on death for “super wealthy”

TAX PLANNING FOR 2020

2020 TAX PLANNING

- Flexibility is Your Friend Given All the Uncertainty
- Take advantage of hindsight if you can
- Cash Basis Farmers Have More Tools in Their Tax Toolbox
 - Deferred payment grain contracts
 - Farm income averaging
 - Ability to prepay and deduct 2021 crop inputs or elect to amortize
 - Depreciation options: Section 179 is easier “zero in” on target income than bonus depreciation

DEPRECIATION

- **Section 179**
 - \$1,040,000 deduction limit
 - Phase Out Starts at \$2,590,000 of eligible purchases
 - Fully Phased Out at \$3,630,000
- **100% bonus depreciation is around through 2022**
 - 80% in 2023
 - 60% in 2024
 - 40% in 2025
 - 20% in 2026
- **Watch Related Party Rules**
 - Buyer and Seller are family members

THANK YOU!

GLEN BIRNBAUM, CPA
Partner

O: 309.694.4251

O: 309.323.8702 (direct)

E: Glen.Birnbaum@Sikich.com

IN: <https://www.linkedin.com/in/glen-birnbaum/>

Twitter: @glenbirnbaum

SIKICH LLP

201 Clock Tower Dr., 3rd Floor
East Peoria, IL 61611

THANK YOU

MITCH FRAZIER
AgriNovus Indiana

317.670.9611

mfrazier@AgriNovusIndiana.com

NICOLE BATEMAN
**Economic Development Corporation
of Decatur-Macon County**

217.422.9520

nbateman@decaturedc.com

GLEN BIRNBAUM
Sikich, LLP

309.323.8702

Glen.Birnbaum@sikich.com

