



YOUR FARM ... YOUR FAMILY ... YOUR FUTURE!

Since 1974

1307 6th St. SW #1, Mason City, IA 50401 | P: 641-424-4170 | F: 641-424-5613

November 2018

ITEM 1 PG. 1 IRS Guidance on Meals Deduction
ITEM 2 PG. 2 Lost Will Creates Family Drama
ITEM 3 PG. 2 Trade Deal with Mexico & Canada

ITEM 4 PG. 3 Tax Packets Going Out in November
ITEM 5 PG. 4 Introducing Chad Hanson
Good Luck to Everyone as They Finish Harvest!

IRS GUIDANCE ON MEALS DEDUCTION

The 2017 TCJA eliminated the deduction for any expenses related to activities generally considered entertainment, amusement or recreation.

Taxpayers may continue to deduct 50 percent of the cost of business meals if the taxpayer (or an employee of the taxpayer) is present and the food or beverages are not considered lavish or extravagant. The meals may be provided to a current or potential business customer, client, consultant or similar business contact.

Food and beverages that are provided during entertainment events will not be considered entertainment if purchased separately of the event.

Prior to 2018, a business could deduct up to 50 percent of entertainment expense directly related to the active conduct of a trade or business or, if incurred immediately before or after a bona fide business discussion, associated with the active conduct of a trade or business.

The Department of the Treasury and the IRS expect to publish proposed regulations clarifying when business meal expenses are deductible and what constitutes entertainment. Until the proposed regulations are effective, taxpayers can rely on guidance in Notice 2018-76.

Examples

Notice 2018-76 includes three examples to illustrate the application of this guidance. The examples highlight the need to have food and beverage expenses either paid separately from entertainment costs or on an invoice that separately states the costs of food and beverages.

In Example 1, a taxpayer invites a business contact to a baseball game. The taxpayer purchases tickets for the

game. While at the game, the taxpayer separately purchases hot dogs and drinks. While the game tickets are not deductible, the hot dogs and drinks are subject to a 50% deduction disallowance.

In Example 2, the taxpayer invites a business contact to attend a basketball game. The taxpayer buys tickets for seats in a suite, which includes food and beverages. The invoice for the tickets states that food and beverages are included in the ticket price. Because the invoice does not separately provide the cost for food and beverages, the entire cost of the ticket is nondeductible.

Example 3 has the same facts as Example 2, except that the invoice for the suite tickets separately states the cost of food and beverages. Because the food and beverage amount is separately provided on the invoice, this amount is subject to a 50% deduction, while the entertainment portion is disallowed.

Key Take Away: Whether sitting with clients in the cheap seats or a luxury party box, make sure those ballpark beers and hot dogs are paid for or itemized separately from the ballgame itself.

- Autumn is a second spring when every leaf is a flower. – Albert Camus

LOST WILL CREATES FAMILY DRAMA

Creating a will is an important step in ensuring your loved ones know where your possessions should go at the time of death. Another important consideration after making a will is how you will store it. Courts usually require that the original will be used at the time of probate. This means that if the original will cannot be found, the court will likely find that the decedent destroyed the will with the intent to revoke it. In a recent case, *Speck vs. Fargo*, the Iowa Court of Appeals held that even though the original will could not be

found, the proponent of the will had rebutted the presumption that the testator had intended to revoke the will.

Background

Due to strained relations with his children after his divorce, a testator specifically disinherited four of his five children in a will he created in August 2012. The will named one son and a son-in-law (who was, at the time married to the testator's daughter) as the sole beneficiaries, with each receiving half of the estate. The son-in-law had known the family since childhood. The testator's lawyer kept a copy of the will and the testator took the original home with him. The testator informed the son and son-in-law that he had written a will and that the contents of the will would anger the rest of the family. He asked them to keep the will a secret from the rest of the family, including their spouses. In September of 2015, the son-in-law was divorced from the testator's daughter. The relationship between the son-in-law and the testator, however, continued.

In December 2015, the testator suffered a stroke which was eventually fatal. Shortly thereafter, the son who was named in the will met with the lawyer and was shown a copy of the will. When the contents of the will were made known, two of the disinherited children asked the son-in-law to waive his rights under the will. He refused and the three disinherited children searched the house for the original. They were unable to locate the original will but did find a life insurance policy which left the entire \$50,000 to one of the children not named in the will. The son-in-law asked the court to allow the copy of the will to be admitted to probate. All five children, including the son who was named as a 50 percent beneficiary in the lost will, objected.

Lost Will Presumption

Unless there is contrary evidence, a court will presume that a will which was in the possession of the testator but cannot be found at the time of death was purposefully destroyed and revoked. This presumption comes from the fact that the testator was the last person to have possession of the will and likely would have wanted it to be found. However, this presumption is not conclusive and may be rebutted with proper evidence.

To prove that a lost will should be probated, the proponent must establish four elements: 1) the proponent must show that the will was created and executed properly; 2) the proponent must show that the will had been lost and could not be found even after a diligent search; 3) the proponent must rebut the presumption that the will was destroyed by the decedent in order to revoke it; and, 4) the proponent must prove the contents of the will.

Court Proceedings

In this case, because the original copy of the will could not be found and the last known possession was with the testator, the son-in-law had to rebut the presumption that the will had been destroyed with the intent to revoke it. The disinherited children claimed the son-in-law was not able to rebut this presumption by clear, satisfactory, and convincing evidence. The trial court, however, ruled in favor of the son-in-law, admitting the will to probate.

The five children appealed. The Iowa Court of Appeals affirmed, finding that the district court's conclusion that the son-in-law presented sufficient evidence to rebut the presumption of revocation was supported by substantial evidence in the record. Testimony established that the testator had not revoked the will as late as the Thanksgiving before the testator's stroke on December 3. The court also found that there was no direct evidence that the testator had destroyed the will and that witnesses had testified that the testator told them--in the time leading up to his stroke--that he had thought about making changes to his will but had not yet done so. Additionally, the court noted that when the testator had destroyed a 2005 will, he had told his attorney about it. Even though several witnesses testified that the relationship between the testator and his children had improved and it was possible he wanted to include them in his will, the court found that there was no evidence he actually made those changes.

Conclusion

Even though the son-in-law was able to use a copy of the original will in his favor in this case, it is unwise to count on that happening. Here, the son-in-law was able to rebut the presumption that the testator had intended to revoke the will, but courts have frequently found that lost wills cannot be probated. You should keep your will in a safe spot or with your attorney and let your executor and beneficiaries know where you have placed the will. It is also important to have an updated will so the court can honor your wishes

- Autumn carries more gold in its pocket than all the other seasons. – Jim Bishop

WHAT'S IN THE NEW TRADE DEAL WITH MEXICO AND CANADA?

After months of uncertainty, the United States reached a trade deal with Mexico and Canada on September 30, 2018. The news of this \$1.2 trillion deal is met with favorable reaction from both commodity groups and farmers. In May 2017, President Trump announced his intent to renegotiate the North American Free Trade Agreement (NAFTA). On August 27, 2018, Mexico and the United States reached a bilateral agreement for the updated NAFTA. Canada entered into an agreement just

before the midnight deadline on September 30. While additional time will be needed to understand the full economic impact of the new agreement, it is being supported by many in the agricultural industry.

NAFTA came into effect in 1994 with the goal of facilitating trade and investment between Mexico, Canada, and the United States. It phased out or eliminated many tariffs on goods between the three countries while encouraging investment and granting Most Favored Nation status. Although NAFTA has been viewed with mixed reactions, many agree that the agricultural sector has benefitted overall from the agreement. In 2017, Canada was the top destination for U.S. agricultural exports. Mexico was number three.

Name Change

While many provisions will stay the same, the most noticeable change may be the name. The name NAFTA will no longer exist but the agreement will now be called the United States-Mexico-Canada Agreement (USMCA). USMCA impacts many sectors including agriculture, biotechnology, and geographic indicators.

Dairy, Eggs, and Wheat

One of the most controversial provisions of NAFTA was the treatment given to the Canadian dairy industry. Under NAFTA, Canada was allowed to restrict the amount of milk that came into the country. Now U.S. dairy farmers will have access to 3.6% of the Canadian dairy market. Any dairy products sold to Canada over that amount will remain subject to steep tariffs. Under the Trans Pacific Partnership—which the U.S. pulled out of in 2017—the U.S. would only have access to 3.25% of the dairy market.

Canada will also eliminate Class 6 and Class 7 of its milk pricing schedule which includes milk powders, milk proteins, and infant formula. Not only will the United States get new tariff quotas, but there will also be changes to Canada's milk class pricing system. American dairy producers are currently struggling with overproduction and low prices; these changes will hopefully add a needed market.

Dairy producers will continue to have access to the Mexican market. However, the U.S. currently faces a 25% retaliation tariff on U.S. cheese for the tariffs placed on Mexican steel and aluminum.

Poultry, eggs, and wheat are expected to receive more favorable treatment under USMCA than the commodities did under NAFTA. Previously, U.S. wheat automatically received a lower price under the Canadian grading system because it was foreign and was classified as "feed grade." Under USMCA, U.S. wheat will receive the

same treatment as Canadian wheat. There will also be increased market access for U.S. poultry and eggs.

Pork, Corn, and Soybeans

Pork would continue to receive zero-tariff access to Mexico and Canada under USMCA. At this point, Mexico continues to place a 20% tariff on U.S. pork in retaliation for the U.S. tariffs on Mexican steel and aluminum. Soybeans and corn will also continue to receive similar tariff-free treatment like it did under NAFTA.

With an agreement like USMCA, there will be more certainty for corn and soybean producers. Mexico is the biggest importer of U.S. corn. The U.S. sold \$3.2 billion of corn and corn products to Mexico in 2017.

Geographic Indicators and Biotechnology

Canada and Mexico currently have agreements with the European Union for protections of certain geographic indicators (GI). USMCA will prevent Mexico from restricting certain products for using a common name. Standards have been created to determine whether a term is a common name or a GI.

USMCA has specific language to "enhance information exchange and cooperation on agricultural biotechnology trade-related matters." The term biotechnology will include new technology such as gene editing rather than only the traditional rDNA technology.

Final Notes

The trade deal still needs to be signed by leaders from the three countries which may happen as soon as November. Congress would then vote on the agreement in early 2019. If approved, the agreement is expected to take effect on January 1, 2020. A USMCA provision states that it would need to be reviewed after six years. At that point, if the three countries agree to continue, the agreement would continue for another sixteen years until it would be reviewed again. Additionally, USMCA does not address the many retaliatory tariffs that remain on agricultural products.

- Autumn seemed to arrive suddenly that year. The morning of the first September was crisp and golden as an apple. – JK Rowling, Harry Potter and the Deathly Hallows

TAX PACKETS MAILED THIS MONTH

Personal tax organizers and W2, 943 and 1099 worksheets will be sent out later this month. You will note several changes have been made to the layout of these forms in an effort to make them easier to follow and complete. Don't panic if you are confused with the changes. Our staff is more than willing to help you complete the information.



CHAD HANSON



Meet Chad Hanson! Chad is President of Corporate Farmer. He started with the company on June 1, 1999.

Chad received his Bachelor of Business Administration from the University of Iowa in Finance and Accounting and his Master of Business Administration from Iowa State University.

Chad and his wife, Heidi, live in Hampton, Iowa. Heidi grew up on a farm between Hanlontown and Manly, Iowa where she helped her dad raise cattle, chickens, corn and soybeans. Heidi's grandfather and his two brothers owned the Cow Palace in Forest City, Iowa for many years.

Together they have four children. Ally is a freshmen at Creighton University in Omaha, Nebraska where she is studying Chemistry and Biology with intentions of going on to medical school. Ashlyn is a senior in high school. Her current plans are to study pathology and is considering either the University of Iowa or University of the University of Nebraska at Omaha. Avery is a freshmen in high school and enjoys basketball and softball. Her goal is to play one of those sports for the Iowa Hawkeyes one day. Austin is in sixth grade. When he isn't playing football, basketball or baseball, he spends his time battling on Fortnite with his friends.

Chad currently serves as President of the Hampton-Dumont School Board, President of the North Iowa Basketball Association and is a member of the Hampton Planning and Zoning Commission.

Outside of work Chad enjoys hunting, golfing, cheering on his children's sports teams and the Iowa Hawkeyes.

1307 6th St. SW #1
Mason City, IA 50401

FARMER
CORPORATE

