2009 Pennyroyal Summary

By Michael Forsythe

2009 was another interesting year for farmers in the Pennyroyal Area. Most of the spring was spent cleaning up from the January ice storm and the fall was spent fighting the wet weather to harvest corn and soybeans and plant wheat.

While other crops were hurt by the wet spring and summer, corn and soybeans both benefited from the wet weather. Corn averaged 182 bu/acre, an improvement of 35 bu/acre from 2008. Full season beans averaged 51 bu/acre and double crop beans averaged 47 bu/acre, an increase of 10 bu/acre and 17 bu/acre from 2008 respectively.

Wheat and tobacco production were both affected by the wet weather throughout the year. A wet spring led to wheat averaging 66 bu/acre, a decrease of 18 bu/acre from 2008. Continual rain during the summer resulted in lower tobacco production in all three types of tobacco grown in the area. Burley yields averaged 2152 lbs/acre, while dark air and dark fired averaged 2419 lbs/acre and 2933 lbs/acre, respectively.

For the most part prices continued to drop throughout 2009. Corn and wheat saw the biggest drops in price at $3.48/bu and $4.87/bu, respectively. Although we did not see the high soybean prices during the year that were seen in 2008, average prices were relatively similar to those in 2008. Full season prices only decreased $0.21 to $9.76/bu and double crop increased $0.20 to $9.59/bu. Tobacco prices were also relatively unchanged from 2008 to 2009. Due in part to incentive money, burley increased $0.11 to $1.95/lb. On the other hand, dark air and dark fired both decreased in 2009 to $2.16/lb and $2.27/lb respectively.

Increased yields for corn and soybeans assisted in an increase in crop returns and gross farm returns from 2008. Net Farm Income and Management Returns did decrease from 2008 to $316,750 and $145,665 respectively, due to increased input costs and lower grain prices. Although we saw decreases from 2008, 2009 is the second best year the Pennyroyal Area has seen in both Net Farm Income and Management Returns.

2010 Section 179 Expense Election

By Bart Peters

On March 18, 2010, President Obama signed the 'HIRE Act of 2010' keeping the maximum Section 179 deduction at the increased level of $250,000 for qualifying equipment and software placed in service for tax year 2010. Without the provision in the HIRE Act, the maximum Section 179 write-off would have fallen back to only $134,000 in 2010 (www-section179.org). The deduction decreases dollar for dollar after the total eligible amount of equipment reaches $800,000. It is being discussed to raise the limit to $500,000 with a $2 million phase out. (Continued on next page)
**Bonus Depreciation on New Equipment**
As of now, the bonus first year depreciation used in 2008 and 2009 has NOT been renewed for the 2010 tax year. However, on June 21, Senate legislation was introduced to reinstate the bonus depreciation. This bill is simply titled: “Bonus Depreciation Extension to Create Jobs Act”. If passed this will only extend the bonus depreciation for 2010.

**5 Year Life of New Machinery**
Machinery is normally depreciated over 7 years, but a one year legislative change for 2009 allowed new machinery to be depreciated over 5 years. As of now, the depreciable life will revert back to 7 years. We have found no mention of changing the expired 2009 rule. This change will have the least affect of the three components of depreciation.

**Kentucky**
Kentucky recognizes none of the above depreciation rules except Section 179. Even then, the election amount is limited to $25,000 with a phase-out beginning at $200,000. If you noticed that your 2009 KY income tax was a higher percentage of the Federal tax than normal, this may be why. The good news is that eventually we will get to use all of the depreciation and in the future your KY depreciation deduction could be much higher than the Federal, resulting in much less KY tax.

**Summary**
What we know for sure at this time: 1) $250,000 expense election, 2) no bonus depreciation, 3) 7 year depreciable life on new equipment. Stay tuned!

**Federal Payroll Deposit System to Change**
By Evan Conrad
Beginning January 1, 2011 the IRS will require you to make your federal payroll deposits utilizing the Electronic Federal Tax Payment System (EFTPS). The EFTPS is the government website where you can make secure tax liability deposits. Many of you already utilize this system. However at the beginning of the year everyone with more than $2,500 of liability per quarter will be required. The EFTPS system is free, however it is best if you have high speed internet. Failure to utilize this system could result in a 10% failure to pay penalty.

We recommend that you begin utilizing this system before the end of the year, because there is sometimes a delay in getting everything up and running. To sign up yourself go to:

[www.eftps.gov](http://www.eftps.gov). Once there click on enrollment. It is a self guided system, however if you have issues don’t hesitate to contact your specialist.

Since this is required beginning Jan. 1, 2011, your December or 4th quarter payment will be required to be made on this system. Remember your payment is due by Jan. 15, 2011. Pennyroyal Farm Analysis does offer a payroll service if you desire for our office staff to handle this in the future.