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# KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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**Inside:**

Tax Issues Related to the Drought .....	1
Corn and Soybean Market Update .....	2
Crop Insurance Income Deferral .....	3
Update on Status of KFBM Program .....	3
Homeowner Energy Credits .....	4
Get to Know our New Specialists and State Coordinator .....	5
Mark your Calendars for your Annual Meeting .....	6
Retirement of David Heisterberg .....	6

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## **Tax Issues Related to the Drought**

Rick Costin

Although drought conditions throughout the state have brought on a difficult and stressful year for Kentucky farmers, the Internal Revenue Service could ease some farmers' tax situations. You should be aware that the IRS does allow for some "tax breaks" related to severe weather conditions. Two different tax codes apply only to weather related sales of livestock in excess of normal business practices:

(1) I.R.C. 1033(e) deals with the sale or exchange of livestock held for draft, breeding, or dairy purposes as an involuntary conversion if the livestock are sold or exchanged solely on account of drought, flood or other weather-related conditions. The "bottom-line" on this code is that if the proceeds are used to purchase replacement livestock within two years from the end of the tax year in which the sale takes place, the gain realized on the sale does not have to be recognized. The two-year replacement period is extended to four years if the weather condition that caused the excess sales also caused an area to be eligible for assistance by the federal government. This can be further extended by the Secretary of Treasury if the weather condition continues for more than three years.

(2) Under I.R.C. 451(e) cash-method, farmers can elect to defer for one tax year the reporting of income from certain livestock (not only breeding livestock) sold on account of severe weather

conditions. The area must be declared eligible for federal assistance.

Crop farmers have been able to delay income received in one tax year until the upcoming year, if their normal marketing practice would be to sell the crop the year after the crop was grown. (more on this in the Crop Insurance Income Deferral article)

For more information on weather related tax issues, individuals may consult the Farmers Tax Guide (IRS Publication 225) or contact a qualified tax preparer.

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## Corn and Soybean Market Update

Kenny Burdine

USDA's October Crop Production report did not show massive changes from September. US corn yield was lowered by a little more than one bushel, but is still projected 3-4% higher than 2006. Soybean yields were left unchanged. Also coming into play this month were larger than expected ending stocks and hints of better conditions in the Southern Hemisphere.

USDA lowered Kentucky's estimated soybean yield again this month to 28 bushels per acre. Lower yields, coupled with fewer harvested acres, place Kentucky's estimated soybean production at about one-half the 2006 level. The same report increased Kentucky's estimated corn yield to 124 bushels per acre. Of course, there continues to be large differences in production across the state. Generally, the Ohio Valley has had better conditions than the rest of the grain producing areas of the state. Had yields been better, this would have been an outstanding year for Kentucky grain producers.

The most recent WASDE balance sheet continues to show the bean markets much tighter than the corn markets. The increase in ending stocks clearly increased total supply for the upcoming marketing year for corn. However, use estimates were also lowered for food, seed, and industrial, as well as feed and residual, resulting in an even

larger anticipated carryover for the 2008 marketing year. Stocks-to-use for corn is currently projected at more than 15% by next summer.

The soybean balance sheet changed much less than the corn. A slight increase in carryover stocks was largely absorbed by slightly lower production levels. Use estimates were basically left unchanged. Soybean use is projected to drop by about 112 million bushels despite an expected decrease in production of almost 600 million bushels, resulting in a sizeable draw down of stocks by summer. If correct, the stocks-to-use ratio for beans next August would be just over 7%.

It has become clear that soybeans will try to buy back some acres in 2008. The soybean / corn futures price ratio for the 2008 crop has been running above 2.5, a number which clearly favors beans. There will also be some CRP ground go back into production next year given the attractive grain prices across the board. The corn / soybean balance is always an interesting one. We clearly shifted too many acres to corn last year, one big question for 2008 is, "will we go too far the other way?"



## **Crop Insurance Income Deferral**

Suzy Martin & Rush Midkiff

The IRS has an exception to the rule that cash method farmers must report income in the year received. This exception states that if a farmer has received crop insurance proceeds as a result of a natural disaster, such as drought or flood then the reporting of that income can actually be postponed for one year. To qualify for the exception the taxpayer must show that, under their normal business practice, the income from the crop for which the insurance payment was received would have been in the following year. For example, a taxpayer receives crop insurance proceeds for 2007 soybeans in November of 2007, however, they generally sell their crop in the following year (2008.) The taxpayer has the option to either claim those crop insurance proceeds in 2007 or they can elect to defer that taxable income to 2008. The election to postpone reporting the payment covers all crops from a farm. That means that if you were to receive crop insurance proceeds for both corn and beans you cannot claim the income from just one crop versus the other. The election to defer the proceeds is for all crop insurance proceeds for the tax year.

The tax preparer will need the following information (itemized by crop) to make the election:

- Crop destroyed or damaged
- Cause of damage
- Date of Destruction
- Payment Received
- Date of Payment
- Insurance Carrier

## **Update on Status of KFBM Program**

By: Lynn Robbins, Jennifer Rogers & Jerry Pierce

Over the past year the KFBM program has been undergoing some changes. A survey was sent to all of our cooperators in May 2007, asking for direction on how to proceed with the program for the future. More recently, several cooperators have been asking about the findings from the survey and the future of the program. The following are the survey results compiled and presented by Dr. Lynn Robbins to the Kentucky Association of Farm Business Analysis Groups, Inc. Board of Directors meeting in July 2007.

“In early May, 2007, survey instruments were sent out to all current farm analysis cooperators with a June 1, 2007 due date. We received 87 completed surveys for a 23% response rate. The survey responses were sufficient for statistical significance – i.e. we can be confident that the results accurately represent the group as a whole.

Of those who had an opinion 94% of the respondents agreed that we need to balance membership/work loads among specialists, improve models for rewarding performance and other strategies to reduce specialist turnover and make it easier to cover vacancies. (See page 2 for survey results)

Similarly 73% said we should institute a state-wide memorandum of agreement to standardize expectations of specialists and farmers which will be signed annually by the farmers and UK.

A relatively smaller majority (64%) said there should be one common state-wide and standard serviced-based fee structure.

When it came to the question of centralized management 53% said we should have central management. Here the feelings were stronger on the negative side with more strongly disagreeing than strongly agreeing.

Those who disagreed with going to centralized management were asked to say whether they would be willing to pay higher fees to maintain

management of the associations at the local level. Well over two-thirds (68%) of the 47% who were against centralization would be willing to pay more to maintain the local associations as they are currently structured.

### Recommendations

We believe that we should implement the changes which are clearly supported by the membership, while rethinking issues with mixed levels of support. There was a split response on the question of centralized management. We had a slight majority in favor of it but those who were against it were strongly so. From an Association point of view it was clear that the two largest associations were also split. The Pennyroyal Board is against centralized management and Ohio Valley is supportive.

Therefore with the 64% supporting a standardized fee structure and 73% a State-wide MOA, it would seem reasonable to keep the association structure and work through the associations to go with a state-wide MOA& fee structure. The overwhelming member support for balancing members among specialists and improving specialists' reward structure should also be implemented. Together, these changes should serve to address many of the concerns addressed by the external review team especially turnover, making transitions seamless and improving communications. These changes should be implemented at the beginning of 2008."

Responding to the presentation of the survey results, the following actions were taken by the Kentucky Association of Farm Business Analysis Groups, Inc. Board of Directors.

- A motion was made to adopt the Statewide Memorandum of Agreement as presented in the survey.
- A motion was made to adopt a statewide fee structure to be defined at the December Kentucky Association of Farm Business Analysis Groups, Inc. Board of Directors Meeting.
- A motion was made to adopt a resolution to support balancing cooperator loads among

specialists as the opportunities present themselves.

- A motion was made to adopt a resolution to support improving specialists' reward structure using the job series implemented in May 2007.

These changes are a starting point to improving the structural integrity of the KFBM program. We appreciate the responses of those who completed the survey. If you have further questions or comments please feel free to contact your local board of directors, your KFBM specialist, Jerry Pierce – state coordinator, or Dr. Lynn Robbins – Department Chair.

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### Homeowner Energy Credits

Suzy Martin & Rush Midkiff

If you have taken steps to make your existing home more energy efficient you might be eligible for a tax credit. The IRS has made credits available for energy conscious purchases made and placed in service after December 31, 2005 and before January 1, 2008. The law provides a 10 percent credit for buying qualified energy efficient improvements: The following items are eligible:

- Insulation systems that reduce heat loss/gain
- Exterior windows (including skylights)
- Exterior doors
- Metal roofs

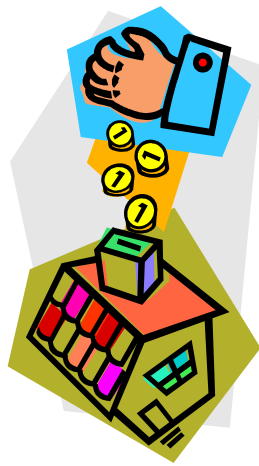
All components must meet or exceed certain energy conservation codes and must be installed in the taxpayer's main home in the United States. The credit cannot be taken on new home construction.

In addition the law provides a credit for costs relating to residential energy property expenses. Again, the purchases must meet certification requirements and be installed in the taxpayer's main home. The following items are eligible:

- \$50 for each advanced main air circulating fan
- \$150 for each qualified natural gas, propane, or oil furnace or hot water boiler
- \$300 for each item of qualified energy efficient property

The maximum credit for all taxable years is \$500, of which only \$200 of the credit can be attributable to windows.

Make sure you let your tax preparer aware of any improvements you feel would be eligible for this credit.




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## Get to Know our New Specialists and State Coordinator

Recently we have had the opportunity to add several new specialists to our program.

### **Michael Forsythe- Pennyroyal Farm Analysis Group, Inc.**

Michael recently joined the Kentucky Farm Business Management program in July 2007 as the replacement for Terry Moss. He is originally from Princeton, KY in Caldwell County, where he graduated from Caldwell County High in 1998. Michael received his bachelor's degree in Agribusiness with a minor in Business Administration from Western Kentucky University in 2002. He then took a break from his education and worked for a factory in Princeton before pursuing his

masters. Michael received his master's degree in 2007 from the University of Kentucky in Agricultural Economics with a focus on farm management.

Michael grew up on a small tobacco and beef cattle farm in Caldwell County with his parents John and Christi, and his sister Janet. He has always been involved in agriculture in one aspect or another. In high school, he was very active in FFA and worked for a local veterinary clinic. While in college, Michael spent his summers working at the UKREC in Princeton in the Plant Pathology, Agronomy, and Agricultural Economics Departments.

After receiving this position, Michael moved to Hopkinsville, KY where he currently resides. He has a beautiful fiancée named Julie, who is currently studying to become a pharmacist. He enjoys working with farmers and providing assistance to them, so he looks forward to working with all the farmers in the Pennyroyal Association.

### **Christa Hofmann- Ohio Valley Farm Analysis Group, Inc.**

Christa joined Ohio Valley Farm Analysis on August 1, to replace Craig Gibson. She is a 2005 and 2007 graduate of Purdue University, with an Associate Degree in Horticulture, a Bachelor Degree in Agricultural Economics and a Masters Degree in Agricultural Economics. During her Masters program she worked with Dr. Jennifer Dennis in the area of specialty crop marketing.

Christa grew up in Warrick County, Indiana on a 750 acre corn and soybean farm. She was a founding member of the Warrick County FFA Chapter and a very active 10 year 4-Her. At Purdue she was involved in the Agribusiness Club, Horticulture Club, and Sisters of the Harvest Moon. She has interned with the Indianapolis Zoo, Golden Harvest Seed Company, and Zelenka Nursery.

Currently, Christa lives in Evansville with her husband, Lance. She is working out of the new Henderson office off of Hwy 351.

## **Jerry Pierce – State Coordinator**

Jerry earned his B.S. degree in 1981 and M.S. degree in 1985 in Agricultural Economics from Auburn University. He was a Financial Counselor to farmers with the Alabama Cooperative Extension Service during the farm crisis of the 1980's. From 1988 to 1993 he worked for NC Agricultural Extension Service as an Area Farm Management Agent. There Jerry developed an educational program for farmers in management, marketing, taxes, and finance. He also recruited and served 19 farms in the NC Farm Business Management program. Jerry moved to Scottsboro, Alabama, in 1993 as an Extension Specialist working with 52 cooperators in the Northeast Farm Analysis Association. There he developed a specialized analysis for contract broiler operators. He was also responsible for developing the annual comparative summary for Alabama farms and maintaining the state's farm analysis database.

Jerry and his wife Leigh Ann live in Elizabethtown with three of their four sons. The fourth son is a sophomore at Auburn University. Jerry grew up in Birmingham, AL, while Leigh Ann was raised in Auburn where her father is a retired university professor.

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## **Mark your Calendars for your Annual Meeting!**

You will be receiving a notice for your annual meeting from your group but here are the dates so you can get them on the Calendar.

Purchase – November 27<sup>th</sup>  
Pennyroyal – November 13<sup>th</sup>  
Ohio Valley – November 29<sup>th</sup>  
Lincoln Trail – not scheduled yet  
Bluegrass – November 15<sup>th</sup>

## **Retirement of David Heisterberg**

On October 31, 2007 David Heisterberg will be retiring. David has served with the University of Kentucky as a part of the Kentucky Farm Business Management Program for 32 years and 2 months. In 2003, David was promoted from an area specialist with the Pennyroyal Farm Analysis Group to the very first KFBM State Coordinator. David has stated that this is the only job that he has ever had and the only job that he ever wanted. David's favorite part of the job has been the completion of book processing, not just because all of the processing work was finished, but because after the books are processed you get to see the results of all of the work. After processing you are able to make a farm visit and use the information that has been gathered to help the farm make future management decisions. These farm visits are what David will miss most. While David is retiring from his position at UK, he will remain busy this winter. David plans to continue doing tax returns and to provide some consulting on retirement, estate planning, and business organization. Beyond that, David plans to spend more time on his own farm in Missouri and to do some traveling and fishing. David also says that he will need to spend a fair amount of time catching up on his "honey-do" list that he has been neglecting for most of 32 years. David's expertise, experience and devotion to the KFBM program will be missed.



## **Don't Forget to Change the Clock!**

Daylight Savings Times Ends on November 4<sup>th</sup> this year. Don't forget to move your clock back one hour.