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# KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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## **2008 Farm Bill Highlights for Kentucky** Jennifer Rogers

After much waiting, a farm bill was finally enacted on May 22, 2008. While the President vetoed the legislation stating that it did not contain enough reform, there was enough support in both the house and senate to override the veto.

Now that we have a farm bill what does it mean for Kentucky Farmers? What is going to changes from the previous farm bill? The following are just a few highlights.

- Average Crop Revenue Election
  - Producers can chose to forgo a percentage of direct payments and counter cyclical payments in order receive a payment based on average state revenue.
  - Under this election, producers will receive a 20% reduction in direct payments and a 30% reduction in the loan rate. In return, they are eligible for a revenue guarantee equal to 90% of the state average yield multiplied by the two year average national price for the acres planted of a specific commodity.
  - This change allows government payments to be commodity driven.
- Adjusted Gross Income Thresholds
  - Individuals with non-farm income greater than \$500,000 will no longer be eligible for farm program

- payments.
- Producers with a farm income of greater than \$750,000 will not be eligible for direct payments.
- No More Entities
  - Farm program payments will now be made to the individual and not the entity. One person equals one limit.
- New Disaster Assistance
  - Program is meant to complement crop insurance program and provide additional loss protection during certain disasters to farmers with crop insurance.
- Preservation of Farmland
  - New bill makes it easier to enroll farmland in the Farmland Protection Program, ensuring farmland will not be put into development.
- New Emphasis on Local Produce
  - Grant money and loan guarantee program to assist with the local marketing of produce products.

These are only a few brief highlights from the new farm bill. While the basic structure of the 2002 Farm Bill is still in place it is important that producers remain aware of any program changes, these changes can have big impacts on your operation. Be aware that many new programs have some specific deadlines, you will need to stay in touch with your local FSA office to be sure that you don't miss out on a program that could benefit your operation.

## **2008 Economics Stimulus Act provides Tax Benefits to Businesses**

Jerry Pierce

In addition to providing stimulus payments to individuals, the Economic Stimulus Act of 2008 provided incentives to businesses. These incentives include a special 50-percent depreciation allowance for 2008.

### **50-Percent Special Depreciation Allowance**

Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property over several years. It is an annual allowance for the wear and tear, deterioration or obsolescence of the property.

Under the new law, a taxpayer is entitled to depreciate 50 percent of the adjusted basis of certain qualified property during the year that the property is placed into service. This is similar to the special depreciation allowance that was previously available for certain property placed into service generally before Jan. 1, 2005, often referred to as "bonus depreciation." To qualify for the 50 percent special depreciation allowance under law, the property must be placed into service after Dec. 31, 2007, but generally before Jan. 1 2009.

To reflect the new 50-percent special depreciation allowance, the IRS is developing a new version of the depreciation and amortization form for fiscal year filers. The new form will be designated as the 2007 Form 4562-FY.

### **Section 179 Expensing**

In general, a qualifying taxpayer can elect to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. This property is frequently referred to as section 179 property, after the relevant section in the Internal Revenue Code.

Under the new law, a qualifying business can expense up to \$250,000 of section 179 property purchased by the taxpayer in a tax year beginning in 2008. Absent this legislation, the 2008 expensing limit for section 179 property would have been \$128,000. The \$250,000 amount provided under the new law is reduced if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$800,000.

The new law does not alter the section 179 limitation imposed on sport utility vehicles, which have an expense limit of \$25,000.

## June Cattle Market Update

Kenny Burdine

May was a friendly month in the feeder cattle markets. Several fundamental factors helped prices to improve from April levels. Corn prices seemed to moderate and live cattle futures for the fall and winter showed some real strength. Favorable grazing conditions also were likely a factor in summer placements of light calves.

By the end of May, 95% of the 2008 corn crop was planted. This was definitely supportive to feeder cattle prices as wet conditions have plagued this spring. The 2008 crop is clearly still behind as only 74% of the corn had emerged by month's end compared to 92% last year. But, this progress has many analysts projecting that we have seen the planting price peak for the 2008 crop.

At the same time, it appears that supplies of feeder cattle in feedlots will be light this summer and support fed cattle prices quite a bit by winter. Live cattle contracts for the coming winter have remained above \$105 per cwt. Even with feedlot cost of gain near \$1 per pound, feedlots are able to place 7wts. at pretty strong prices. This in turn tends to support calf prices as well.

As we move into summer, supply fundamentals should remain supportive. Cattle will be looking for signs of demand weakness from consumers, especially if the economy remains sluggish. Chicken, beef, and pork are the three main meats in American diets and beef tends to be the most expensive of the three, making it somewhat vulnerable. Memorial Day is usually an excellent weekend for retail beef featuring as people fire up the grills to kick-off summer. The Fourth of July is also a fairly big beef holiday, but has historically been more favorable to ground beef, than to higher end steaks.

At the same time, feedlots will continue to monitor the progress of the 2008 corn crop. With corn carryover stocks at such low levels and corn acreage down as much as it is this year, there is not a lot of room for crop problems. Hints of lower than expected yields or other potential supply

problems will move the markets quickly this summer. And, we've learned that as grain markets move, feeder cattle markets respond.

Kentucky Auction Prices  
500 to 600 lb Med / Large Frame Steers

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## KDDC Update

Curtis Mahnken and Kassie Celsor

The first year of the KFBM/KDDC Dairy Partner Incentive Program has wrapped up with great results. This program was designed to recruit dairy farmers to KFBM and DHI (Dairy Herd Improvement) by offering an incentive on milk sold if they met certain quality and quantity standards.

In all, 61 dairy farms signed up for this program. Twenty dairy farms that signed on to this program were already cooperators with KFBM, but the remaining 41 dairies were new to KFBM. This program was also responsible for the creation of another specialist position—Kassie Celsor, a new dairy specialist based in Bowling Green. Kassie has 33 dairy farms that are new to the KFBM program.

The partnership continues for 2008 as recruitment for new members is in full swing, as is the new year for returning dairies. Some of the benefits of the partnership (outside of your friendly specialist coming to visit) are that the dairies are very diverse in their types of dairy. For example, several organic and grazing dairies have joined the program. This will make for an interesting comparison in future years.

This partnership has also involved the dairy sector of the UK Animal Science department in developing education for the dairy farmers in the state. Overall, the first year was a successful one with many hours of hard work from our specialists, the KDDC consultants, and the dairy cooperators.

## Spring/Summer Visits

Christa Hofmann

Your specialist is ready to make a visit! Should you have a particular date in mind, contact the office and let them know. If you send your checks into the office to be processed, make sure to get those sent in before your visit.

A preliminary comparative analysis is ready and you specialist would like to share the information with you. During the visit, the specialist may interpret these year-end reports, transfer beginning of year balances to your 2008 book, check postings to date, input acres planted, and discuss any of your questions or concerns.

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## Upcoming Events

Michael Forsythe and Evan Conrad

**June 12<sup>th</sup>** – The UK College of Agriculture Field Day “Agriculture in a New Bioeconomy” will be held at UK’s Spindletop Research Farm in Lexington. Focus will be on current equine, forage, and crop research.

**June 18<sup>th</sup>** - There will be a KDDC/MILK producers meeting in Campbellsville. This meeting will provide the dairy farmers with a better understanding in interpreting the reports they receive from KFBM.

**July 30<sup>th</sup>** – KFBM Summer Board Meeting hosted by the Lincoln Trail Association. The time and place will be announced at a later date.

**July-August** – Specialists will be making their Summer Farm Visits.

**September 23<sup>rd</sup>** – University of Kentucky College of Agriculture Beef Bash in Princeton. See article for more details

**September 25<sup>th</sup>** – The University of Kentucky Robinson Station All Commodity Field Day will be held at the Robinson Station Research Farm in Jackson, KY.

**QuickBooks Trainings** for cooperators are being discussed and we are looking into possible times and places that these trainings can be held. Your specialist will let you know when/if a training will be available in your area.

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## “Beef Bash” Field Day to Focus on Beef Cattle

The University of Kentucky College of Agriculture will offer it’s first ever beef field day on September 23, 2008 at the Research & Education Center in Princeton, Kentucky. The Beef Bash represents a cooperative effort between the University of Kentucky and the Kentucky Cattleman’s Association. “With the Beef Bash, we hope to offer a different type of field day that features more hands-on opportunities and more live cattle exhibits than the typical field day” said Roy Burris, extension beef specialist. Burris notes that the Beef Bash will also feature meaningful beef cattle research that is practical for Kentucky cow herds and will also have commercial exhibitors featuring new beef cattle related products.

Registration begins at 1:00 pm with field exhibits and demonstrations beginning at 2:00 pm. These hands on demonstrations will give participants an up close look at timely topics such as rotational grazing systems, estrus synchronization in cow herds, alternative feed options and choosing cost effective fertilizers for pastures.

A meal will be available for purchase the day of the event. No pre-registration is required. The UK Research and Education Center is on Kentucky 91 South, 1.5 miles southeast of the Caldwell County Courthouse in Princeton. For more information contact Roy Burris at 270-365-7541 ext 208, e-mail [rburris@uky.edu](mailto:rburris@uky.edu) or a local UK Cooperative Extension Service office. You may also visit <http://ces.ca.uky.edu/beefirm/bash/> for more detailed information on exhibitors and demonstrations.