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2009 Tax Law Changes
Suzy Martin & Rush Midkiff

There have been some recent changes to tax law that could impact you and the amount of tax that you will owe for 2009. The following is a brief description of some of the changes that will have the greatest impact for some KFBM producers.

Five Year Recovery Period for New Farm Machinery:
The Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (TEAMTRA) requires a shorter recovery period for certain qualified items. Farm machinery and equipment has a 5-year MACRS recovery period if it meets three requirements. One, its original use starts with the taxpayer after December 31, 2008. Two, it is placed in service before January 1, 2010. Three, it is not a grain bin, fence or other land improvement, or cotton-ginning asset. Taxpayers cannot elect to use the 7-year recovery period for machinery and equipment that qualifies for the 5-year recovery period. They can, however, elect to use the straight-line method over the 5-year GDS recovery period or straight-line method over the 10-year ADS recovery period.

Other Depreciation Topics for 2009:
The 50% Bonus Depreciation for qualified items continues through December 31, 2009. The qualified property must be new and have a useful life of 20 years or less.

Section 179 Expensing also remains the same. The maximum amount a taxpayer may deduct is $250,000. The limit is reduced dollar for dollar if
the cost of qualifying property during the year exceeds $800,000.

**Tax Credits for Energy Efficiency:**
The tax credit for making your *existing* home more energy efficient has been expanded. The credit is available for 30% of the cost up to $1,500 for qualified items placed in service from January 1, 2009 through December 31, 2010. Qualified items include windows, doors, roofing, insulation, HVAC, water heaters and biomass stoves. There is also a credit available at 30% of the cost with no upper limit for certain qualified items placed in service through 2016. These qualified items include geothermal heat pumps, solar panels, solar water heaters, small wind energy systems and fuel cells. As in prior years, the improvements must be for the taxpayer’s principal residence. For more information on the qualified items go to [http://www.energystar.gov/index.cfm?c=tax_credits.tx_index](http://www.energystar.gov/index.cfm?c=tax_credits.tx_index).

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**Dairy Enterprise Analysis**

*Curtis Mahnken*

The difference between 2008 and 2009 for dairy farmers is staggering. All year we’ve heard and seen horror stories of what has been happening to our dairy neighbors here and across the U.S. To examine and identify areas of praise, concern and guidance for dairy farmers in Kentucky Farm Business Management, KFBM specialists performed enterprise analyses. In the study there were twenty-three dairy enterprises which averaged 164 cows and 18,439 pounds of milk sold per cow. Milk price received was $20.93, but feed prices were up which is reflected in $198 in returns per $100 of feed fed. The enterprises were examined several ways and key findings are included. (Note that all results come from the Dairy Enterprise Analysis report coming out soon).

The first factor that was considered when looking at these enterprises is herd size. There was evidence that bigger is better, which can be seen in key areas such as returns per $100 of feed fed. The over 200 cows group had $217 per $100 of feed fed, while enterprises falling in the 100-200 cow range experienced $204, and under 100 cows had returns of $180 per $100 of feed fed. When looking at milk sold per cow, bigger was better as well (>200: 19,810, 100-200: 18,246, <100: 17,296). However, this pattern was not maintained when examining expenses, as the lowest cost of production belonged to the 100-200 cow group ($19.49/cwt of milk sold), followed by the 200+ group ($20.12/cwt of milk sold), and the less than 100 cow group ($23.90/cwt).

The next factor examined was management returns. Enterprises were considered “low” if their management returns were less than $1/cwt of milk sold, “middle” if their returns were between $1 and $4/cwt of milk sold, and “high” if above $4. What is interesting is that size appears to have a general negative relationship with management returns. The high group averaged 135 cows, the middle group had 152, and the low group had 199 cows. When looking at production efficiencies, the high group had the best labor efficiency (45 cows per full time equivalent (fte), 783,212 lbs of milk sold/fte), though the middle and low group were mixed with labor efficiency (middle-36 cows/fte, 646,584 lbs milk sold/fte), (low-35 cows/fte, 682,510 lbs milk sold/fte). However, the low group had the best milk per cow (19,082 lbs milk sold/cow), followed by the high group (18,184 lbs/cow), and the middle group (18,037 lbs/cow). Costs of production were the lowest for the high group ($17.90/cwt of milk sold), followed by the middle group ($21.09/cwt of milk sold), and the low group ($24.31/cwt of milk sold).

By examining the costs of production from the management returns section we can get an idea of break-even prices. When $20/cwt of milk sold was a “typical” price, only the high management returns group was experiencing positive returns. Now that the milk price has plummeted and feed prices have retreated some, the high group will be feeling the pinch as well. However, there are areas of strength and areas that can offer relief. Milk sold per cow is solid given the climate of Kentucky, and there is tremendous room for improvement when looking at labor efficiency. It is vital for producers to examine their records and utilize whatever resources they can to survive the storm now and thrive when the next high price comes.
Tobacco Enterprise Analysis
Evan Conrad

A tobacco enterprise analysis was recently completed by the Kentucky Farm Business Management (KFBM) program. Burley, dark air, and dark fire were all included in the enterprise analysis.

**Burley**

Nineteen (19) burley enterprises from across the state were examined and averaged. Average yield was 2333 lbs/acre with a max of 3775 lbs/acre and a minimum of 1490 lbs/acre. Gross returns averaged $4159/acre ($1.78/lb) with a maximum of $6607/acre and a minimum of $2682/acre. Mean variable costs were $3099/acre ($1.32/lb). Variable costs include transplants, fertilizer and lime, chemicals and pesticides, fuel, utilities, machinery repair, building repair, machine hire, crop insurance, hired labor, interest on operating loan, and cash rent. Returns over variable costs were $1061/acre ($0.33/lb). Fixed costs, which included depreciation, interest on long term notes, and taxes, totaled $185/acre ($0.06/lb), leaving a return to operator labor, land, and management of $876/acre ($0.29/lb).

**Dark Air Cured**

As expected dark air returns were higher than burley. Average yield for the fourteen (14) enterprises was 3049 lbs/acre, while gross returns averaged $6511/acre ($2.14/lb). Variable costs averaged $3975/acre, bringing the returns over variable costs to $2535/acre ($0.83/lb). Fixed costs average $173/acre ($0.06/lb), leaving a return to operator labor, land, and management of $3802/acre ($1.25/lb).

**Dark Fire Cured**

Dark fired tobacco yielded the highest return per acre, with a return of $4093/acre, but not the highest return per pound at $1.15/lb for the eleven (11) enterprises examined. This came as a result of the highest yield per acre of 3549 lbs/acre, but increased variable costs as well. Variable costs for dark fired tobacco averaged $4231/acre ($1.19/lb). Fixed costs were lower than the previous two types, averaging $133/acre ($0.04/lb). The major benefit to dark fired tobacco is a higher gross return of $8687/acer ($2.45/lb).

In conclusion, the enterprise analysis of the three types of tobacco grown in Kentucky yielded results one might expect. The most significant variable cost for producing tobacco continues to be labor. In all three types of tobacco labor accounted for more than 50% of the variable costs, with another large portion going to transplants, fertilizer, and chemicals.

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Preliminary Results: 2008 Beef Cattle Enterprise Study
Jonathan Shepherd

In this study, two beef cattle enterprises are analyzed- calves sold at weaning (calves sold) and calves retained for at least 45 days after weaning (backgrounded).

Kentucky beef producers realized negative net returns (over all costs) for 2008 in both enterprise categories. However, both categories did realize positive returns above feed costs with an average of $6,347.38 and $12,052.40 for calves sold and calves backgrounded, respectively. Total feed costs associated with the calves sold group increased over 77% since 2003 and almost 40% for the backgrounding group. Non-feed cash costs increased for both groups from 2003 to 2008 by 51% for calves sold and 45% for backgrounding. Returns per $100 feed fed was $120.86 for calves sold in 2008, a decrease of over 31%. For calves backgrounded, this decrease was even more significant at 46.5% of returns per $100 feed fed of $126.20. For the calves sold enterprise, price received per CWT for market animals increased 7.8% from $85.50 in 2003 to $92.21 in 2008. Prices received per CWT for breeding animals for this enterprise decreased from $45.87 in 2003 to $42.13 in 2008. For the calves backgrounded enterprise, price received per CWT for market animals increased 15.8% to $96.41 and for breeding animals an increase of 2% was realized to $47.67. Herd size increased on average since 2003 for calves sold, up approximately 32% to 104 cows and decreased 5.8% for the backgrounded group to 108.4 cows. Total pounds of beef produced increased for the calves sold enterprise: up 41.7% to 58,105 pounds for 2008. However, the calves backgrounded group showed a decrease...
in total pounds produced by 12% to 66,230 pounds. Pounds of beef per cow increased between 2003 and 2008 to 560.2 for the calves sold enterprise (increase of 7.9% from 2003) and decreased to 610.98 pounds for the backgrounded group (decrease of 7.3%) for 2008.

Below are two graphs that depict costs and returns for each group on a dollar per CWT basis. It is important to remember that the sample size for this study is small and may not be representative for all Kentucky beef producers but is thought to be representative of beef producers enrolled in the Kentucky Farm Business Management Program.

A Check List for Check-In
Christa Hofmann & Rush Midkiff

The end of the year will be here before any of us realize it. For those of you on who send your bank statements to the office, please get them in to the office as soon as you can. Here is a list of at least 9 things you should do before our meeting:

1. Finish posting all 2009 income and expenses into your book. This includes any checks that were dated in 2009 but may not have cleared your December bank statement.
2. If you need to send any W-2 and/or 1099’s make sure to have your information completed and ready for processing (Remember to bring your Form 943 & K-3)
3. Collect Crop, Livestock, and Feed inventories
4. If you have money borrowed, call your bank and have them fax or e-mail us your loan histories. If you deal with multiple banks, make sure you request histories from each bank
5. Bring any 1099’s you may have received from FSA, Southern States, Dairy Coops, etc.
6. Record your ending Bank Balance on 12/31/09 (including non-cleared checks)
7. Have information on Pre-paid expenses, Accounts Receivable, and Accounts Payable
8. Bring ending balances on Life Insurance, Stocks, and Hedging Accounts
9. Review the list of capital sales and purchases, indicating any equipment traded with the purchase. If a new loan has been set-up have the paperwork available.

Please call and set up your appointment today.